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Credit Easing? Not So Fast!

Inevitably, when I am in any business discussion about the fuels industry, the conversation leads to questions about financial markets and the overall access to and availability of credit. Recently, clients and acquaintances have asked me about the ease with which a fuels distributor can secure an LOC, or additional senior bank debt for an acquisition. "Can I qualify for a loan to fund an acquisition?" "Has credit gotten any easier?"

Despite a somewhat improving economy and the fact that it is now more than three years since the Great Recession began, credit in the middle market has not materially improved. Sure, for the right deal—significant assets purchased at the right price, a borrower with good credit and reasonable leverage—there is money available. However, even in these ideal cases, underwriting can be excruciatingly painful. Lenders scrutinize every detail to minimize risk. They seek loan conditions like a scratch golfer aiming for the middle of the fairway. And the threshold for risk has been lowered, because banks are as conservative as ever. Plus, the Obama administration continues to support and employ regulatory controls that restrict bank lending policies and practices.

Unfortunately, our economy remains fragile. Can you blame government for our ongoing credit troubles? Neither party can afford to be blamed for being unsupportive of fiscal measures that prevent another meltdown, no matter how conservative the policy. None of us, especially our politicians, can afford even a small hiccup in our protracted economic recovery. So until we experience robust growth in GDP, we can expect continued fiscal conservatism with the resulting effect of tight credit, especially for small to midsized companies.

That said, there are lenders out there that are friendly to our industry, and they truly want to help fund your growth plans. I currently have numerous clients seeking traditional bank debt at 75% LTV to finance acquisitions of retail gas sites. My advice to them, or to anyone looking for debt financing, is and always has been:

1. Get Your Data Organized: Having your records and reports prepared and ready for review by banks is critical, especially if you are facing a deadline for hard money deposits. It takes time, so start early and get your records printed, organized and labeled for easier review.

2. Prepare Store-Generated Reports: This is an important but often overlooked item that all banks will require. They want to see confirmation of your pro formas and income statements through sales reports generated by back-office systems, which also capture COGS and margins. Lenders absolutely need to see the sources of free cash flow. If these types of reports are not available, ask your accountant to prepare them.

3. Cast a Wide Net: The best of all situations occurs when two or three banks become interested in your loan and issue an LOI. To obtain multiple financing "offers," you should seek out at least five or six lenders. Each bank has a different way of looking at your loan request; some may be oversaturated in the category and burned recently with some related bad loans, deciding that your request no longer fits their debt profile. I've also experienced cases in which there is confusion internally about what the underwriting committee wants or doesn't want. This will end up being a time waster. If you have multiple banks on the hook, you can easily recover and move along.

4. Talk with Trained Professionals: If underwriters ultimately turn you away, they are not affected, but you may be. I have had situations in which the local banker and another at the same bank in a distant state had completely opposing views on loans. Unfortunately, banks lack an internal communications process for sharing information, because each region/department is chasing its own objectives. They are inherently motivated not to share plans/prospects across departments. So engage an adviser who knows who to approach (at the "right" department at the bank), how to properly package your loan opportunity, and one who has expertise in navigating (i.e., negotiating) term sheets.

Following this advice can put your acquisition opportunity in a far better position to secure adequate debt financing. ■