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ARE COMPANIES IN COLORADO SPRINGS FEELING THE CREDIT CRUNCH?

You can't open newspaper, a magazine or turn on the television news without reading or hearing about the credit crisis. All this news and commentary begs the question: What is going on in our market?

So, has it become more difficult for middle market companies in Colorado Springs to get financing?

The short answer is: it depends. It depends on the segment of the market your business serves and it depends on the financial stability of your company because we are facing recessionary pressures across the entire economy.

Unusual economic times have led to unprecedented activity by the Federal Reserve.

The Fed has helped engineer J.P. Morgan Chase's takeover of Bear Sterns. In addition, the Fed broke precedent March 16 by offering loans directly to investment banks. And on March 18, the Fed cut interest rates by 75 basis points — all in an effort to add more liquidity into a constricted credit market.

When we look at the state of credit conditions in the local market, there is an important distinction to be made. Many of the credit issues that are reported in the news deal with investment banks, not regular commercial banks.

"Consumers get alarmed to hear all the issues with banks in the news, but the news is about investment banks, not local banks," said Doug Woods, president of First Community Bank in Colorado Springs. "The average non-real estate related middle market company has not seen much change in the availability of local capital."

Bill Berenz, regional president of American National Bank, said that because of market conditions, businesses that are linked to or support the housing industry might find it more difficult to borrow money, but "banks have capital to lend to well-qualified middle market companies in a number of different segments of the economy including, energy, health care and even some technology, among others."

"Overall, banks appear to be looking at things a lot more closely right now," he said. "The underwriting standards have not changed but banks are making fewer exceptions."

Woods sees things getting a little tighter because of the weak economy and the specter of a recession.

One thing that has changed is a reduction in the number of large capital companies doing conduit and security financing locally.

Traditionally, these types of companies would target transactions larger than $10 million. But with the free flowing capital of the past few years, the institutions started getting into much smaller loans.

“We are seeing a return to traditional bank financing as the large capital companies are pulling back,” Woods said. “This is a better situation for local middle market companies. Local banks tend to be much more stable and will stay in the community as opposed to the capital companies who tend to move in and out of markets depending on economic conditions.”

Stability is an important element to local capital markets. Middle market companies that can establish a long-term relationship with their bankers generally have a greater chance of attaining funding going forward.

Working with the same lender allows the business and the lender to better know each other. This makes it easier to educate the lender about your business and creates a greater comfort level and understanding.

Woods said that businesses which are moving back to traditional bank financing from a capital company should treat it as if they are a new customer to the bank.

“The more information you can provide the better,” he said. “We like to see business plans, solid financials that are audited or at least conform to good accounting practices and above all, that you understand the scope of your business as it relates to a recession.”

One of the mistakes that companies make is to assume that what happened during the past two or three years will happen during the next two to three years. For example, if your business is consumer based, be thoughtful about consumer spending trends.

The best way to get financing in today’s market is much the same as it has always been. Focus on the fundamentals of the business. Look at costs carefully and get into the details.

“You need to work on both sides of the cash flow,” Woods said. “Maximize the cash coming in by paying attention to accounts receivable and minimize cash going out by tightening down on expenses.”

Berenz said that companies should stick to their core business plans and try not to expand too quickly — so they don’t outpace there capital. He said that leverage can assist growth, but too much leverage will make it difficult to get more money if you need it.

Slow steady growth is more attractive to lenders in any type of market.