

## Credit line is up for renewal

7/12/10

**"Our credit line is up for renewal and our bank is dragging its feet. I'm concerned we may not get our line renewed and without it, we're sunk. Any suggestions?"**

A plan to manage debt is a key component of your small-business growth strategy. When we track small-business growth, we see that reducing debt is key to long-term success. Too many people view a credit line as an opportunity to spend, rather than an obligation to pay, which could hinder future plans.

Now that you have the line, there are a few things you can do. Recognize what's going on. Approach the bank about terming out the loan. Build up cash reserves as you lay out a long-term plan to get debt free.

### **Mind your business**

Understand that this is, and isn't, personal. Because your company is carrying debt, which you signed up for, it is personal, and you're going to have to deal with it. Waiting for answers from the bank, wondering what's going on and feeling out of control over the approval process just goes with the territory today. Don't take that part so personally; you're one of many in the same boat.

Focus on what you can control – your business. Make certain you're operating profitably. Give your attention to your best customers and sales efforts that are likely to yield more of the same.

Put someone in charge of managing cash flow with the express duty of paying all bills on time. If there's a shortfall, own up to it. Talk with the vendors about what you can and cannot do to make up the shortfall. Cut expenses further until you are able to turn sales back up. Make sure you have a realistic plan to pay off all your bills. Focus on building up profitable sales.

Ask your accountant or financial adviser to review your balance sheet, if you haven't already done so. Make sure everything is properly categorized and explained. Ask for their opinion on your debt-to-assets ratio. Ask if you are carrying too much debt, and, if so, to what level should you reduce it.

Ask your loan officer about terming out your credit line. In most cases the bank would rather see your company make steady progress paying down an outstanding liability. Especially in today's economy, businesses and banks are focused on strategies to permanently reduce debt – a strategy that favors a term loan over a credit line.

### **Coming to terms**

If your credit line remains open and in use after two or more years you'd be wise to stop the crazy behavior of believing that you're going to pay it off completely anytime soon. Instead, recognize the credit line for what it is, a long-term debt that needs to be dealt with through a long-term plan.

Get out of the up-and-down cycle that the credit line creates. When cash comes in, it goes to paying down the credit line rather than to developing the company. When cash is short debt builds up as the company draws down the credit line, which masks what's really going on – that expenses are too high when sales are low. Instead of making herculean efforts to reduce the credit line by half, or get it to zero, consider making slow, steady payments over a number of years.

By getting the company onto a term loan, you increase its ability to build up cash reserves as it slowly and steadily pays down debt. As sales come in, part of profits go to paying off the term loan, another part goes into a savings account. It will require discipline to put part of profits into savings. If you're successful, over time you'll be able to build up sufficient funds to self finance.

Looking for a good book? Try "Turnaround: How to Turn Your Business into a Debt-free Money Machine," by Arnold S. Goldstein.

*Business owners regularly turn to Ask Andi and Strategy Leaders, [www.StrategyLeaders.com](http://www.StrategyLeaders.com), for advice on how to grow profitable, successful companies. They find what they need time after time. Specific advice is available at [www.AskAndi.com](http://www.AskAndi.com). Ask Andi is also published weekly in the Westchester and Fairfield County Business Journals and Hudson Valley Business. Written by Strategy Leaders President, Andi Gray, the Ask Andi column is a rich source of advice for owners of established, privately held businesses.*

*If you are a business owner and you have a question or would like to discuss some aspect of your business, call [1.877.238.3535](tel:18772383535) or send an email to [AskAndi@StrategyLeaders.com](mailto:AskAndi@StrategyLeaders.com).*