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Restructuring Your Business Debt

Joe Madison has owned his roofing business for the past 25 years. Although his company had survived many economic downturns, this last recession resulted in a 50 percent decline in his firm's annual revenues for each of the past two years.

Prior to the downturn, Joe's company had grown so dramatically he had outgrown his space. With vacancies in office and industrial space at record lows, Joe decided to buy land and construct his own building to house his growing business. So, during what turned out to be the height of the real estate market, Joe broke ground on his new space. And in light of the then booming real estate market and his prospects for the future, he had even decided to build additional space to allow for future growth.



Fast forward two years. The beautiful building has been completed. But Joe has had to lay off 75 percent of his staff and dramatically cut all his costs. The monthly loan payment for his company's new headquarters building is now too high for his company to bear. For the last three months he has been unable to make his debt payments.

Unfortunately, Joe's story is not unique. The economic downturn's impact has been felt by a large number of borrowers, and the commercial real estate market is no better. We continue to be told that the significant volume of distressed loans that are about to hit the market are at unprecedented levels. Research firm Foresight Analytics recently estimated that approximately two-thirds of the \$800 billion in commercial real estate loans held by banks that will mature between now and 2014 are under water. If you find yourself in this situation, don't despair. Here are four steps that a borrower should take if faced with a troubled loan:

Communicate with the Lender

Our natural tendency is to avoid conflict or unpleasantness. And as business owners we don't like to admit failure or that there are problems. Even when the news isn't good, your banker would rather hear from you than just see your loan payment not being made and her phone calls not returned. Banks are much more willing to work with borrowers who are actively communicating with them than those who avoid their calls and don't provide honest and timely response.

Share your Game Plan and Strategy

We have all learned lessons during this recession and would certainly make different decisions if we had it to do over. But focusing on what has already happened or lamenting about your current financial situation won't help move your company forward or get your loan paid back. Providing your bank with thoughtful projections and a description of how you plan to address the problem leads the lender to believe that the business owner and management team have a handle on the situation and that they are proactively addressing the issues.

Know your Options

No one starts a business thinking that the business will fail and that taking bankruptcy would ever be in his realm of possibilities. Sometimes, though, bankruptcy may be your best option. Are there unencumbered assets to sell or capital leases that could be exited? Are there other financial obligations that can be eliminated? Would the bank be willing to restructure your debt? Reviewing all your options may provide you with a different way to resolve your loan issue.

Seek Professional Advice

Because a borrower in trouble is obviously strapped for cash, the thought of expending more monies is often a tough decision. But the loan work-out process is difficult and most business owners have never found themselves in this situation before. Working with professionals who have assisted other business owners with similar situations will help you navigate through the process.

Lenders never made a loan thinking that liquidating the collateral or taking over a business was going to be how the loan would be paid back. Taking the steps that have been outlined here shows the bank that the borrower is making every attempt possible to work out the situation in the best possible way.



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Experience. Commitment. Partnership. Excellence.

Links Financial helps business owners, real estate developers and investors obtain financing and restructure existing debt



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