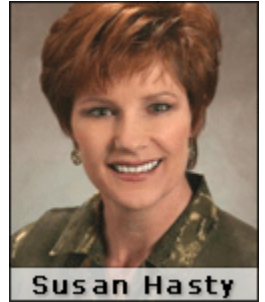


## Desperately Seeking Capital: The Search For The Holy Grail of Business Finance Takes a Twist Towards An Old Source of Funding

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*Guest Columnist*

**By Susan Hasty, President  
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### The Difference Between the Banker's Credit Freeze and the Small Business Credit Squeeze

At the recent grand opening of the new Southern Community Bank in Raleigh, I had the opportunity to ask many commercial bankers about the causes of the current credit crisis for small businesses.

Their answers surprised me. It is not just the increased regulatory oversight on underwriting, or the new burdensome capital reserve requirements, or even the threat of unannounced audits by the banking regulators.

The major reason cited by the bankers for the continuing credit squeeze is regulatory uncertainty. Their rules change every day. And, the last thing bankers want in their lives is uncertainty.

When they see uncertainty, the banker's tend to freeze in their tracks, hence the term "credit freeze." It's the other thing that happens next to small business owners that is called the "credit squeeze."

Despite enormous amounts of stimulus funds being spent in the economy, small to medium sized businesses can not obtain financing from traditional banking sources. According to a recent survey conducted by the IFAC/The Banker; business lending activity has dropped over 48% from last year.

Even the new SBA loan programs with dedicated funds for small businesses are not being used. Less than a third of the \$336 million available the new SBA ARC program had been loaned as of Oct. 7th, 2009.

The uncertainty being felt by bankers is translated into the lack of credit availability to small businesses, as reflected in the graphic below. This is a serious problem for national economic growth, because these same small businesses generate about 75% of all new jobs.

Without jobs, the national economic recovery will stall because unemployed workers do not spend incomes. According to an analysis by John Osbon, founder of Osbon Capital Management, 5 million unemployed people with a lost salary of \$50,000, translates to \$250 billion in lost purchasing power.

Osbon says the absence of job creation will impact our gross domestic product, or the output of goods and services; Osbon states that the U. S. economy will forego about \$2 trillion in lost GDP with 10% unemployment.

### SMALL BUSINESS CREDIT CONDITIONS



\* For the population borrowing at least once every three months.

### ABL: The Hail Mary of Small Business Financing

The small banker's credit freeze is occurring at the same time in history as another important change. At the very top of the global banking industry, there has been a major consolidation of very big banks (aka Too-Big-To Fail).

The top five United States domestic bank holding companies now hold about 45 per cent of all banking assets, almost twice the share that they held 20 years ago. At the same time, as a result of their increased trading of securitized products, the big depository institutions now hold only about one fifth of all assets held by United States financial institutions, or less than half the share that they held in 1984.

In other words, the big banks do not generally focus attention on small business, and have found, in any event, that playing in the derivatives markets is much more fun than making business loans. The little banks are frozen by fear of the regulators.

Into this breach steps an old player playing a new tune.

Companies like Porter Capital Corporation are developing new ways to solve the working capital needs of small business. Founded in 1991, by Marc Porter, of Birmingham, Alabama, Porter Capital offers accounts receivables financing and asset-based lending (ABL).

ABL is a lot like boot-strapping your own growth capital. The small business owner uses existing assets and account receivables to speed up the cash flow process. A company like Porter Capital, Southern Community Bank or Summit Financial Resources, of Charlotte, N. C. provide the financial mechanism to make the credit available.

This form of commercial finance has been around for centuries, and helped the colonial merchants finance the American Revolution. It is now serving as the Hail Mary of Small Business Finance.

### **Learning the ABCs of ABLs (Asset Based Lenders)**

During the era of easy money, many small business owners looked down their noses at ABL. It may be a good time to re-adjust those spectacles and re-learn how this old technique has been re-torqued for today.

At the front end of the ABL process is an application that requires more savvy, but less documentation than the traditional bank loan. Much like the private equity process, which requires the assistance of professionals to explain why the investment makes sense, the new ABL process needs a story line.

Learning how to engage an ABL is essential for small business owners. We have been offering seminars to teach owners about the process and will be having a special training session on November 6, 2009, taught by Mary Clair Hashagen, of Porter Capital.

Hashagen will explain alternative sources of capital available through her company and what business can expect from Asset Based Lenders.

Business owners interested in attending the session can RSVP at [www.meetup.com/raisingcapital](http://www.meetup.com/raisingcapital). The \$10 at the door includes a light lunch and the wine tasting, after the event, hosted by the BNC of Cary.

### **About the BNC CAPITAL MARKETS Forum:**

The forum provides an excellent opportunity for business owners to find sources of financing. The forum attracts all sources of capital, including commercial bankers, ABLs, and angel investors. For more information about the forum, contact Susan Hasty, at 919-749-5910 or e-mail her at [susanhasty@gmail.com](mailto:susanhasty@gmail.com)

### **About Our Guest Columnist:**

Susan is the President of Carolina Funding Connections. She provides professional financing advice and services to assist clients seeking business capital and funding. She develops the initial loan strategy and prepares the documents for small business owners to better communicate with funding sources. She is a licensed NC loan officer and commercial financial intermediary. Contact Susan at 919-749-5910 or e-mail her at [susanhasty@gmail.com](mailto:susanhasty@gmail.com) For more background information and past articles for CarolinaNewswire.com, check out [Susan's Archives](http://www.carolinanewswire.com/authors.php) as well as all our other guest columns at [www.carolinanewswire.com/authors.php](http://www.carolinanewswire.com/authors.php).

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