

# THE FULL SPECTRUM

A Publication of SPECTRUM Commercial Services

## Guaranteed Participation-- Improved Yet Again

Many local bankers have taken advantage of our Guaranteed Participation Program allowing the bank to participate up to 15% on an otherwise non-bankable credit with SPECTRUM's buy back guarantee. Now, we've improved this program to allow the bank a first out position on ALL of the borrower's collateral as well. **The bank can ask to be taken out of the loan at any time for any reason and we will honor this request immediately.**

*This is a great program for those loans a bank cannot finance internally:*

- Banking Relationship – The bank retains or gains the customer relationship for banking services.
- Loyalty – The borrower sees a solution-oriented bank that is willing to participate in the loan when other sources could not.
- Collateral and SPECTRUM Guarantee – The bank has SPECTRUM's corporate guarantee and a first out on ALL the collateral.

## Recent SPECTRUM Solutions

This has been a very busy year for SPECTRUM Commercial Services. Both our Minneapolis and Denver offices have seen a flurry of activity from you, our referral sources. Some of our recent accommodations include:

When a bank referred an *oil and gas distributor* to SPECTRUM for a \$3MM Line of Credit based on A/R and inventory, we re-financed his existing lender to help him grow his business. After 3 months with us, the company actually **asked to be a reference for SPECTRUM and the referring bank obtained the banking relationship.**

A *small engine manufacturer* called when they were being asked out of their

existing banking relationship due to recent losses. SPECTRUM arranged a Line of Credit on A/R and Inventory as well as an Equipment Term Loan (totaling \$3.5MM). The **owner now meets with us monthly to go over his plans and ask us our thoughts.**

After a management buyout, SPECTRUM was asked by a local bank to assist a growing *service company providing complex database searches*. SPECTRUM put together an A/R financing arrangement of \$250,000, **allowing the bank to continue financing based on the owners' assets.**

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## Warning Signs By Borrowers (When To Call SPECTRUM)

Borrowers often give signals that things are deteriorating. While the list below is very basic, it will give you some typical scenarios showing a possible need for alternative lending:

- Financial Reporting Slows  
Borrowers always want to share the "good" news right away. But when the numbers are declining, the reporting inevitably slows.
- Sales Down & Expenses Are Not  
A common theme in our portfolio recently has been declining sales. Companies who will survive these difficult times are those willing and able to make cuts in expenses. Updated projections are key.
- Never Paying Down the LOC  
While they might not be required to pay down the LOC, when the borrower is constantly fully utilizing their Line, it is a clear indicator of a cash starved company.

- Inventory Turns Slow

The danger here lies with a borrowing base that includes inventory. As turns slow, the overall quality of the inventory and the product mix often deteriorate as well.

- Asking for Line Increases

In these difficult economic times, requests for line increases are often a grave cause for concern.

- Overdrafts

While overdrafts are symptomatic of a tight cash position, an increase in their number shows real viability issues for the business.

When these signals start occurring, there are some things that the existing lender can do to simplify the transition:

- Aggressively Track Borrowing Base  
Closely monitoring the borrowing base, especially the ineligible, will greatly simplify the transition to an alternative lender. The biggest danger for the bank is if the new lender cannot take them out of the loan due to a lack of availability.
- Reducing Advance Rates  
If the bank finds itself with a loan not supported entirely by the borrowing base, the key is to get the business back into formula via ratcheting down the advance rates over time.
- Short Term Forbearances  
Given the borrower's desire to stay with the bank and their belief that things will improve shortly, companies have little incentive to talk to alternative lenders if they are given long term forbearances. The key is to make them explore their options.

**As always, never hesitate to call us anytime with clients who are unable to secure traditional financing.**

*Bruce A. Jewel*