



# Financial Musical Chairs!

## Or, how to land on the seat with the right lender!

by Kenneth P. Walsleben

Recently, AIG Insurance teetered, Lehman Brothers failed and filed for bankruptcy, and the iconic Merrill Lynch fled into the waiting arms of Bank America. Pretty sobering stuff! And, all of this on top of the federal Fannie Mae and Freddie Mac bailout.

### Wow! Who knew?

But, by the time you read this, further upsetting things may have occurred in the financial markets. Some sages predict the bottom of this crisis, while others suggest that similar fates wait in the months ahead. You may not worry if you don't do business with any institutions that have failed recently.

Well, you'd also be dead wrong if you did.

### Should you be worried, too?

While these names were among the biggest of the big, it was assumed they were too big to fail. Some of you may be concerned about your bank, while others remain comforted by the so-called theory of financial firewalls. The reason you should be worried may surprise you though.

What worries me is the change in banking climate that is occurring regardless if any other institutions fail.

Recently, CFO Magazine reported that, among nationwide commercial lending markets, wide spread negative changes have already occurred among most lenders — even before this latest crisis.

They reported that

- credit is very hard to obtain for borrowers of all sizes
- credit lines with unused borrowing capacity are routinely trimmed
- borrowers can expect lenders to tighten collateral requirements

This worries me.

### How to Attract Financing.

Until recently, borrowers could attract bank loans even with substandard collateral, using accounts receivable as the primary form of corporate collateral.

In the eyes of a bank, accounts receivable is considered substandard collateral when compared to equipment, property, or physical inventory which you can touch and feel, and lenders like that — a lot.

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... affiliate with a factor or other asset-based lender to retain control of the timing of such a move.

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### Account Receivables not an asset?

But, accounts receivable? To be of any value to a lender, banks want to control collateral and know how to collect from it. Most bankers figure that, at best, they'll receive \$0.25 on a collateral dollar from receivables if they need to collect after a default.

You may not yet realize it, but in the future, today will be viewed as the 'good old days' of easy borrowing because lenders of all sorts routinely ignored the stern advice of their forebears and loaned capital with abandon.

So, long as most of the borrowing criteria was sound, bankers looked past any blemishes considered inconsequential.

Not in the near future.

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### Accounts Receivables Poor Collateral?

Now, poor collateral criteria will torpedo more loans than you can imagine. Many of you are accustomed to viewing your local, commercial banks as the answer for all forms of commercial borrowing.

Those days are over, and I predict a stratification of lending sources.

You'll see an emergence of

- asset-based lenders for inventory and equipment needs
- factors for cash-flow funding of liquid collateral such as accounts receivable

Amid this market contraction, many borrowers who once viewed their bank borrowing relationship as stable will learn otherwise.

More than a few of you will learn that your bank is "moving in a different direction" as they refuse to renew or increase your credit line.

I don't need to tell you what that means to your corporate growth prospects.

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### My advice? Make plans now!

Have a solid back up plan ready to go. In previous columns, I've urged readers to be proactive.

I've urged you to get out of denial and earn your management stripes by developing financial contingency plans.

The need for those actions appears more critical today than ever before. Those firms that choose to affiliate with a factor or other asset-based lender will retain control of the timing of such a move.

Doing otherwise is like playing musical chairs with earplugs! You'll never know when the music stops until it's too late.

Secure your financial future, get in touch with an alternative financier soon. Someday pretty soon, you'll be glad you did.

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