



## Commercial lending in Suffolk County

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### Local economy at this time

The local economy of Suffolk County is presenting quite an interesting marketplace with 2011 turning out to be a continuation of 2010. Surviving businesses are using their best efforts to remain profitable and become better funded to secure a future for their business. Lenders are seeing more than half of their credit requests not meeting lending guidelines. These lenders are now being approached with requests from marginal companies that may have been unable to show a profit or even worse, lack adequate working capital. This is causing us to see some businesses now having difficulty acquiring inventory or carrying receivables that are coming over from former competitors who didn't last through the 2009-2010 downturn. Well capitalized businesses are finding credit available but not always from the same old sources. Credit may still be available to those strong businesses from their existing lenders but less capitalized companies have to start the process of establishing a new credit relationship as they no longer fit the credit profile of their lender's standards.

### Trends and actions in response

There is a clear undercurrent of business owners looking beyond the status-quo. In companies where there has been contraction of full time employees, some insightful owners see the benefits of the flexibility of part time staffing. This includes management levels up to CFO. Owners are also focusing on financing by looking at the full spectrum of resources available such as regional lenders like Suffolk Federal Credit Union. Although being shopped as a lender is not a pleasant exercise, we understand that it aids the business owner to benchmark their creditworthiness and availability of funding. Initial conversations with lenders are now going back to the basics of commercial credit practices by looking at cash flow, collateral and capacity. This establishes a baseline from which to work toward a fair and comprehensive lending decision. Clearly, the more detailed the conversation and the data is from the start, the quicker a decision can be reached. Even for a decline no time is wasted when detailed data clearly predicts the conclusion.

Supplying working capital requires investigating the collateral. Since we are seeing that not all companies have the quantity or quality of assets to back up their credit request, this compels us to look at the depth of the owner's personal financial condition since their liquidity is now a greater and more valuable element of the overall credit, not just a "third way out."

We are also helping businesses that are experiencing growth to see the need of returning to the basics by having a current and practical business plan with projections and assumptions listed and reviewed by a good financial advisor, be it their CPA or at the Small Business Development Centers. The "field of dreams" style of planning is not applicable today.

### Real Estate

As commercial real estate prices on Long Island are generally stabilizing at levels not seen in a

decade or more, local businesses are just beginning to look again at the "buy vs. lease" alternative. Doing the math is not the first step but an important one. The key factors they need to consider are the responsibilities of ownership and understanding their business condition and a realistic future. Suffolk Federal Credit Union is supporting these potential buyers by helping with the calculations for that decision. A 25-year amortization program may keep the debt service within the business cash flow. A no prepayment penalty within the loan also gives the company flexibility on both the upside to expand and the downside to contract or lease again.

Overall, commercial lending in Suffolk County is growing and clearly interesting and challenging to both lenders and borrowers. Attention to the basics has become the rule and anyone seeking business credit needs to have their facts and data prepared and the lenders are applying the standards that for a short time were overlooked.

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