Volume 5

SMART STRATEGIES

Methods to Improve Your Credit Worthiness and Borrowing Ability

Many banks and lenders have recently toughened their credit policies, restricting approvals to only their very best credit risks. Regardless of the strength and length of your relationship with your banker and other lenders, you may find that the rules have changed the next time your business goes to borrow. We offer these strategies to improve the odds for your next credit request, whether it is for a bank loan or an equipment lease.

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Strategy #4:

Obtaining approval for almost any borrowing need is dependent upon being able to show that you are "credit worthy". The amount and detail required to demonstrate credit worthiness will vary with the size and type of the borrowing request. Preparation is key for a successful relationship with a banker or lender.

A local bank provided the following list of requirements on their commercial loan application:

1) A written loan request outlining the amount, terms, purpose and repayment of funds.
2) Your 3 most recent fiscal-year-end company financial statements prepared by an independent C.P.A. on the accrual basis in accordance with Generally Accepted Accounting Principles. (Compiled statements for aggregate credits of $100K or less; Reviewed statements for aggregate credits from $100K to $500K; Audited statements for aggregate credits of $500K or greater.)
3) Most recent interim financial statements.
4) The 3 most recent years' company federal tax returns.
5) Recent financial statements, three years tax returns, and resumes of each guarantor and of all parties or entities with a 10% or greater interest in the company.
6) Last month's accounts receivable and accounts payable agings.
7) Most recent inventory and equipment lists.
8) A business plan including company history, products, services, markets and industry information. Also include financial projections covering, at a minimum, the requested term of the loan and any information concerning the company structure, and other information to aid the loan officer in understanding and evaluating the company, where it's been, where it is, and where it is going.
9) Additional information may be requested (i.e. appraisals, depreciation schedules, etc.).

Those are their requirements; no embellishment. In fact, we've abbreviated somewhat due to space limitations. Hopefully, you're not in a hurry for a commercial loan; it could take months just to prepare the listed information. Weeks more for the bank to understand and approve.

To reduce approval time, anticipate and provide answers to your lender's questions, including: industry ratios (e.g. RMA Averages), marketplace and competition for your product or service. Being open and frank with your banker is the best way to maintain a long and healthy borrowing relationship.

Your past years' income will greatly influence a bank's decision about your future ability to pay. Equipment lessors tend to give a bit more weight to the income potential and collateral value of the equipment being leased.

We suggest establishing a file in which to accumulate and store your financial information for quick access when needed. Although more than 80% of our lease requests are approved without requiring financial statements, there are many financing situations where a lease is not appropriate. We encourage you to be prepared to demonstrate how businesslike you are about your business.

> If you think you are beaten, you are.
> If you think you dare not, you don't.
> If you'd like to win, but think you can't,
> It's almost certain you won't.
> Life's battles don't always go
> to the stronger or faster man,
> But sooner or later, the man who wins
> Is the man who thinks he can.

OVERCOMING PRICE OBJECTIONS

Price objections are often just masks that hide the buyer's real reasons for reluctance. Some good ways to overcome price objections are:

1) Break the total price into smaller portions (e.g. the cost per month or day to acquire and benefit from your product or service).
2) Offer an attractive monthly payment plan.
3) If appropriate, employ the "Buy Now, Save Later" argument, reminding the buyer that prices seem to be always rising.
4) Question your competitor's lower price. Where does he make up the profit loss? Is he in a big hurry to sell?
5) Offer to back up the product or service with a "satisfaction guarantee".
6) Anticipate the price objection before it comes up.
7) Admit that your price is higher and explain why.
8) Emphasize the cash flow generated by your product or service, giving specific figures.
9) List, in detail, the superior customer benefits delivered by your product, service or firm.
10) Ask the customer whether he would prefer that his competitor have the advantages of your product or service.
11) Draw up a new price schedule if price is the real obstacle. Offer smaller quantities at a time, fewer deliveries or a free trial.

DEFINITION: WORKING CAPITAL
[wûr-king káp-i-tal], n.: 1) the difference between current assets and current liabilities (accountant's definition); 2) lubrication for the bearings on which business turns (entrepreneur's definition).

Common sources of working capital are: 1) stock offerings; 2) retained earnings; and 3) lines of credit. Credit lines are not really working capital by definition, but are often considered in the same category by business owners who use them for the daily operation of their businesses.

Leasing provides conservation of working capital and credit for continuing business needs. Often, the "opportunity cost" of tying up cash and bank credit in equipment compels leasing as an acquisition alternative, especially for those companies whose working capital is invested in inventories or receivables.

An important benefit derived from leasing is the ability to have a piece of equipment pay for itself. With proper selection of equipment and lease terms, a positive cash flow can be obtained from the acquired equipment every month. When a business has determined that additional equipment will produce additional profits, the decision changes from "Should we acquire?" to "When do we acquire?" and "How do we acquire?".

-- "This acquisition will have to wait for now. We've just committed to a new product line (new advertising program, new business location, more warehouse staff, ...) which will require substantial cash."

-- "Twenty-two thousand dollars! Sure. We could really use the equipment, but that's more than the net profits we made all last year!"

Leasing is a way to have the needed equipment and the profits it will generate without tying up cash. Without swallowing up last year's profits. And without tying up bank credit.

Leasing requires less cash down than bank financing of the same equipment (usually 1 or 2 advance payments vs. 10% - 25% down payment or "compensating balances"). Banks may also require incidental costs such as sales tax, delivery, installation and training charges to be paid in cash at the time of the purchase. Under a lease, these costs can be included in the total "financing" package. Most importantly, bank credit is kept available for other cash needs.

As important as new equipment can be to a business, most businesses have better things to do with their cash and bank credit than tie it up in equipment. They might employ it for other, more profitable working capital requirements such as inventory, volume purchase discounts, advertising, and accounts payable discounts. Leasing provides an alternative to "either/or". Rather than choosing between short-term cash needs or solving the long-term business needs with new tools for profit, leasing allows both!

When the immediate benefits from additional equipment outweigh the cost of waiting for capital to accumulate; when the additional equipment will pay a positive cash flow every month - even after paying its own lease payment - then the business can't afford to wait for working capital to accumulate. Every week that passes without the equipment is another week's profits lost forever.

Leasing prevents opportunity cost from becoming OPPORTUNITY LOST!

LEASEWISE: - Did You Know?

- **Lease $mart's** Personal Service Policy states: "Whenever practical, we will personally deliver lease documents and funding checks to our lessees and vendors. We will travel anywhere in Arizona to complete business and to develop and strengthen our relationships with vendors and lessees alike."
- Lease rates are the lowest they have been in over 5 years. Since lease rates are most generally fixed for the term of the lease, now is the time to "lock in" low monthly equipment costs.
- We are promoting our "90-day No-Pay" lease plan with special low rates. With only 1 payment in advance, this plan allows your new equipment to be up and running for 90 days before the next monthly lease payment becomes due. Get a jump on economic recovery by using this plan to acquire that needed equipment now!

Every new idea goes through three phases:

1) It will not work.
2) It will cost too much.
3) I knew it was a good idea all along.

Three secrets of success in public speaking:
1) Be Sincere; 2) Be Brief; 3) Be seated.