

When it comes to financing in today's environment, it's important to keep an open mind.

Tonya Fry reports exclusively for *ACT*

The credit conundrum

There are currently five major finance issues facing the crane industry today. The best ways to mitigate these issues are to provide lenders a complete credit package, take time to speak directly with your lender, and be sure to keep an open mind.

The top two issues facing crane companies today in regard to obtaining credit is limited funds availability and maximum risk aversion by credit sources. Since 2008, many banks have either ceased all equipment financing, or those that have not, have severely decreased their lending capacity, especially in the construction industry.

Since the availability of funds is limited, banks are extremely selective in the deals they are approving, resulting in less finance approvals. Crane companies are affected even more so because many lenders incorrectly consider all crane companies to be part of the "construction" industry. For many lenders the "construction" industry has become a restricted industry.

Risk aversion tactics

Banks that continue to lend to the crane industry are taking a maximum risk aversion attitude toward credit. Many lenders have experienced increased loan delinquencies and repossessions, and therefore are trying to reduce risk by as much as possible. In years past, a company with good to excellent credit could typically dictate the finance approval they wanted. For example, if a customer was purchasing a new \$300,000 crane and wanted an 84-month term with no money down, that was the approval they typically received.

Today, even customers who have historically had good credit are being required to put money down. This can range anywhere from 10 to 30 percent. In some instances, lenders might also



Market Assessment

Author's Note: Harry Fry & Associates has been financing cranes and heavy lift equipment since 1995. Over the past 15 years, we have seen our fair share of credit market ups and downs, but nothing quite compares to the environment we are experiencing right now.

Credit availability is limited and lenders have strict guidelines. Many companies, large and small, are finding that obtaining financing is very frustrating. Finance approvals are either very hard to come by, or the approvals obtained are not exactly what customers expect.

This article addresses the major issues companies face in achieving financing for the equipment they need to purchase.

require additional collateral. Credit sources are requesting larger down payments and additional collateral as a means to reduce their risk.

Changing criteria

The third issue facing the crane industry is inconsistent credit criteria. When the downturn in the market occurred in 2008, banks initial responses were to tighten up credit criteria. Some lenders put a limit on transaction sizes, others would only consider companies of a certain size, and some would only review requests for current customers. Since 2008, most lenders credit criteria has continually changed. As a result, it is not unusual today to have to preview a transaction with a number of lenders in order to find the best rates, terms and structures.

Lastly, lenders are requiring additional items to make their credit decisions than in the past, and as a result, turnaround time has increased significantly. The typical full financial disclosure package includes:

- a credit application
- the last three years accountant-prepared company financials
- a current interim statement with a prior year comparative

In addition, lenders are also requesting such items as:

- a debt schedule
- a work in process schedule

- a fleet list
- personal financial information

Lenders are reviewing every transaction under a microscope. They want to know in detail why you are purchasing a new piece of equipment, and how you intend to pay for it. They want solid proof that you will have work for your new equipment acquisition. Due to this excessive due diligence, it is taking lenders much longer to review transactions. They often have credit questions for the customer before they issue an approval. Another reason for delayed credit decisions is because banks are now requiring more than one person to review a transaction that has been recommended for approval.

Push forward

However, despite the current credit environment, you should not let it deter you from trying to obtain credit to expand your business. There are ways that you can mitigate credit issues and increase chances of a credit approval.

First, you should provide a complete credit package of good quality. This is your chance to make a good first impression. A quality package will put your company's best foot forward, and provide the lender all the items they need to make an informed decision at first glance. This should reduce turnaround time because the lender will not have to come back to you and request additional information.

Second, you should set aside time to speak with your credit source to discuss your purchase. The goal is to demonstrate to the lender that a great deal of thought has been put into the purchase. Be sure to offer any proof you have to show that you have work for the crane and how you intend to pay for it. If you have contracts, discuss them and provide them to the lender. If not, explain to the lender your rental rate on the new crane and how much you expect to net per month. If you are currently renting equipment, let the lender know how much your company has paid in rent for a similar crane and the amount of rental expense that will be eliminated by the purchase. If you are turning work away, give the lender examples of the work your company is losing by not having this equipment.

Lastly and most importantly, be prepared to keep an open mind, especially when it comes to rate and

structure. All finance options should be considered. Many customers are finding it baffling that it is difficult to get credit, especially if they had been easily approved in years past. Since funds are limited and credit is tight, there are not as many approval options available. When obtaining credit, you need to ask yourself the following questions when an approval is received:

- Does the monthly payment fit my budget?
- Does the structure work for my company?

If you answer yes to the above questions, then the rate is not important. Your rate may be 1-2 percent higher than you are used to paying, but if the monthly payment works, then the goal of the finance process has been achieved. In regards to structure, keep in mind that if a lender asks for a substantial down payment, there are ways around it. Many lenders will accept additional collateral in lieu of a down payment, or a combination thereof.

At Harry Fry & Associates, we have been successful in structuring this combination, and in some instances, have also negotiated the additional collateral being released after a specified period of prompt payment.

In these scenarios, our customers were able to finance their new cranes and expand their businesses without having to come out of pocket with large down payments. Keep in mind, if the structure that was approved is not one that you are typically used to, you have the ability to refinance at a later date.

Finally, do not let today's credit environment deter you from purchasing equipment and growing your business. The best way to mitigate the credit hurdles facing our industry is to be sure to take time to speak with your lender about the purchase, and provide a quality credit package.

Most importantly, keep an open mind and consider all finance options. After all, it could make all the difference in expanding your business. ■

THE AUTHOR

Tonya Fry, assistant vice president of Harry Fry & Associates, is a graduate of Stonehill College with a degree in economics.

