

ARE BANKS LENDING?

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I often hear the comment that banks are not making business loans. While I understand my perspective may be slanted from the banker's side of the desk, I want to offer some clarification as well as information that should be helpful to the small business owner.

In recent economic times, the proverbial Perfect Storm has been reality for many small business owners. Many small business owners have seen revenues decrease substantially thereby lowering net profits. Bank regulators – now more than ever – require bankers to underwrite and risk rate loans based on debt service coverage (DSC). In simpler terms, DSC is the ratio of cash available after expenses to service principal, interest and lease payments. It is a popular benchmark used in the measurement of an entity's ability to produce enough cash to repay its creditors. If the business does not generate DSC in excess of 1.2:1 on an annual basis, the business owner will face challenges obtaining further credit for the business. Over the years, numerous regulators have told me that collateral doesn't repay loans, cash flow does.

This leads to the second important factor affecting business owners' ability to borrow money. Similar to devaluation that many have experienced on our personal residence in recent years, many businesses have experienced devaluation in real estate owned by the business. Since real estate is a major asset for many small businesses, this devaluation has greatly impacted the borrowing capacity of that business. In addition to the devaluation that has happened, many lenders have lowered the loan to value, which is the percentage that can be borrowed against the current value of the property. For example, where you used to be able to borrow up to 80% of the value previously, you may only be able to borrow 70-75% of your improved commercial property's value. So the combination of real estate values and lower loan to value rules has impacted small business owners' ability to borrow money for the business in the current environment.

In good economic times, and especially in these difficult economic times, it is imperative to have a relationship with your banker. View your banker as an important member of your team along with your lawyer, accountant, and insurance advisor.

Next time someone complains about their bank not making loans, or you have difficulty borrowing money for your business, hopefully there will be a better understanding of the factors that contribute to the funding decision. The reality is that your banker wants and needs to make loans. One of our business bankers would be happy to assist you with your business needs now and in the future.