Advising Business Clients with Difficult Financing Requests

A common issue that companies face is that they have an imminent and material financing need and have been looking to their current lender to provide the financing. The lender, for various reasons, has determined that they cannot accommodate the request. At this point, the business owner is farther along in the process, or even at the 11th hour, after having exhausted the immediate options at their disposal. Therefore, advising business clients appropriately about their options becomes critical to helping them move forward, and to de-risk their situation. There is also a relationship opportunity to distinguish yourself as a trusted advisor.

Common scenarios include:

- new orders/expansion
- major capital expenditures
- refinancing
- real estate acquisition
- the acquisition of another business, or buyout of a partner

When there is limited flexibility to change an approaching deadline, and obtaining financing is critical (or even required for the normal continuation of business), then having a plan B and a plan C solution at the ready becomes prudent insurance. Having a backup plan avoids, or substantially mitigates, the potential for a stressful bad news scenario at the last minute.

Often business owners and Chief Financial Officers (CFOs) perceive that they have more limitations for obtaining financing than what is actually available. In today’s marketplace, there is increasing choice with many new non-traditional lenders (i.e., other than regulated main street banks) who are more flexible and willing to finance a wider variety of scenarios. They often work in conjunction with a traditional bank’s credit facilities.

More choice amongst lenders means that business owners, CFOs, and you, their professional advisor, need to proactively develop a list of prospective lenders, particularly non-traditional lenders, to be utilized when facing an important or potentially challenging financing request. As a financial professional, helping businesses with this process elevates your profile as a trusted advisor in their eyes.

The prospective benefits of expanding their lender list would include:

- a broader range of financing scenarios accommodated
- shortened timeframe to closing
- increased financing amount
- variety of terms and conditions
- complements existing loan facilities

For those sourcing their primary financing from a non-traditional lender, it is important to understand that non-traditional lenders are quite different than banks, and there are many factors to take into consideration.

Unlike major banks who finance their loans from their retail client's deposits, or can readily access inter-bank funding mechanisms, non-traditional lenders generally do not have ready access to capital. They need to raise funding from investors and other sources of capital, including other lenders and banks, to be able to lend funds out to their clients.

This comes into play if your financing is being provided by a non-traditional lender. It is important to be aware that in some limited instances, they may not be "in funds" when it comes time to advance the agreed upon loan. Gaining clarity on how a non-traditional lender raises their capital, the size of their portfolio, how many active engagements they have, and even obtaining client testimonials would all be prudent steps worthy of consideration.

The principle of developing plan B and C lenders, and closely vetting those lenders, is to satisfy the prudent person objective, and put businesses, owners, and CFOs in a stronger position when obtaining financing. It also puts businesses on better footing relative to their business and financing objectives. The advantage for financial professionals, who are advising clients appropriately about their options, is building stronger client relationships, thus providing a higher level of value.

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