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Be Ready When Banks Step Up Lending

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Tight credit markets of the past few years have made it difficult for business owners to obtain loans to expand their business. Getting a loan is still as hard as ever, even though most financial institutions have plenty of capital to lend. With the interest rate charged banks by the Federal Reserve Bank at almost zero, it's surprising so little capital is moving around. Loans, as a percentage of deposits, are very low.

Credit will loosen eventually because banks can't survive long-term without making loans. Stung by losses when loans defaulted, banks are understandably more conservative; but they need interest revenue from loans to grow.

Recent financial activity suggests money might be starting to flow again. That's why now is a good time to build a relationship with one or more financial institutions through thoughtful dialogue. Before dialogue starts, business owners should fully understand their financial position.

Most business owners have a clear grasp of the sources and amount of cash generated by their business. While it's important to be aware of all revenue sources, it's far more important to understand each and every line item in the expense chart. The past few years have forced many companies to face reduced revenues, yet expenses have continued to go up.

Salaries and benefits make up a large portion of expenses in a service business, while a retail business has inventory and a much higher cost of goods sold. Owners focused on these may overlook smaller expenses that make a business less profitable. A little time spent understanding each expense will go a long way toward making necessary reductions.

A banker will want to see financial reports from the past two to three years so changes in the business's financial position can be ascertained. Any changes, whether good or bad, will have to be explained. Negative changes don't necessarily mean the loan will be denied, but the bank will want to understand what happened, the corrective measures being taken, and the effect on the business's future.

Virtually every financial institution uses credit scores to evaluate the credit history of businesses and individuals. A person's credit score can be the most critical reflection of his or her reputation. Loan defaults destroy it, and high debt loads lower it. A large number of credit cards can indicate high debt, and late payments can signal inability to pay. Even if minimal monthly

payments are made, bankers question if additional interest and principal on a new loan can be afforded.

Bankers also like to see a written business plan to understand the direction the business is going and its viability. A business plan is just as valuable to the business owner, and the time spent writing one is a good investment in the business's future. A written plan will also help communicate variances that might be present in prior year's financial reports. Assistance with writing a comprehensive business plan is available at the 20 New Mexico Small Business Development Centers around the state.

It's not easy to get a loan these days. Having a business plan, managed expenses, and credit score awareness is the starting point for thoughtful dialogue and good relations with a lender that can make a loan happen.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC) and its partners to assist individuals and businesses in obtaining skills and funding-resources for their business or idea. To learn more, go to www.FinanceNewMexico.org.

