

Your Business Credit Could Be Gone With the Wind

Written by Steve Marr
Thursday, 14 May 2009 01:00

Tom owned a construction remodeling business in Oregon. He did most of the work himself, hiring an extra hand when needed and using subcontractors for electrical, plumbing, and other specialties. Tom would obtain deposits, and construction draws, but would often require additional money to fund customer work before he received payments.

Tom utilized a \$95,000 credit limit on a business credit card. Over the past five years, the most he ever put on the card was \$90,000 and Tom was never late with a payment. Many times the card was completely paid off. Even with the current downturn, Tom maintained a steady stream of customers and was going along fine ... until the bank cut his credit limit suddenly to \$9,000. Immediately he was unable to fund the next job!

Walter owned three profitable automotive repair locations and operated with a line of credit from a local bank of \$200,000. The balance averaged around \$80,000 and spiked to a high of \$185,000. The credit line was renewed every year, except this year. The bank officer explained the new maximum would be \$75,000.

Across the country businesses large and small are having their credit facilities cut or even eliminated. The Prophet Habakkuk wrote, *"Will not your creditors rise up suddenly, and those*

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who collect from us awaken..."

(Habakkuk 2:7

NASB). In our current difficult business environment, the old borrowing rules are gone and we must accept this new reality.

Several key principles can help guide us through the current minefield.

#1 — Be realistic! Understand that your credit line may get cut, even if you have been a great customer in the past. I have talked with many business owners who were stunned at having their credit facilities suddenly pulled after a 10, 20 or even 30-year relationship. Instead of getting caught unaware, proactively think through an alternative backup plan.

Tom, who ran the construction remodeling company, was unable to obtain credit he needed and was forced to close up shop and find employment with another contractor. Walter, who ran the three profitable automobile repair shops, was unable to access the credit line he needed and was forced to close one shop, reduce expenses, and transfer inventory to the two remaining shops. He was able to keep going, albeit as a smaller business.

#2 — Is there another way? Borrowing was documented in the Bible, but borrowing was always viewed as a curse, not a blessing (See Deuteronomy 28:43-48). Using zero credit in today's environment is not very practical for most, but we need to approach all borrowing very carefully by asking this question: "Is there any other possible way to move forward without borrowing?"

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#3 — Take action now. Take steps to raise cash and reduce your dependence borrowing now. Trident Delivery Company made deliveries for retail stores. Customers were billed bi-monthly and payment received on average 30 days after deliveries were completed. Funds were commonly drawn from a revolving line of credit at a bank. Trident offered a cash discount if the deliveries were paid when made rather than billed, and a smaller discount if the charges could be charged to a business credit card. One third of the customers accepted a discount option and although the profit margins slipped a bit, all bank borrowing was eliminated.

Many business owners borrow when in reality they should reduce their operating costs. One restaurant owner, who was losing \$4,000 a month for the past five months, wanted to borrow to fund his loss “for as long as necessary until business turns around.” He should reduce his operating costs, not borrow money to cover his loss. Losing ground each month is not a plan, it’s a disaster!

#4 — Have a backup plan. When borrowing is required, develop a backup plan. If your line of credit is unexpectedly cut, what options do you have? Can you cut expenses or inventory, collect receivables faster, or develop additional sources of funding? Develop an asset list that can be used to secure asset financing. A contractor whose credit was canceled by a bank was able to obtain a loan secured by equipment. Other businesses have turned to using accounts receivables as collateral.

Lenders are changing the rules with borrowers. We may not like the changes, but we need to understand what is changing and what is likely to change in the future. Traditional sources of borrowing may be closed or reduced and 70% of small business people have reported

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experiencing an interest rate hike, lower credit limit, or canceled credit cards.

King Solomon wrote, "*The borrower becomes the lenders slave*" (Proverbs 22:7 NASB) and any business owner experiencing these adversities understands that feeling. Regardless of banking policies, we need to watch our borrowing.

Use these key principles to help guide you through the current minefield.

Steve Marr, Your Christian Business Coach