Equipment Financing:

Three Steps to Ease the Credit Squeeze

By Edward A. Testa

If you've tried to get funding to meet today's challenges, chances are you've felt the credit crunch. If you're getting ready to look for credit, you may be in for an unpleasant surprise.

Whether used for implementing new technologies and equipment, realigning business operations or attempting to grow, credit is the lifeblood of business. And, many companies today are attempting to invest in solutions that promise to reduce sky-high operating costs.

The Federal Reserve's July 2008 survey of senior loan officers revealed that 65% of banks tightened small-business lending in the last three months, a figure that's up from 50% in the previous quarter. About 60% reported more stringent credit standards for large- and middle-market companies. On top of that, a very high percentage of banks had "increased spreads of loan rates over the cost of funds." In other words, the credit squeeze is real, and there's no sign it will change in the near future.

Even companies with gold-plated credit are reporting tighter underwriting standards and more stringent terms.

While the credit picture is bleak, the funding faucet is not turned off. Money is still available to improve manufacturing and distribution processes. Here are three steps to take to make your operation more attractive to a lender:

1. Have a plan that takes into account a tight economy. If someone asked you how you planned to repay a loan or make lease payments for new equipment, what would you say? Many times, business owners and managers give some type of general response. What's

needed is a plan on paper that describes in detail exactly what you would do to produce the necessary revenue. Then, you'll be ready.

Because businesses acquire new equipment to increase revenue or reduce costs, the following are several questions you should be ready to answer: If you are borrowing to invest in new equipment, why is it needed? What benefits will it bring? Will the investment replace outdated equipment or allow you to enter a new market? If you want to enter a new market, how do you plan to penetrate it? If the new equipment will allow you to reduce operating costs, what will be the actual savings?

Spending time developing your road map pays off. It's a tool that assures lenders you have the cash flow to make your payments. It also enhances your credibility, which can have a positive impact on terms and interest rates.

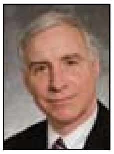
2. Get your financials in order. Managers with budget responsibility are understandably frugal. They have what seems to be an innate ability to keep costs down. Unfortunately, however, accounting services are sometimes dismissed as unnecessary luxuries. Yet, without current financial reports, you can count on being turned down for credit.

Having adequate financial reports is helpful in another way. You're going to have to complete a credit application. Current financials give you a leg up because you'll have the necessary data at your fingertips.

3. Demonstrate that you are serious. We've had such a long run on easy credit that it's difficult to come to terms with the fact that times have changed. Only a few years ago, lenders were giving money to almost any business for almost any reason and for almost any terms.

Those days are gone. Today, lenders want to know that business managers are serious, and they measure commitment in tangible ways. It's in any borrower's best interest to make sure the operation looks good. Things as basic as active participation in a trade association or a professional, detailed Web site show that you're serious.

Operations that take these three, simple steps have a good chance of obtaining the credit they need to grow. The credit crunch has a Darwinian quality to it; the best prepared will thrive.



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