

PLAY METER

Magazine

Sourcing capital in uncertain times



Jerry Merola

While obtaining financing is more challenging today, there are steps to take to ensure that your project gets full consideration.

Anyone that's stepped into a bank recently to apply for a loan will certainly attest that times have changed. Most national level lenders are still reeling from the double whammy of a loan portfolio filled with non-performing borrowers, and the erosion of their own stock value to perhaps half of its 2008 average.

Times are tough in the financial services sector, and in turn, obtaining credit has become a much more challenging affair. The winners and losers of this game are often divided by the level of diligence—and perseverance—they are willing to endure.

SELECTING LENDERS

Not all lending institutions are an appropriate fit for all borrowers. In the same way you select a pair of shoes, you've got to try on a few, test the fit, and decide if you've got a future together.

Most importantly, you're dealing with human beings and human emotions, so it's imperative to consider matching your own personality with the personality of the lender that will ultimately represent your request. It will be the bank's relationship manager—not you—who will need to convince a credit committee to move forward with your loan request.

With this in mind, ask yourself who can best represent you, your passion, and your project as accurately and effectively as possible. Don't be afraid to ask around a bit to find out which bankers are the "movers and shakers" in your area. There's usually a reason why they've earned that reputation. It's often because they're organized, aggressive, persuasive, and reliable.

Don't fall victim to the condition whereby a lender is "assigned" to you. Search out the right candidate.

In the entertainment business, fun comes in all different shapes and sizes. The same proves true for bankers. Some bankers that you'll meet might have school-age children, while others might be empty nesters.

Think there's a difference? Sure there is. That banker with the kids-in-tow is probably 10 times more likely to understand your vision, while at the same time passing along a "real world" assessment of the market's entertainment need to the bank's credit committee members.

In the nearly 25 years that I've been analyzing the entertainment sector, I can positively report that nearly every bank-funded transaction that I've participated in was championed by a lending officer that clearly understood the opportunity.

GO WHERE THE MONEY IS

There's no shortage of bad news in the press these days. From reports of the Federal Deposit Insurance Corp. (FDIC) shutting down participant banks to the Fed propping up money center banks with Troubled Assets Relief Program (TARP) funds, the lending market looks dim.

This truth is, however, that today's more stringent lending standards are not much different than they were 15 years ago. Not every project deserves to receive funding, nor has every applicant proven himself to be a responsible borrower in the past.

Banks got a bit sloppy in the early part of the decade, funding eight out of every 10 loan requests. Even the basic law of averages tells us that this



was a dangerous ratio. Today, probably four out of 10 loan requests are either approved or approved-with-special-conditions, still not a bad ratio considering that probably half of these requests were under-documented and under-supported by their issuers.

In short, if you haven't truly done your homework, and developed a very strong case for approval, don't expect today's bankers to give you the benefit of the doubt. There's no substitute for due diligence and good old-fashioned research.

GOOD NEWS

When it comes time to seeking financing, many will be happy to hear that there's some good news on the horizon. The recessionary pressures facing our country have ignited our government officials into funding a few tried-and-true agency-based organizations that will likely prove to increase the flow of credit to small business.

These government-backed agencies, notably the Small Business Administration (SBA), U.S. Department of Agriculture (USDA), and the Economic Development Authority (EDA) have seen their budgets grow dramatically as a result of the passage of the Term Asset-Backed Securities Loan Facility (TALF) stimulus.

As a result, these agencies will be easier to work with than in previous years, and provide guarantee support for your local lender. As with everything in our country, when the right people are backing it (think federal government), results can be expected.

For instance, the SBA has temporarily increased its guarantee exposure for loan transactions up to \$3 million (formerly \$2 million), and has waived the normal guarantee fees, which historically averaged 1.0 to 1.5 percentage points. Moreover, the SBA is promising remarkably quicker approvals of 30 days, in most cases.



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The USDA represents another alternative source of funding, with loan guarantees that rise as high as \$5 million. Many folks might not realize that the USDA provides funding and support for more than just agriculture-based projects.

In fact, USDA commonly supports projects that are deemed important for community development, including recreation. To see if your city or town falls within the parameters of the USDA, visit (www.USDA.gov) to locate the office that represents your sector of the country. From there, a simple ZIP code search will reveal whether your project can be considered within the USDA's framework.

The EDA maintains offices in each state, and represents yet another funding option, particularly for those seeking to incorporate real estate development into their project model.

One of the EDA's core missions is the creation of permanent jobs. While

not always initially understood, entertainment centers often maintain payrolls of 60 to 80 employees. Even though many are “part” and “peak” time staff members, the establishment of a new entertainment center can go a long way toward meeting job creation goals in many markets.

FUNDING STRATEGY

Develop a funding strategy before you seek funding. Funding any project today requires planning. From developing early relationships with area lenders to documenting your project's milestones along the way, the funding of a multi-million dollar project can easily take six months to complete.

From the initial feasibility study to an honest assessment of risks and potential mitigants, today's project developer has to be a standout in the sea of lackluster runners-up. Banks need to lend money to make money, so it's important to realize that they're looking for solid investments with little risk of failure.

A project that has been built on a strong foundation is often a project that exudes clear and convincing documentation, a well-developed and supportable marketing plan, and an execution schedule that minimizes risks for both the lender and developer.

So don't let a doomsday market spoil your development plans; with falling real estate and construction prices, now's the time to get busy building your future. ▲

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