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Understanding Today's Credit Markets and How to Get the Credit You Need

The current economic climate has small business owners across the country asking the same two questions: what is the status of credit markets today and can small businesses like mine still get credit?

At a recent Speaker Event hosted by Presidents Advisory Committee (PAC) (PresidentsAdvisoryCommittee.com), Mike Flynn, Shareholder of American Chartered Bank (AmericanChartered.com) and a member of PAC explained to a diverse group of Chicagoland small business presidents, CEOs and owners how to approach a bank for credit during these challenging times.

Mr. Flynn acknowledged that it is much tougher to get a loan than it was even a year ago. The mortgage lending crisis and the more recent global credit market meltdown have had a significant impact on business borrowers: tightened lender standards, more stringent collateral and a much longer lending process.

The good news is that banks are open for business. They can grow only if they lend. Small and mid-sized businesses *can* get credit, but they need to know how to talk to their bankers.

According to Flynn, the key is to understand what banks are looking for. Banks are not a source of equity, they are a source of liquidity. That is, your banker needs to know that your business is healthy and valuable *before* he or she can lend you money. Your banker wants to know that your business has a more-than-adequate financial cushion in terms of earnings and owners' equity. In addition, he or she wants to see that you are good at managing your customers and clients. This means having a diverse customer base, current accounts receivable and minimal bad debt.

What can small business owners do to survive the credit crunch? PAC members offer these tips:

- ♦ **Take care of business.** First and foremost, make sure your business is running properly and that your accounting records are completely up-to-date and accurate.
- ♦ **Be honest with yourself.** If you have a problem, address it. In the current environment, it won't fix itself.
- ♦ **Increase cash position.** Monitor and act on your accounts receivable, work with vendors to stretch out accounts payables and rationalize inventory. PAC offers a Cashflow Management Tool that can help you manage cash position (presidentsadvisorycommittee.com/moa/financialtool.asp).
- ♦ **Reduce expenses.** Take out fixed expenses and reduce expensive debt through negotiation or pay-down.
- ♦ **Start your banking search early.** Don't limit your search to banks – consider factoring companies and other specialized financing firms.

Nick Arvis, PAC founder, shared his own experiences financing his companies. “It may seem like the banks randomly change the rules, but these changes really reflect their reassessments of the lending and borrowing environment. Using PAC’s financial worksheets as communication tools can remove the emotion while helping you to understand what the banker needs to hear about your business.”

Pete Van Tholen, president of Downtown Disposal, is in the middle of a bank search to finance an expansion of recycling facilities. “I really appreciate the need for ‘clean books’ to both run my business and communicate with bankers.” He continued, “Mike and Nick have helped me understand the bank’s decision-making criteria, which is going to be very helpful to our company.”

About Presidents Advisory Committee

Presidents Advisory Committee groups are roundtables of small business presidents, CEOs and owners who meet monthly as a peer advisory board. PAC members provide objective feedback to each other in a safe and trusting environment. Members apply simple, but effective *Tools for Success*™ to analyze growth areas, set long-term goals and prioritize issues. These tools are especially powerful when working with other business owners, presidents and CEOs dedicated to each others’ business success.

PAC blog: <http://PAC.liquidprint.com/blog/>

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