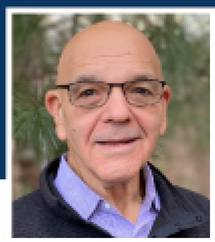
Pathway Advisors LLC



GETTING IT DONE

Actionable Financial and Management Insights for Business Owners

January 2021
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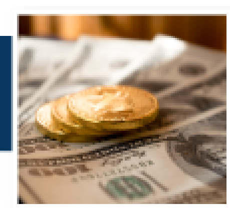
Dear Friends:

Needless to say, we were all confronted with unprecedented and very unexpected tragedies and challenges in 2020. At the same time, it seems that we can start the year with cautious optimism. Responding to these circumstances, I've decided to upgrade my periodic email blasts of prior years into a monthly newsletter, ***"GETTING IT DONE."*** *My hope is that I can offer you timely and practical information that you'll find helpful as you work your way through 2021.*

With my very best wishes,
Gerry

WHAT BUSINESS LENDERS ARE SAYING ABOUT 2021



Overview

Heading into 2021, the owners of every company have to be wondering about what to expect from financing resources. When you come right down to it, there are really just two areas to be particularly concerned about: 1) the availability of credit and 2) how lenders will be approaching companies experiencing financial challenges. The overarching fact is that lenders across the entire spectrum of the financing resources are still trying to figure this out for themselves during the continuing pandemic era. In fact, it is and will be a moving target, at least to some degree. Regardless, as with all for-profit companies, lenders want to maximize their performance and without doubt, it's a difficult balance to strike. So given these circumstances, in order to provide the most up to date insights possible, I've interviewed a group totaling 10 professionals in the following areas:

- *Commercial lenders and credit officers*

- *Non-bank asset-based lenders and factors*
- *Bank workout officers*
- *Officers at government-sponsored financing organizations*

What I'm hearing

Regarding problem loans

While there are no absolutes, there appears to be somewhat of a difference in approach between smaller banks and larger ones. Specifically, some smaller banks are tending to keep credits out of the workout group longer than many larger banks will. That's often because small bank lending officers want to hold onto their outstandings as long as possible and may, as well, have a strong emotional connection to the borrower.

Another factor is the extent to which a particular bank is reserved and has already "taken the hit." Clearly, they can be at least somewhat more patient. Finally, one more important consideration impacting the banks are the depressed values of many classes of equipment and real estate. Specifically, banks are trying to balance the losses they would take in the short-term versus the potential of holding on and getting a better long-term result.

All and all, borrowers should often find their lenders surprisingly tolerant. As an example, a workout officer at a $2 billion bank recently said to me, with a sigh:

"I'm really struggling about what to do with this loan. They're way over-leveraged – and still losing money – but we'll roll over the forbearance agreement for another six months."

Regarding new financing requests

Some may find it surprising, at first blush, to see how hard lenders are working to generate new business. Furthermore, there should be no doubt that business lending is, as always, highly competitive. And that's true for all size banks and other lenders – from community-based to global in scope.

On all overall basis, I see little change in approach as it relates to companies in industries where the pandemic has had little effect or even proven to be advantageous. People still need food, home repairs, and pharmaceuticals, etc. And plexiglass is certainly booming! But of course, other industries have been devastated including:

- *Hotels*
- *Restaurants*
- *Events*
- *Travel*

So, clearly, it will be difficult to obtain meaningful incremental financing in these industries.

End of day, the way I see it is that the basics of lending are still the basics: a good balance sheet, reasonable profitability, demonstrated management capabilities, realistic and complete planning practices, relatively good industry positioning, and reasonable asset quality. Accordingly, on a general basis, lenders will be very receptive to opportunities that check these boxes.

Looking beyond that, I view it as a good time to seek financing for the following purposes:

- *The financing of acquisitions – particularly to buy weak but synergistic companies*
- *The financing of equipment that will upgrade production efficiencies and/or capabilities*
- *The acquisition of real estate that will house on-going operations*

Three final thoughts on credit availability

1. Asset-based lenders may be particularly aggressive because the impact of both PPP funds and a modest lessening in bank referrals, as a whole, has reduced demand.
2. Government-related lenders like the Massachusetts Growth Capital Corporation or local 504 commercial real estate lenders such as CDC New England are certainly active and looking for opportunities.
3. SBA loan guarantees under the 7A program will likely be more commonly used than in recent years. A word to the wise regarding these loans. If the SBA experiences a loss on a guaranteed loan you've received, you'll likely lose access to other federally provided funds such as student loans.

A Few Suggestions

- **Keep your financial reporting current and credible.** Given today's uncertainties, every lender wants/needs to be confident about the information they're receiving. To the extent that your reporting is accurate, complete, and timely, the more comfortable your current or prospective lender will be.

- **Stay very current on the status and developments in your industry.** Lenders want to feel that you're up to date and will greatly appreciate information that they may find useful with other situations they're involved with.

- **Don't be bashful.** If you don't ask, you don't get. And the impact of both strong competition and the need for lenders to both generate new loans and hold onto existing business may really help you.

- **Stay on your toes!** As I mentioned above, a bank's position on their workout and lending practices will continue to be adjusted as needed throughout the year.

Concluding Comment

To put the current status of business finance in context, it's worthwhile to start by looking back at late March/early April of last year. In every way, the lending world was facing tremendous uncertainty. Nobody really knew exactly what to do. Today, however, while still facing many questions, the lending industry as a whole has established directions forward in a way that benefits both borrowers - and themselves. And, barring catastrophe, there is every reason to believe this will continue to be the case for the foreseeable future.

As always, I'm very happy to talk with you about situations where I may be of help. And further, I also invite you to get in touch for updated information as the year progresses.

Sincerely,

Gerry

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Coming In The Next Issue

"Strategic Asset Sales Are Good for Everyone: Sellers, Buyers, and Bankers."

Pathway Advisors LLC is a specialized business advisory firm focused on helping our clients effectively resolve the most significant of profitability, cash flow, banking, operational, and organizational challenges. We have successfully worked with over 300 owner-driven and family-controlled companies over the past thirty years. Most particularly, we pride ourselves on our ability to analyze issues quickly, develop plans to solve them efficiently, and leverage our deep relationships in the financial and business communities to do so.