

MONEY LOW AS A DROUGHT-STRICKEN IRRIGATION POND?

To fill the coffers during the off-season, landscape managers must apply fundamental credit strategies before, during and after a trip to the local bank.

by John B. Calsin, Jr.

Does this sound familiar? It is winter. You wish you could sit back in a comfortable swivel chair and relax with your feet up on your desk. But next to your boots is a pile of bills, your accounts payable. Nearby is the checkbook, your balance as low as a drought-stricken irrigation pond. Scattered here and there on the desktop, like the first few flakes of a forecasted storm, are your receivables. And the purchase agreement for the desperately-needed new tractor continues to stay in the "pending" pile because of lack of cash. What are you going to do?

Borrowing money is a tricky proposition. Many people think that getting credit is a right, but it is not: it's a privilege offered to those who qualify.

Approaching the bank

Depending on the bank or financial institution, loan qualifying requirements may vary some, but general guidelines are used by lending companies.

The landscape professional should be prepared to present to the lender the following:

- a written state of business (what you do, and how you get paid);
- three years of financial statements (balance sheets and income statements);
- list of receivables (include a list of your customer base, contracts for services, who they are and how much they pay);
- proposed plan of repayment in the borrowers' mind, if there has been

no prior banking relationship; and

- willingness to comply with a visit from the banker to your company location or place of business.

If you are a new customer, there may be some additional requirements:

- personal guarantee of the individual (even if you are incorporated);
- a personal credit check;
- a list of business experiences, and other companies you've worked for; and
- savings accounts or certificates of deposit as collateral.

If enough money is not borrowed at first, it may not be possible to borrow more at a later date.

Anthony J. Poluch, Jr., commercial loan officer with the First National Bank of West Chester (Pa.), says to "prepare a business resume telling the banker what knowledge they have of the business." He also suggests having a list of clients, especially those under contract. The list should include names, addresses, telephone numbers and amount of the contract.

A business resume and a client list mean extra work for the borrower, but it shows the banker your willingness to help.

The borrower-banker relationship is also an important factor when discussing collateral. "Once we get a customer who has dealt with us for a couple of years, and shown the bank they can handle repayment, we may

go ahead and start doing things unsecured, depending on the amount," Poluch notes.

Interest rates will vary depending on size of bank, market location, the borrower-banker relationship, and amount requested.

Accountants

Landscape contractors should not be afraid of accounting professionals. They should learn to work with accounts as a team, because they know what banks and lending institutions are looking for, and how to properly prepare the necessary forms.

While it's never good to borrow more than necessary—money seems to have a way of dribbling away, and must be repaid—individuals or business people often have a tendency to understate their net worth. When applying for credit, as one accountant says, "that is to their detriment." If enough money is not borrowed at first, it may not be possible to borrow more at a later date.

Optional credit sources

MTI Distributing, a Toro distributorship, is located in the Minneapolis suburb of Plymouth, Minn. Because of their northern location, president/general manager Jim Kaufman and vice president Glenn Rasmussen are familiar with possible off-season credit difficulties and cash flow problems.

Various financing plans, both through Toro and MTI, are offered to qualified customers. Kaufman and Rasmussen have some sound suggestions for someone considering an equipment purchase where financing will be necessary. The same rules could apply when approaching a financial lending institution.

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FINANCIAL STATEMENT

ASSETS	In Even Dollars	LIABILITIES	In Even Dollars
Cash on hand and in banks-see Schedule 5		Notes due banks (sec.)-see Schedule 6	
Marketable Securities-see Schedule 1		Notes due banks (uns.)-see Schedule 6	
Non-Marketable Securities-see Schedule 2		Due to brokers—margin accounts	
Securities held by broker in margin accounts		Amounts payable to others—secured	
		Amounts payable to others—unsecured	
Real Estate Owned-see Schedule 4		Accounts and bills due on Automobiles	
		Unpaid income tax	
Other Personal Property		Other unpaid taxes and interest	
Loans Receivable		Real estate mortgages payable-	
Automobiles-see Schedule 7		see Schedule 4	
Cash value—life insurance-see Schedule 3		Other debts—itemize:	
Other assets—itemize:			
Vested Interest in P/S or			
Pension Plan		TOTAL LIABILITIES	
		NET WORTH	
TOTAL ASSETS		TOTAL LIAB. AND NET WORTH	

TERMS

■ *Financial Statements*: a general term used to include both the balance sheet and income statement.

■ *Balance sheet*: also known as the statement of condition, and is a summary of the company's assets and liabilities on a given day.

■ *Income Statement*: for a specific period showing a company's income and expenses.

■ *Profit and Loss Statement*: (or P & L) another name for the income statement.

"We would look at the fundamental merits of the credit worthiness of the person seeking help," Kaufman says. While some customers know how to approach the dealer and make it easy for the dealer to make a credit decision, Kaufman and Rasmussen feel most people don't know what information is needed. "They have no record of continuous years in business, and no balance sheet," they echo.

Kaufman urges people needing credit for equipment purchase to prepare a formal letter with the following sections, before going to the dealership:

- an introduction (who you are, how long in business, how long in the area);
- a statement of purpose (goals and directions of the company, plus plans);
- and an accomplishments section (what you have done).

"This then becomes a good statement of mission," says Kaufman, "and is a good sales tool for your next customer." Customers are becoming more discerning, and this is just another step toward presenting a professional appearance.

A final additional benefit of the letter is that it can help act as a plan or guide. Without plans or goals, you

don't know where you're headed or how to get there.

"The customer should have ready a simple balance sheet, including figures on home ownership," Kaufman continues.

Often, the home is one of the major assets in the financial picture for many small or relatively new grounds professionals. An experienced dealer will recognize a thin financial presentation, but that does not mean the customer will not get financing.

"Don't be afraid to show your net worth," Kaufman suggests. Show how good your operation is; blow your own horn.

By preparing the suggested information for a dealer, you will have already some of the papers necessary when a trip to the bank becomes necessary. And the same statements can be used if leasing is being considered.

Jim Byrnes, advertising manager at the Jacobsen Division of Textron, Inc., says that financing is often available through manufacturers with leasing as an alternative.

The advantages to leasing, Byrnes points out, are:

- small initial cash outlay, preserving working capital for other activities;
- lease can be written with or without investment tax credit bene-

fits, depending on the company's tax situation (this is another area where your accountant teammate may play an important part);

● payment flexibility can be arranged so there are no payments during slow months.

C's of credit

Banks have guidelines and restrictions to follow when making credit decisions. They are referred to as the *C's of Credit* by Edward F. Gee and Clifton H. Kreps, Jr., in their book "Analyzing Financial Statements, Fourth Edition." They are:

- **Character**: the willingness to repay, or the personal component;
- **Capacity**: ability of the borrower to repay, considering the condition of the business;
- **Capital**: sufficient other means of income or cash to repay;
- **Conditions**: the overall condition of the industry the borrower is operating in;
- **Collateral**: other items that may be sold to repay the loan, if some unusual condition arises.

While bankers often have some flexibility in a credit decision, the "character" element usually plays a deciding role. And that's the main reason to develop a good working relationship with your bank and banker.