

## THE TRUTH ABOUT GETTING BUSINESS FINANCING TODAY

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September 24, 2009

### Credit Market Freeze at Most Traditional Sources of Financing Means Much Better Loan Preparation

It is difficult today for financial professionals to get a grasp of what's really happening in the business credit markets. It is even harder for business owners to figure out what is happening or where to go for financing. It doesn't help that the "truth" about the credit markets change practically daily.

Many business owners are still walking into their local banks with nothing more than their business cards and a verbal request for a loan. That strategy may have worked 20 years ago, but those days are long gone.

Business owners today must be well prepared with a full business financing package, and must seek capital from multiple sources of finance. The loan package that is prepared by the business owner can be used at different sources of finance.

### What The Sources of Finance Are Saying Today

Our recent survey of lending agencies came up with the top three reasons why requests for financing are being denied once they enter the commercial financing "pipeline." What we found was that the turn-downs all had the same features:

1. **Lack of owner equity.** No "skin in the game" was the first and major reason for the financing denial. All sources of financing want some form of owner participation in the financing strategy. The major difference between the newer forms of mezzanine debt and traditional commercial bank loans is the issue of collateral to secure the risk. Most asset based lenders and mezz debt issuers offer financing tied to the assets of the company, not the personal or family assets of the owners.
2. **Lack of quality financial information.** First impressions count a great deal when the lending officer first reviews the loan package. Messy financials suggest an unorganized borrower and potential slow pay on loans. In today's world of financing the loan package must look good and be fully transparent on all financial issues. In many cases, the financial package will be submitted to outside third party underwriters for an independent verification of the credit rating and risk. If the loan package is too disorganized, the lending officer will not even bother to send it out for review.
3. **Lack of understanding by both the borrower and the bank as to how the loan will be repaid if the business revenues change after the loan is made.** Given the events in September 2008, most sources of financing are now asking detailed questions about what happens after the loan is made. Part of the correct answer by the owner involves describing future growth plans and alternative sources of revenue. But, another big issue is the documentation by the owner of what happens in a financial emergency. The loan package submitted by the owner must contain the business survival plan, which must be focused not so much on the business, but on how the source of financing gets repaid after a business disruption. The "well prepared" business owner should have a well defined written plan of action (with contingency plans) as well as quality financials BEFORE beginning their search for funding.

## What to Do About Getting Financing

The credit markets have undergone “disintermediation,” which is a fancy term for the idea that the networks that used to work for obtaining business financing are gone. So are many of the financial institutions that used to provide business capital.

The networks that replaced the older traditional networks are scattered all over the world, with very few links or connections.

The good news for financing is that the sources of funding are there, if they can find you. They can not fund what they can not find.

The best idea today is to obtain professional help in packaging your loan request, and getting help connecting to the global sources of financing.

At the very front end of your search for capital, you probably need to obtain your business credit risk rating, just like you would obtain a consumer rating if you were applying for a mortgage to buy a house. Obtaining the independent, third party credit rating from risk underwriters is probably going to cost about \$5000, and more for bigger loan requests.

If your loan package contains any type of securities offering, you will also need the professional guidance of an attorney in preparing that part of your package. The attorney fees could easily run up to \$10,000 or more depending on the type of offering. .

You may also want to consider retaining a professional loan manager to oversee the financing project, and to assist in the preparation of the loan package. Most loan managers charge an hourly fee, with some type of fee associated with the closing transaction.

We can help with part of this process and can answer your questions about obtaining financing in today’s credit markets.

Our upcoming seminar about small business loans, “Lenders Lunch and Learn” being hosted by Carolina Funding Connections will be held from 11:30 – 1:30pm on Friday, Oct 2<sup>nd</sup>, 2009 at the BNC Center in Cary, NC. To find out more and to rsvp, visit [www.meetup.com/businessbythenumbers](http://www.meetup.com/businessbythenumbers)

**About Carolina Funding Connections:** *We provide consulting and support services to business owners seeking commercial financing. Contact Susan Hasty with Carolina Funding Connections*

*Susan Hasty provides advice, support & intermediary services to business owners seeking funding for their business as a loan manager. She coordinates all aspects of the commercial loan process for business owners and real estate developers including preparing the loan package, locating sources of funding and managing the loan application and underwriting process. Susan is herself a serial entrepreneur and has more than 20 years of real estate & finance experience. Prior to starting her consulting business, Susan spent the last 5 years as a loan officer originating commercial loans and business lines of credit.*

**About The Business Capital Advisor.com:** *The BCA is an online business advice column written by Thomas E. Vass, a registered investment advisor to small companies who need capital.*

*Thomas Vass is an economist who writes about [technology innovation](#) and an investment advisor who advises small [high tech companies on raising capital](#). Parts of his economic theory about technological evolution are combined with his investment advisory practice at an online investment newsletter, [The Technology Stock Advisor](#). His books on economics, politics and regional economic development are available at [The Great American Business & Economics Press](#). You can read his articles on innovation at [www.NewTechnologyMarkets.com](http://www.NewTechnologyMarkets.com). Contact at [tvass@businesscapitaladvisor.com](mailto:tvass@businesscapitaladvisor.com) or call 919 975 4856.*