

Transcription



Episode 3: Where To Turn When Your Bank Credit Line Shrinks Pt.1: Asset Based Lending (Transcript)

(INTRO MUSIC BED)

Moderator: This is Capital Conversations Episode Three: Where To Turn When Your Banks Credit Line Shrinks. Part One; Asset Based Lending. Capital Conversation is brought to you by; Hennessey Capital. To learn how Hennessey Capital can help your business, please visit; Hennesseycap.com.

(END INTRO MUSIC BED)

Moderator: It seems, we can't open a newspaper today without hearing about some aspect of the credit crunch and how it is affecting businesses; large and small. It seems that one casualty of the credit crunch has certainly been entrepreneurs seeking financing. Many small business owners find themselves asking about how to grow their business in this financial climate, or where to turn if their bank credit line availability has changed.

Mike Semanco, president of Hennessey Capital is back with us bringing his 20 years of experience to help us out. He is going to attempt to sort out the credit crunch and provide answers on how to effectively finance a small business in the midst of it.

Welcome back, Mike!

Semanco: Thanks Beverly.

Moderator: Mike, why don't you start by telling us, in your view, what the credit crunch really is, and what it means for small businesses?

Semanco: Well, the credit crunch started with the deterioration of credits within various bank's portfolios. It was primarily linked to the mortgage market. The capital that they had on hand to lend to small business owners, is now being used to offset the credit loses experienced. Banks have less to lend, and the money that they do have to lend are limited to pristine credit options. Today's tighter credit market guidelines are impacting companies who, twelve months ago, would not have had any issues obtaining traditional credit.

Moderator: So, for the small business that finds itself in a cash flow crisis because of a tightening of the bank's lending guidelines, what options do they really have?

Semanco: In todays market, asset based lenders look at the value of the company's assets in addition to cash flow as part of their lending criteria. Over the last twelve

Transcription



months or so, asset based lending has certainly picked up, due to the credit crunch. Asset based lenders tend to work closer with the clients, and they keep a close eye on the collateral values that they're lending against. So as cash flow deteriorates, they adjust the collateral values accordingly.

Moderator: Well, that seems like a viable alternative for those with the assets to make it work, but could you give me a case study or an example?

Semanco: You know, in today's market there are many industries which seem to be changing at a daily rate. Take for example, the auto industry. Clients with some exposure in the automotive industry are considered more risky than they were twelve months ago. One situation we encountered, is a company diversifying their product line to include customers in both the heavy truck industry and aerospace. This transition out of auto, is going to take time, and their current lending source just does not want to wait for this to happen. This creates opportunities for other lenders who understand that diversification and transition does take time, as long as they understand the business owner can execute this plan, they will lend to those companies.

Moderator: Asset-based lending sounds like a great option. However, beyond seeking alternative lending options, like factoring & asset based lending, what else can a small businesses do?

Semanco: Small business owners have other options. Community banks, credit unions; those are all alternatives to the traditional bank lending guidelines; and those folks don't have, or may not have the traditional mortgage market exposure that have caused many of the problems. Other options include leveraging equipment leasing or possibly state sponsored funding programs that are used for small to mid sized businesses.

Moderator: I know in the next episode of Capital Conversations we're going to provide more detail about asset based financing options for small business owners.

Mike your financial experience with asset based lending has been insightful. Make sure to subscribe to our Capital Conversations Podcast for free in iTunes, to receive the new episodes delivered to your ipod and desktop when they become available. See you next time.

(OUTRO MUSIC BED)