TINA DETTMAN-BIELEFELDT
Commentary

Banks refinance, but are selective

As many businesses struggle with cash flow, it isn't long before their owners start to take a look at their debt. Maybe they've borrowed from the wrong places and have added credit card debt to conventional loans and have a maxed-out line of credit. Can these loans be combined into a single, smaller payment?

According to Mike Hall, CPA, a SCORE volunteer and manager of the Green Bay office of QuickStart Inc., that all depends on the strength of the business. In addition to specializing in business plan development and SBA loan packaging, Hall also helps clients with refinancing. However, he is quick to point out that he is very selective.

"What's happening in the current climate is that refinances are tougher to get done," Hall said. "The business might already be in trouble and if the company isn't viable, the lender won't even consider it."

The lender isn't interested in businesses that have run up so much debt that it is unlikely they will survive. Hall closely analyzes the situation and habits of a business before working on a refinance. If it is determined that the bad habits of the owner are what got the business into trouble in the first place, and things won't change with a refinance, there is no reason to move forward.

"We have to be comfortable that if we get this business refinanced, it will help them, not delay the inevitable. Clients are asked to prepare a schedule of liabilities listing all of their debt. If we see that they've got multiple sources of debt and it is incorrectly structured, and by refinancing monthly payments can be decreased enough to make a positive cash flow impact, we might be able to combine and term out much of the debt," Hall said.

One of the major benefits of combining loans is stretching out the amortization schedule. If a business has an equipment loan that is amortized over 10 years and a real estate loan amortized over 20 years, a combined rate of 15 to 20 years might make sense. Paying off credit cards as part of the refinance can reduce monthly payments as well as interest expense.

Hall said that business owners should be prepared before visiting lenders. The information package should include tax returns, business and personal financial statements, and a detailed schedule of liabilities. List the balances owed, interest rates and current monthly payments. Include a schedule of what the debt would like after refinancing. It should show that the refinance would result in a considerable increase in cash flow.

"I would start with its current lender and see if the bank is willing to look at refinancing the debt. If it is not, then try a few other lenders, and get feedback from each," Hall advised. "If the lender says no, ask why. What am I missing? Is it my industry, my information or my business performance? Maybe you can make changes that will result in a positive response."

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