Tightening trickles down to local business, slowing growth, expansion, spending

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For consumers, it's the stuff that keeps dreams within reach. But for businesses, it can mean the difference between thriving and folding.

Week after week, month upon month, affordable commercial credit serves as the grease that makes the modern economic system spin, delivering benefits to consumers and businesses alike when it's flowing -- and putting everyone in a pinch when it's not.

That's because many firms, large and small, rely on open lines of credit to cover costs when business is soft or when customers are slow paying their bills. Credit is often what pays wages, buys equipment and inventory and settles the bills. Without it, even a healthy business may begin to suffer, feeding into an already soft economy.

In Delaware and around the nation, the squeeze on cash flow is on -- forcing businesses to tighten up on hiring and expenses, keep inventory low, press for prompt payment and cozy up to whatever bank has extended credit to them.

Businesses that don't have tight control of their bottom line, or lack an ongoing relationship with a banker, are in dire straits if they need new credit to expand or plug a cash-flow disruption.

"Even companies in good shape, if they're looking for capital expenditures ... they're either getting delayed or the money's not there," said Tom Beane, of Beane Associates, a turnaround management company in Talleyville.

It has been this way for months now, businesses say. But the financial mayhem of last week is raising new worry that credit will become a lasting drag on local businesses' plans, and in turn the overall Delaware economy.

Credit is still out there, and firms that stepped carefully are doing fine. But the outlook is clouded with more caution now. In some cases, the ambitions of start-ups are being blunted, and at some usually proactive firms, hopes for expansion and growth are being deferred.

Many local stakeholders say the credit that is available is frequently more expensive or harder to get, even for businesses with established banking relationships, solid credit and stable balance sheets. Delaware companies that turn to private investors for cash say they are finding virtually nothing.

"The credit markets are as tight as they have ever been for any type of venture capital, high-risk capital, speculative capital," said Bob Oberosler, chairman of Delaware-based

Theater Xtreme Entertainment Group, which has 12 home theater stores. "Everybody is pulling in the reins and really taking a second look at where they put their money."

Bunkering

In the short term, local businesses say, the credit squeeze means reconfiguring, reassessing, repositioning. Companies see no predictable timetable for resolution -- and that might be the scariest part.

A survey by the Federal Reserve in July -- well before the current crisis -- found that 65 percent of U.S. banks had tightened lending standards on commercial and industrial loans to small businesses over the previous three months, up from 50 percent in April.

Banks say they are simply less tolerant of risk, and need to safeguard the stores of cash that are essential -- and federally mandated -- for them to survive.

Businesses that held solid lines of credit before the market meltdown stand a better chance of outlasting the crunch. Those who didn't may be in a precarious position.

At United Electric Supply in New Castle, tighter lines of credit and increasing loan restrictions haven't been a problem, but CEO Tom Cloud worries what it might mean for the vitality of customers. The company serves electrical contractors, industrial firms, schools and hospitals, among others.

"It's really just starting to affect our customers" over the past week or two, he said. "I think it certainly to some degree will have a negative effect."

In many ways, though, tighter lending isn't solely to blame for the challenges. A softening economy, high commodity prices and even soaring electric bills have put owners into a defensive posture for months.

At the Small Business Administration's Delaware District office, tighter credit has compounded a slowdown in business start-ups and expansions. The number of SBA-guaranteed loans in Delaware has dropped 50 percent in two years, partly because of declining demand, partly because fewer deals are considered "bankable," said Jayne Armstrong, the Delaware SBA director.

"It's not just the credit industry being careful, the small business community is being careful," she said. "A lot of people are putting off expansions or holding off on starting a business."

Some local banks are not financing startup business at all; others are refusing to finance certain types of risky ventures, she said.

In other cases, the routine source of collateral for such deals -- the business owner's home -- has lost too much equity to qualify because of the housing slide. The local lending operations of one bank had done about 120 SBA loans last year; so far this year, they have done 40, Armstrong said.

"They're looking for good credit," said Jim Lucas, a local chair of Vistage, a group that helps top executives use each other as a sounding board and educational resource. ... "Going to the bank could be very difficult."

Banks that are still known to be lending are getting more inquiries from former customers who jumped ship for better terms, but it's not possible to take on everyone now.

At Wilmington Trust, executives are working to move away from a dynamic that pressured them to shave margins and cut pricing in the face of bargain-oriented competitors. That shift will mean more expensive loans for customers, but enhanced stability for the bank, said Brian Bailey, the bank's Delaware market manager for commercial banking.

"We're not the cheapest game in town. We don't pretend to be and we don't want to be," he said. "We are a stable game ... that's who we want to be."

The credit market in Delaware is better than it is in distressed areas like Florida or California, in part because of a relatively healthy local banking system, said Dave Bakerian, president of the Delaware Bankers Association.

"Generally speaking, Delaware community banks are very well capitalized," he said. "Some may be tighter than others. ... If you look at our institutions compared to some across the country, I think we are well positioned."

Minding the store

If credit-worthiness wasn't something that worried companies too much during times of easier loans, it's certainly something to worry about now, management experts said.

Loan covenants -- clauses that make loan terms contingent on certain levels of cash flow and funding ratios -- are more crucial than ever to obey.

"We are really harping on our clients to sit down and figure out what the covenants are on the loan and make sure you don't pop those covenants," Beane said.

At the very least, the credit squeeze has intensified some businesses' inclination to pull back in the face of a soft economy, observers said.

"There's some cost-cutting, some belt-tightening and some cash-preservation, that's what's going on right now," said Bob Chadwick, director of the New Castle County Economic Development Council.

In these times, the basics matter more than ever, experts said: Make sure cash flow is positive. Stay on top of marketing efforts. Work smartly to decrease costs and improve operational efficiency. Don't take on any immediate big expenses.

And above all, maintain a good relationship with your bankers, sources agreed.

"Our advice is survive what's going on now so you can thrive when the economy picks up," Lucas said.

For those who were up front with lenders about potential problems and shifting demands, the lines of credit and loans are generally available, if at tighter terms. For those who haven't established solid avenues to credit and are finding they now need it, things could be far more difficult, local experts said.

"The business people that have been prudent are cognizant that they have to maintain those bank relationships," said Ray Bree, owner of Diamond State Financial group, an insurance and financial consulting and management firm.

Now more than ever, owners need to let bankers know how they are positioned and why they have done the things they have done.

"Try to answer their questions before they have a chance to ask them," Bree advised. "You have to make them feel better."

"The best thing that they can do is be honest with their bank" about cash-flow and other issues, said Bailey, at Wilmington Trust. "A lot of times, information early on is key."

It's crucial to reassess future projects, and even revise optimistic growth estimates, Beane said. "Have that worst-case scenario in place" to ensure cash-flow, he said, and ask: "If this happened, what would we do?"

This is a time for cutting back on non-essentials, focusing on cash reserves, he said. "Whether it's consumers or business, our advice is get your financial house in order," he said. "There's never been a better time than right now."

Of course, in these times, it's possible to know everything about your business, but absolutely nothing about what's going to happen next in the headlines.

"So you have to be careful," Bakerian said. "But we're open for business. And that's what will pull us through this."

On the other hand, owners know that too much caution can backfire. Some businesses are even starting to consider new new product lines and other ways to reinvent themselves in ways that will help get them through this cycle, Armstrong said.

"You can't panic and say 'I gotta cut expenses, I gotta lay five people up,'" said Andy DiSabatino Jr., chairman of EDiS, the Wilmington-based construction company. "You can't do that because then you lose capacity when work comes up."

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