Cost/Benefit Analysis

Thinking About Moving Your Business Financing Across the Street?

By GARY G. BRETON, Esq.

So ... you, as a business owner, have finally made a decision (or have at least given it a great deal of thought) to take your company's business-financing needs to another commercial business lender.

But wait. There may be some additional factors that you may not have considered.

First, ask yourself, what is the primary reason that you have made your decision? If it is a matter of you not being comfortable with your current account officer or what you feel are not competitive financing terms on your credit facilities, it might be better to have a frank discussion with the head of your commercial lender's loan department in the first instance and with your account officer in the second instance. Many times, both of these concerns can be addressed in house in a timely fashion, and you could avoid the time and cost of taking your business elsewhere.

Another major cost that may discourage your contemplated move is whether or not your current financing terms include a prepayment penalty that will be imposed if you elect to refinance with another lender.

However, if you have taken these matters into account, and the basis for your decision involves other factors that you feel are not capable of being addressed by your current lender, understand that there are a number of potential benefits and costs associated with making such a move.

On the potential benefit side of the ledger, your new lender may be in a position to provide you with a new account officer who may be more in tune with your current and anticipated business needs. This officer should be someone with whom you are comfortable and share an open and honest mutual respect. He or she must have the ability to understand (as well as the desire to care about) your business to allow your company to be successful, and the lines of communication must be strong between the two of you.

Additionally, you may find that your new lender possesses the ability to respond to your financing needs in a timelier manner and with the requirement of less paperwork to support your request than your current lender. Another consideration is being sure that your prospective lender possesses the necessary financing products that may be specific to your business needs, such as letter-of-credit availability or asset-based financing.

You might also be pleasantly surprised by some of the terms of the financing commitment that is ultimately made by your new lender, which can include a more competitive interest rate as well as more palatable collateral and financial-covenant requirements than those that are currently in place with your existing financing. One key factor to keep in mind is that many of the terms and conditions of a financing commitment may be negotiable, including the size of any required loan-commitment fee.

While some of the possible benefits of such a move are highlighted above, there are also considerations that need to be given to the possible costs and disadvantages that may be associated with making such a transition. There is, of course, the amount of time you and your professional advisors will need to devote to produce the required paperwork to accompany your application for new financing, which will traditionally include your company's history, prospective budget and business plan, current financial statements, and recent tax returns.

Additionally, if such financing will involve the pledging of real-estate collateral, the new lender will require a current appraisal to ascertain the fair market value of such property, as well as an environmental site assessment to determine the absence of any hazardous materials that might impact the value of such real estate prior to completing their financing. Also, if any asset-based financing will be part of your financing package, the new lender may also require a field audit/appraisal of your company's raw material, work in process, and finished inventory. The costs of completing any such required reports generally are the responsibility of your company and can quickly add up to what may be considered a prohibitive figure.

Another major cost that may discourage your contemplated move is whether or not your current financing terms include a prepayment penalty that will be imposed if you elect to refinance with another lender. In many instances, these prepayment penalty formulas, when applied, can, in and of themselves, give a business owner pause on whether the contemplated move will be worth paying what may translate into a substantial sum of money. While many times, such prepayment penalties have been the primary factor in deciding to remain with one's current lender, there are a number of instances where the cumulative weight of all the components considered by the business owner have outweighed the cost of incurring such a penalty.

So, you can see that the decision as to whether or not it may be in your company's best interest to move to a new lender requires both a thoughtful and extensive evaluation of many important issues, including those identified above, so that the ultimate decision is grounded on a solid factual footing. ■

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