GROWERTALKS

Features

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Finding Funds

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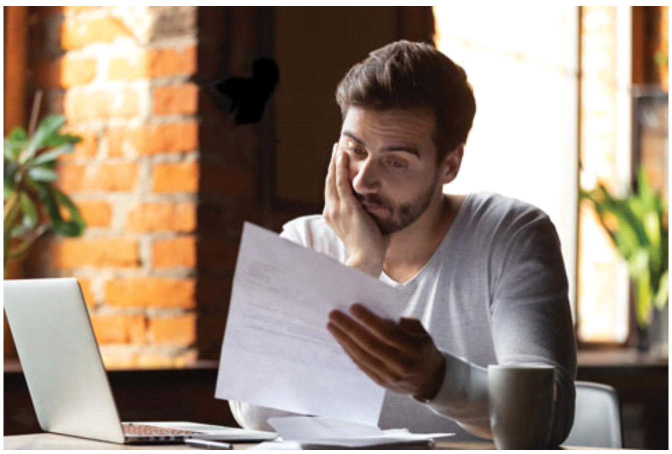

The old saying that "you need money to make money" has never been truer. Without the special programs, loans and grants created specifically to help weather the pandemic, new infusions of capital are necessary to regain pre-pandemic profits and to grow your operation. But can you qualify for new funding?

The three threes

Every potential lender looks at the so-called "three threes" to determine whether the business warrants the financing sought. That's right—the old funding criteria (cash flow, credit and collateral) are again kicking in:

• Cash flow, as a positive cash flow indicates your operation's ability to make regular loan payments. Every potential lender also looks at future earning predictions to determine whether cash flow warrants the financing sought.

• Credit, as potential lenders look at how the borrower is using any existing loans and whether the operation remains in good standing with those earlier lenders. All are key indicators of your operation's ability to handle additional debt.

• Collateral is the one asset that lenders can consider taking possession of and selling if the operation defaults on its debt. For many businesses, their vehicles, equipment, real estate, accounts receivable and inventory are considered collateral.

Unless the operation's owners, family members or key employees have deep pockets, the three "Cs" can help in finding the right potential lender. For most businesses, lending options generally begin with local, regional or national banks.

Initial options

Although many big banks remain reluctant to finance small businesses, for every growing business with a good track record before (and hopefully through) the recent economic downturn, traditional bank loans still may be an option to consider.

The traditional bank's lower interest rates, fees and better terms may offset the personal guarantees and risks often associated with bank and Small Business Administration (SBA) funding. Even without a strong track record or sufficient collateral to qualify for a bank loan, a discussion of your operation's financing needs can steer you to other options.

Locally owned banks remain a great resource for small business financing because of their strong interest in economic development within the community. There are about 5,000 community banks in the U.S., and prior to the pandemic, according to the FDIC, locally owned community banks held 36% of small business loans.

The invaluable SBA

For those who have poor credit or lack of collateral, exploring alternative lenders might be necessary. SBA is one option for greenhouse businesses that don't meet the strict lending criteria of traditional banks.

With the SBA guaranteeing a loan, the bank's risk is reduced, as are the interest rates, fees and other requirements imposed on lenders. Unfortunately, the SBA's application process isn't easy and many growers find themselves trapped under a heap of documents while working through the appropriate forms.

Businesses seeking funding through the SBA's 7(a) loan program with no collateral must have at least two years of operating history, meet the SBA's definition of eligible small business and meet their credit requirements and revenue limits. However, if traditional banking and/or the SBA funding is going nowhere, the all-important line of credit might give your operation some breathing room.

Lines of credit

A line of credit means that a bank or other financial institution sets aside funds up to a certain credit limit that you can borrow against as needed. All lines of credit consist of a set amount of money that can be borrowed, paid back and borrowed again.

Interest is paid only when funds are "drawn" from the line of credit with the rate of interest, size of payments and other terms set by the lender. A line of credit can be secured (by collateral) or unsecured with unsecured lines of credit typically subject to higher interest rates. Once the borrowed funds are repaid, the amount is again available for the operation to borrow.

A line of credit has built-in flexibility. After all, the business takes out only the funds needed immediately and only pays interest on the amount "drawn down" until repaid. All too often, however, longer-term funding is necessary and, for that, there are other funding options.

Other options

A grower who wants or needs to borrow outside the traditional bank or SBA system has many options. There are hundreds of specialist small business lenders that can help with those borrowing needs, although requirements, terms and interest rates will vary widely.

Like banks, credit unions offer favorable rates and loans backed by the SBA. However, unlike banks, credit unions have increased their small business funding. In fact, the number of credit unions offering small business financing has doubled according to the Consumer Finance Protection Bureau.

Credit union membership is usually required, but fortunately, their "co-op" nature often ties them to the local community. That allows potential borrowers to reap the benefits of more personal relationships.

Equipment financing is ideal for any greenhouse business that needs hard assets quickly, but can't afford to purchase them outright. Equipment financing is available from banks and with SBA guarantees. There are also lenders, including dealers and distributors, offering targeted financing programs.

Invoice factoring and accounts receivable financing are similar borrowing concepts for short-term loans collateralized against money owed to the business. The interest rates on these advances are usually higher than an ordinary loan, and there are often other fees, but in addition to traditional bank programs, there are factors and other specialty lenders all too willing to provide this type of financing.

The internet

Thanks to changes by both the IRS, and the Securities & Exchange Commission (SEC), crowdfunding is helping many small businesses. Crowdfunding that relies on investors can help get an idea, project or business off the ground, often rewarding investors with perks and/or equity in exchange for cash.

Although the popularity of crowdfunding has increased, there are caveats. The project or business must, for example, be intriguing enough to attract multiple investors. With equity crowdfunding, where investors are given a stake in the business, there are strict SEC regulations both the business and investors must follow.

Somewhat less regulated, funding “platforms” are an increasingly popular door to internet financing. With the government programs exhausted or gone completely and traditional banks continuing to limit access to capital, online lenders have become popular, especially for businesses and their owners struggling with bad credit.

With an online or alternative lender, bad credit isn’t always a barrier to getting the needed financing. However, while these lenders put up fewer barriers, the drawbacks often include significantly higher interest rates and lower loan amounts.

An often-overlooked internet option is peer-to-peer business lenders. These lenders eliminate the middleman, such as banks, to connect borrowers with individuals and institutional investors. Unfortunately, the cost of borrowing with peer-to-peer financing is usually much higher.

Still, alternative lenders are an option when the bank says no. Online lenders also offer fast cash with a number of online lenders able to process funding within 24 hours. Financial technology, or FinTech, interacts with a major lender minus the human element or is offered by independent companies working outside traditional banks.

Choosing well

Quite a few options exist for today’s business lending. Deciding on the best option for many growers begins, as mentioned, with the bank used for most business banking. Even without a personal relationship with a banker, the bank may have a wider perspective of the operation’s debt, spending and cash flow situation.

While your operation may just be a number in the system of a traditional bank, it’s in the system and that’s a stronger argument for getting a loan approved. If your operation’s current bank isn’t receptive, a new bank (perhaps a community bank) might be in order. Community banks are more likely to consider all factors, in addition to the usual cash flow, credit and collateral factors. However, if traditional or community banking, even with a potential SBA guarantee, isn’t possible, alternative banking may be the answer.

Alternative funding options may be a good fit in many situations. Strong, positive cash flow generally matters far more to alternative lenders, easing the path to secured funds with less friction.

Today, almost every business can secure a loan. Obviously, a business owner seeking to borrow faces many challenges. Will the money be available, and if so, at what cost? What will be the actual cost, including fees? Is the loan good for an extended period of time or can payment be demanded early?

Finally, if uncertain what the business might look like under the microscope of cash flow, credit and collateral, the operation’s CPA or financial advisor can help draw up a profile similar to that required by potential lenders. They also might help steer your growing or retail operation to potential funding sources. **GT**

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