

# Getting a Lender's Attention

By Michael Sussman

FOR MUCH OF THE LAST 150 years, the U.S. railroad industry has been one of the world's most attractive lending marketplaces. But today, too many of the expanding number of smaller railroads are growth-limited by inadequate financing.

As a result, these railroads have been hard-pressed to attract the lending community's attention.

While many can borrow substantially from their local or regional banks, they eventually outstrip their bank's resources. What usually constrains them is the limited ability of lenders to accurately value their assets.

Comprehensive executive management entails, among other things, financial statement management. Most business owners consider statements an annoyance that are — fortunately — handled by accountants. However, owners are in the best position to ensure the positive impact of these statements. Remember, lenders lend to owners of the company, not to the preparers of the financial statements. These documents, more than any other element, will determine future access to capital for most railroad operations.

Pay close attention to how successful you market your business to lenders and investors. Most important is the thoroughness of the annual report. Even bad news can generate confidence through full disclosure of problems, emphasis on the remedies and communication of a future vision.

Make sure your financials reflect your operation's strength, vitality and potential. Learn the meaning of every

entry. Start asking questions about each item you don't understand and direct changes, if necessary. With an in-depth understanding of your financials, you can anticipate and answer the lender's questions.

Lenders will begin with a superficial review of your financial statements. This usually determines their inclination to fund your operation. They quickly assess it against a set of basic financial-formula calculations that apply across a broad spectrum of industries they consider for funding. Railroads do not stack up well against these traditional standards, so it is important to address the differences via supplemental documentation.

## ADDRESS WEAKNESSES

Be prepared to address weaknesses. These are usually challenges you have already addressed in your operation and probably overcome. How you handled these challenges reflects well on your management skills.

Unless your railroad's net equity is considerable, the owner's personal credit history will be important. Excellent personal credit alone will not secure financing for your operation, but questionable credit will hamper it.

Many factors can affect a reputable person's credit history. The problem is compounded if the loan officer does not inquire about the reasons for the less-than-perfect credit history or if the potential borrower is not adept at explaining it. You should speak with certainty about your excellent credit or be prepared with a well-documented explanation of any glitches.

Review your personal credit bureau

report. Credit bureaus sometimes report erroneous information. Guide the credit bureau through any necessary corrections and check it every six months. Include a copy of your report with your financing presentation.

A strategic approach to accessing capital is a fundamental element of business success and healthy expansion. It should be given the same consideration as a well-conceived maintenance-of-way program. Plan for future transactions. Your current lender may not be appropriate for next year's plans. A one-transaction-at-a-time approach to borrowing has boxed in many railroad owners who find themselves restricted by bankers whose vision does not extend past the payoffs of their current loans.

Financing is typically secured only after a purchase agreement has been made. Under these time pressures, the focus is so strong on getting the money, the finer points of negotiating with the lender are missed.

Railroads are unique enterprises. Each company needs its own special perspective that goes beyond traditional financial statement analysis. ●



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