

Show Me The Money: Simple Strategies For Small And Midsized Businesses

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The financial crisis facing the United States is front-page news on a daily basis. Although the tone of the message has improved in recent weeks, we can't escape the reminders of the financial pressures on all levels of our economy. Homeowners are experiencing decreased buying power due to the housing downturn, high unemployment and tightened credit standards. Local governments are dealing with budget cuts and lower tax revenues. Small-business owners, those who are most likely to stimulate the economy by growing their businesses and hiring more employees, are having difficulty obtaining the capital necessary to drive that growth.

But why is it that so many solid businesses can't get their hands on the capital they so desperately need? And how should these businesses approach the current lending environment to enhance their chances of success? Let's first take a look at some of the basic reasons the financial markets have tightened so much.

Starting in September 2008 with the collapse of Lehman Brothers (and many would argue that the seeds were planted much earlier), the financial industry suf-

fered a crisis unseen since the Great Depression. At the forefront was the precipitous drop in the real estate industry. Throughout the early part of the decade, credit was plentiful, easy to obtain and at historically low interest rates. As a result, property values became artificially inflated, and when the house of cards began to fall, due in part to the demise of the subprime lending market, a ripple effect was felt across the broader economy.

The knee-jerk reaction from lenders has been to pull back significantly from the lending market, to tighten credit standards and to take a much more conservative approach to extending credit. Congress and bank regulators have increased their scrutiny of bank balance sheets and lending practices. The potential financial industry reform may also be having a chilling impact on lending practices, as lenders aren't quite sure what their new regulatory environment will look like. On the other hand, the various stimulus packages that have been passed include special programs designed to encourage and promote lending. Banks are getting crunched between the competing interests – should they be increasing lending to small businesses in accordance with the stimulus plans, or should they be pulling back as is being encouraged (demanded?) by their regulators. Ultimately, banks need to do whatever is best



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for the financial health of their respective institutions, but the answer may actually be a combination, resulting in increased lending, albeit on a much more prudent basis.

So how can small businesses strengthen their position in the credit markets? Consider the following five keys:

1. Know Your Lender and Be Sure Your Lender Knows You

– In the current lending environment, relationships are the No. 1 key. The stronger your relationship with your banker, the better chance you have of securing that loan. Consider that the lender is going to need to jump through several hoops to get your loan approved, and in most cases, those hoops will be more plentiful and smaller than ever before. A lender who knows you and your business well, and can explain to his loan committee the nature of your business and its incumbent ups and downs, is invaluable. While banks will always say that they are open to lend to “qualified” borrowers, having a loan officer who knows you and can serve as your advocate in getting the loan approved can be a significant advantage.

2. Cash Flow Is King

– Be prepared to demonstrate strong cash flows to the bank. Whereas in the past banks were often willing to extend loans on a more speculative basis, where the collateral was real estate or other fixed assets, most lenders are now looking for strong cash flows that will support the debt service. If your business is cyclical, be ready to show historical evidence of those cash flows, and if your business has suffered a

downturn, be prepared to explain the reasons behind the decline and demonstrate a focused recovery plan.

3. Get In Early and Be Prepared to Wait

– Try to project your financing needs well in advance. Whether you are seeking to refinance or obtain new credit, the increased scrutiny of loan applications and the creditworthiness of borrowers can result in a lengthy approval process. Getting ahead of the curve will allow you to explore all your financing options and will help you avoid getting rushed into an unfavorable deal.

4. Take Advantage of Government Stimulus Programs

– As noted, Congress has enacted a number of stimulus programs designed to increase the flow of capital to small businesses. Ask your lender which, if any, of those programs might be available to your business. Often, these programs have streamlined approval processes and attractive terms.

5. Consider All Your Options

– Depending on the size and nature of your business, you may be forced to offer personal guarantees where none were required before or to seek nontraditional funding sources. In this new financing environment, be prepared to keep your options open.

Lenders and borrowers are still feeling their way through the new lending environment, and the rules of engagement aren't yet clear. With financial regulatory reform on the horizon, more changes are likely. Business owners who are proactive, focused and organized should do well in their quest to succeed in the current capital markets.

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