GOING THE DISTANCE: MAKING SURE THE LOAN FITS THE BUSINESS

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Servicing Basics

• It is not about the loan or the program; it is about meeting the needs of the client
• Manage Expectations
• Keep an open mind
• There is no such thing as “One Size Fits All”
• Every situation is unique
• Servicing starts at the first call
• Be Flexible
• Learn the business of the client
• Be Consistent
Think of the Business as a Puzzle

- What is the Big Picture?
  - Goals of management
- What Pieces are there?
- What Pieces are missing?
- Do the pieces fit?
- Keeping it together
- Changing Pictures
The Big Picture

• First contact is a pre-screen opportunity
  • Why are they calling?
  • How did they come to you?
  • What do they do? – Ask detailed questions
  • How long in business?
  • Who is their bank/lender?
  • What are they looking for?
    • How much/purpose?
  • What will it do for them?
  • Is business profitable?
  • How much revenue do they generate?
  • Growing/Stable/Experiencing Difficulty?
  • Do they have a business plan?
    • Does it include projections?
Identify the Missing Pieces

- Technical? Financial? Both?
- Assemble resources to meet the needs
  - Make introductions
  - Involve self in the process
  - Follow Up – Stay Involved
  - Give Guidance
- Is client ready for next step?
- Long Term Needs vs. Short Term Needs
- Not all pieces will fit – keep multiple options open
Evaluate the Request

• Many bank denials happen because applicant is unprepared or they are talking to the wrong lender
• Does the need match the request?
• Is the request appropriate for the need?
• Does the cost/benefit work?
• Find best fit for the request:
  • Long term needs require long term solutions & Short term needs require short term solutions
  • Working capital: Permanent or short term?
Putting it Together

• Structure financing around the need
  • Short term for short term
  • Long term for long term
• Fund in Stages – Set Benchmarks
  • Reduces risk for lender
  • Reduces cost for borrower
  • Base it on their plan
• Structure payments around business cycle
• Re-evaluate as necessary
• No is sometimes the right answer
  • Let them down easy – explain the reasons and identify next steps
Keeping it Together

- Servicing does not end with closing
- Continuous process
- Continue to follow up on ongoing Technical Assistance
- Site visits – if you are in the area, get in the habit of stopping in
- Stay Relevant – remind them of value you can provide as their business evolves
- Review reporting – stay on top of trends
  - Trends indicate direction of business
- Constant Communication
- Re-Evaluate as business evolves
Changing Picture: Workout & Collections

• Things Change: Deal With It
• First indication of trouble should not be a missed payment
• Back to basics – evaluate as a new opportunity
• Work with borrower to preserve business whenever possible – become their partner in a turnaround
  • Fund consultants if necessary
• Convince other lenders to follow your lead – no one wants to take a loss
• Restructure to new reality
Portfolio Power

- Borrowers do not exist in a vacuum
- There is nothing that has not been seen before – do not hesitate to use the experience in your portfolio
- See opportunities in the portfolio
  - Partnerships between borrowers
  - Mentoring opportunities
  - Contracting opportunities
  - Servicing opportunities
  - Acquisition opportunities: can be a way out of a difficult situation
- Referral Source
CASE STUDIES
Fishing Equipment Manufacturer

- Cold Call in Summer of 2010
- Company initially based in Massachusetts, but product manufactured in RI
- More than 1 year from first meeting to first funding of loan
- Ongoing Technical Support
The Pieces

- Company started in 2005
- Passionate management with Sales & Marketing background
- Company plateaued at $125k per year in annual revenues due to capacity issues
- One sales person (President) and one rod builder on contract
- Solid market research and sales plan
- Weak on the financial side
- Strong reputation for quality & product performance
- More orders than ability to fill – “Great rods, if you can get one”
Missing Pieces

- Technical Assistance
  - Need financial guidance
  - Need to flesh out business plan
  - Need to locate manufacturing space
  - Need to identify/quantify financing needs
- Worked with local SBDC (Massachusetts) on plan. Introduced to finance grad student who assisted with plan.
- Located space – another borrower had excess space and was willing to rent out
- Back and forth with discussions & feedback for almost a year until ready
Putting it Together

- Permanent Working Capital Need
  - Establish manufacturing operation
  - Marketing development
  - Brand Penetration
  - Staffing & Training needs
- Approved $250k loan
  - Advanced over 9 months based on achieving benchmarks
- Tiered Payment Schedule
  - Interest only for 9 months (bring into season)
  - 12 months at $2,500 (growth)
  - 72 months at $4,040.50 (stabilization)
Keeping it Together

• Still a work in progress – funded in Q3 2011
• Total Sales increased over 300% from Q1 2011 to Q1 2012 (and climbing)
• Apparel Sales declined 87% due to lack of capital to purchase inventory; total sales increase is for rods alone
• Much new press for products – great reviews in field/major tournament wins – including IGFA World Championship
• Sales projected to exceed $500k in 2012 and $1.0 million in 2013
Changing the Picture

- Grad student handling accounting caught skimming
  - Fortunately caught early
- Brought in Part Time CFO (RIEDC referral)
  - Updating financial plan
  - Assisting in attracting investors
  - Tightening financial controls
- Introduced to another borrower in apparel business
  - Discussing a licensing agreement
    - Apparel company provides inventory & sells on terms to customers
    - Company gets licensing fees & commission
- Cash remains tight, but Cash Flow increasing
AFI Inc. (not actual name)

- Referral from Lender
- Company spinoff from closed manufacturer
- Established product line and brands
- Established management team
- Ongoing involvement in company
The Pieces

- Company spun off from existing manufacturer which had closed RI facility and abandoned product line
- Strong management team
- Funding for equipment purchase from closed manufacturer – Working Capital needs funded through equity
- Existing product line and brand recognition
Putting it Together

• Limited technical assistance needs
• Fairly standard equipment loan – unable to get through traditional channels due to economy and “start-up” nature of company

Keeping It Together

• Initial sales did not meet expectations, requiring payment modification in first year
• Had later opportunity to purchase additional equipment to eliminate overseas outsourcing
  • Arranged equipment lease through third party
• Currently moving to larger facility, requesting assistance
  • Engaged RIMES to assist, may modify note
Area Rug Manufacturer

• 35+ year old manufacturer of braided rugs located in RI
• Unique niche market, specializing in short-run production with quick turnaround (< 7 days)
The Pieces

Dangers

• 45%+ sales decrease from 2007 to 2009 ($11MM to $6MM)
• High customer concentration – Store Catalog (60% of revenues) – Store discontinued catalog in late 2010
• High losses
• Highly leveraged balance sheet
• Credit facilities at maximum
• No liquidity
• Supplier difficulties due to stretching of trade credit
• Rolling layoffs due to lack of materials to produce
• COD terms with most suppliers
• Existing SBLF loan w/balance of $74k at risk
Opportunities

- Strong management team
- Owner carried losses through equity investments
- Bank supportive – extended additional credit (SBA Loans) despite downturn
- New sales opportunities:
  - Online sites such as Overstock.com offering high margin opportunities
  - High-end National retailers
- Management brought in turnaround consultants and executed plan to restructure operations, eliminating over $2.0MM in overhead and returning company to break-even
Decision Parameters

- 87 employees in economically depressed area
- Existing $74k loan at risk
- Extensive analysis showed $400k needed immediately to continue operations and continue turnaround plan
- Operations turned around and profitable in 2010, but company and ownership lacked funds to keep it going
- Bank lender unable to advance additional funds or increase credit lines due to SBA rules.

WHAT DO YOU DO?
Putting It Together

• Double Down & Support Company
  – Increased SBLF loan to $350k (normal limit $250k)
  – City CDBG loan for $100k (normal limit $50k)
  – Restructure bank debt to reduce rate & increase term
    – All lenders 12 months interest only, 10 year repayment terms at 5.0% current rates
  – Renegotiate terms with vendors
Keeping It Together

• Today – company on plan for revenues, above plan for profits due to margin improvement
  – #1 selling area rug for National retailer
  – Products in trials with large national catalog to replace current vendor
  – High volume of new customers
  – Loss of Store Catalog made up with new customers
  – Company exploring possible purchase of new facility when current lease expires in 2014
    – Working with RIMES to determine need, RIEDC site locator for facility and RIEDC/Bank/OSBDA for financing
NWDT, LLC  (not actual name)

- Referred by accountant to RIEDC
- Company provides training services in various trades
- Profitable, well established
- Ownership in place only 2 years
- Opportunity to open second location and expand program offerings
The Pieces

- Management has good history of results
- Solid plan to expand and market services
- Partnership with RIDLT
- Profitable current operation
- Expansion is large undertaking
- Weak collateral
- Training for needed skills in market
Putting It Together

- Technical Assistance
  - Introduce to RIDLT for training
  - Work with CPA for financial oversight
  - Introductions to area companies in need of training services
- Loan: Permanent Working Capital advanced over 12 month period to cover losses during start-up phase.
  - Interest only until stabilized, then fully amortizing over 60 months
Changing Picture

- Borrower hit snags early on
  - Manager for new location not right person to build business
  - Constantly changing contract terms with clients
  - Alienated client base
  - Overspent
  - Programs inappropriate for needs
  - Kept situation hidden from ownership with false set of books
Keeping It Together

• Payment moratorium while owner took control of operation and tried to salvage
• Extensive workout negotiations with landlord
• Ultimate closure of new facility and retrenching of business to original model
• Restructure of debt to repay over a 10 year period; advance $25k additional to keep remaining business operational
• Still struggling, but situation slowly improving
Summary

• Manage Expectations
• Keep focused on big picture
• Things change – be adaptable
• Know your borrower
• Follow up
• Stay in the loop
• BE FLEXIBLE
QUESTIONS?