

Are lenders lending? Do veterinarians want loans? What has changed?

These are some of the questions I am asked everyday as a consultant. Answering these, and other, questions will give us a broad perspective of the whole lending picture.

Seeking input from a variety of people in the banking industry is the best way to get a good perspective and get answers. So, I took this question to some lenders and from their responses, I've concluded that the money is there and they're willing to lend it. Take a look at what they said.

Are lenders still lending?

Brian Faulk of Live Oak Bank: "We continue to be aggressive lending to all of the sub segments of the industry....with the exception of startup leasehold facilities and boarding facilities. Our loan funding on a month to month basis has remained relatively constant from year to year."

Melissa Edwards of Bank of America Practice Solutions: "Veterinarian lending continues to deliver solid growth year over year and the biggest hurdle is just getting the clinicians to apply."

Judy Jennings of Matsco: "What has been remarkable in the veterinary industry is the access to capital doctors still have during these tumultuous times. Financing for acquisition, expansion, start-up, debt consolidation and real estate is being approved every day. "

Tom Depping of Main Street Bank (Texas)

"The economy appears to be stabilizing. At least things are not getting any worse. Banks are still building capital and thus very little lending is happening. Most lending that is going on is focused on lower risk borrowers such as healthcare"

What has changed since the economic crisis began?

Judy (Matsco): "There's no doubt that small business lending has tightened over the last year. The Federal Reserve's quarterly survey of small business lenders has posted 11 consecutive reports of tightening lending criteria" and thus we're all getting back to basics.

The basics include:

- Good personal credit report
- Good historical cash flow
- Good business planning in start up or expansion projects complete with "hedges" to accommodate the possibility of slower growth."

Melissa (Bank of America): "The biggest risk to growth this year has not been the lack of capital in the market, but the psychology of fear stemming from the media ...lending HAS tightened up, but I would argue it was TOO loose before and this is a needed correction."

Brian (Live Oak Bank): "On startups we have increased borrower equity from 10% to approximately 15%."

Tom (Main Street Bank) "We expect the general economy to remain tight through 2010 with a very slow progression. We feel that while GDP growth will turn positive the lending environment will continue to make it difficult for small business."

What does all this mean? It appears that banks are willing to lend; but there have been some changes in their rules for lending.

How are practice owners feeling about it?

Over the last 8 months, prior to some talks that I've given, I've been sitting and chatting with hundreds of practice owners all over the country about their views regarding the economy. Bobby Spiegel of Gainesville Florida was concerned that, "interest rates for the loans that lenders are offering seem inflated these days, especially when looking at where home loans are at and home equity loans." More than three quarters of owners with whom I talked were seeing small growth, perhaps 1-4 percent, over the past year; however, few owners were anxious to extend themselves with new loans for their businesses.

(not sure if this quote would be ok as it comes from Fritz Woods at Kansas City conference (CVC))- ok to remove if necessary)

My conclusion regarding where most veterinary practices stand would be similar to that of Fritz Woods'. "Eighty percent of small-animal veterinary clinics are continuing to grow, despite the current economic climate. That growth may only be 3 to 5 percent, but it's still better than other professions," says Fritz Wood, CPA, CFP, and a noted veterinary accountant.

What are vendors saying?

I got a wide variety of responses to this question. However, many vendor's concerns are summed up in a comment by Tom Smoot of TKennel. "Sales are down. However, inquiries are the same. We feel if the banks were lending more, everything would return to normal. That they (potential clients) would like to move forward but they are waiting to hear back from their lender."

Another vendor, Emory Shelly of VetRay told me that "Our sales for 2009 are flat with 2008. January and February we very strong and then everyone started talking about how bad the economy was... Since April each month has been higher than the previous month. CVC in August we have a lot of folks talking about making a purchase before the end of the year.

Summary of the situation!

In conclusion, it appears that banks are willing to lend, even with the changes in regulations. However, with practice owners being cautious, banks trying to build up capital, it seems that 2009 will most likely turn out to be an “*at Best*” a fairly static year for loans.

As an industry, we have been spoiled in terms of being approved for a loan. Previously, it was extremely easy. A vet just had to show his/her veterinary license and the banks all said, “Fine, you are approved.” But times have changed. To borrow successfully, practice owners now need to be better prepared. They need a quality business plan, a decent credit history and financial statements showing ability to repay the loan.

Generally, practices are doing better than expected during this difficult economic crisis. The exceptions are those practices in states hit hardest by the burst of housing bubble, such as Arizona, California and Florida. Veterinary owners are still behaving somewhat cautiously and are not quick to believe that the recession is over. As a profession, we are getting through this incredibly difficult time and we are all having to make changes in how we view our profession and the function we perform.

On the up side, it really does seem that things have turned around. The stock market has had tremendous increases in the past 6 months, and housing prices are finally turning upward and inventory is finally decreasing. Also, unemployment numbers are not growing as quickly as predicted and some workers are already being rehired. All of the above is good and reassuring news.

And, in the best news for our industry, over 80% of people say they have no inclination to spend less on their pets, according to the annual American Pet Products Association (APPA) survey this year. In fact, many of the survey’s respondents indicate they will spend more on their pets this year.

If I had to sum up everything I learned doing research for this article is

IF YOU DON’T APPLY, YOU WILL NEVER GET THE LOAN. GO FOR IT!

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