


WHERE TO GO WHEN THE **BANKS SAYS NO**

BY BRUCE SMITH



Gary Fitchett coined the phrase in our title, and for many entrepreneurs the search for money extends beyond Canada's big five banking institutions. Many entrepreneurs find themselves in the unenviable position of sitting across from their local bank manager, attempting to explain their business and why the bank should feel confident in providing that elusive loan that will make the difference between "struggling to get by" and "opening the door to new revenues and endless possibilities". You observe the banker as you make your pitch, talking the language of business: margins, cash flow, and return on investment. Their eyes glaze over; your words are apparently lost as they drift off into some mystic haze.

Should you be surprised? No. Your typical bank manager has never been in business, and cannot relate to the pressures of getting the order out on time or making payroll. They cannot be expected to understand the intricacies of your business. Although they may talk a good game of how they support small business, in reality if you and your company do not fit within their strict lending criteria, you are going to be disappointed.

Do not despair! There are thousands of alternative lenders in the marketplace looking to loan money to your business. Realistically, there is more money available than there are places to invest. Assuming you have a viable business, help may not be far away.

Alternative business financing models look beyond typical bank products, term

loans, and credit lines. You may be a recent start up, have poor credit, be losing money, or lack collateral, but that does not necessarily preclude you from financing. Let's take a look at some real life examples and the funding solutions we arranged.

CASE 1—THE CREDIT RISK

The client operated a bakery. A recent expansion used all their available working capital. The company had not been profitable in the past couple of years and their credit was very poor. So poor in fact that the owner could not even obtain a secured credit card, the ones you prepay so the bank has no risk if you cannot make your payments.

Reason for funds: The client was not in a financial position to pay its employees on payday.

Solution—Factoring: The biggest positive this company had was its customers. They sold to Loblaw's, Sobey's, and other "blue chip" clients but were set up with 30-60 day payment terms. Our solution was to arrange factoring financing for their accounts receivable. Our lender purchased their receivables, effectively advancing to the bakery 85% of the money they were owed, within a couple of days. Once the customers paid, our lender deducted their fee and paid the balance of the funds owed to the bakery.

CASE 2—OPERATIONAL HURDLES

The client wholesaled rubber mats for livestock operations. They experienced a warranty problem with their previous mat provider, so they needed to source a new supplier. A company in Asia was willing to manufacture the product to their specifications. Due to the time frame of the warranty issues and the fact they had no product to sell, the company lost money and was in default on their bank financing.

Reason for funds: To pay their new Asian supplier for product so they could generate revenue.

Solution—Purchase Order Financing: The one positive that this client had was an established network of retailers who had orders available if our client could deliver the product. Our lender recognized the opportunity and provided purchase order financing. They essentially advanced a percentage of the purchase order amount to the Asian supplier, so they could manufacture and ship the product to our client. Once the retailers paid for the product, our lender deducted their fee and paid the balance of the funds to the wholesaler.

CASE 3—THE HIGH RISK START UP

The client was starting up a new bar/restaurant. They did not have funds available to purchase the required equipment. Being a start up, and in an industry with a low success rate, the banks were unwilling to assist with financing.

Reason for funds: Equipment purchase.

Solution—Leasing: The clients in this case had excellent personal credit. The two pieces of equipment they needed to purchase were each under \$50,000. On the strength of their personal credit alone, we were able to arrange lease financing.

The lender purchased the equipment on their behalf and then agreed to lease it back to them with no money down on a five-year term.

CASE 4—REAL ESTATE: TIMING IS EVERYTHING

The client was purchasing a commercial property. The down payment for this property was coming from the sale of a residential property they owned. The day the residential financing was to close, the deal fell through. This left only two days to come up with the down payment, or they would default on their obligations and be unable to close on the commercial property. No extension would be permitted.

Reason for funds: Commercial property purchase.

Solution—Bridge Financing: We knew that a new buyer for the residential property would materialize; it was just a matter of time. We arranged bridge financing for the client so the down payment would be available as planned. Security was placed on the residential property, not unlike with a mortgage, and the bridge financing was paid out once the residential property sold.

CASE 5—CASH FLOW BLUES

The client owned a one-of-a-kind furniture-making business. After one year in business with limited sales and no resources available for continued advertising and marketing, the current owner had no personal resources left to support the business operations. No debt financing was available.

Reason for funds: Working capital to continue operations.

Solution—Angel Investment: As no debt financing solutions were possible, the client was partnered with an angel investor who supplied the required working capital to see the business through the next year of operations. As a bonus, the angel investor brought needed business experience to the group. This allowed the client to focus on what they enjoyed and did best—making furniture. The investing partner then oversaw the advertising, marketing, and general business operations.

These five examples are just a sample of potential financing solutions that exist outside the parameters of your local bank. It is always best to first speak with a business finance specialist, so you are knowledgeable as to your funding options before making that appointment with a financial institution. You will save much time and frustration if you know what funding you will realistically qualify for, in advance of your application. A finance specialist will also package your lending request and negotiate the loan terms on your behalf. Fees are often subsidized or paid for entirely by the lender, so the investment by you is well worth the results. **E**

Bruce Smith, business finance specialist for Casb Management Group Inc., brings over 20 years of business enterprise development and funding solutions through an innovative and effective results-driven approach. For timely, customer focused business solutions, construction, commercial and residential mortgages throughout Canada and the United States, contact Bruce by phone at 519-649-2502, ext 2, by fax at 519-649-2598, or by e-mail at bsmith@casbmanagementgroup.com.