



From Virginia

**A Message from Rick Martin
President
United Grinding Virginia**

Apparently no credit crunch for machine tools

The mortgage meltdown has dominated headlines for months, with large financial institutions writing off billions of dollars in bad loans. Clearly, significant liquidity has been lost and investors are reluctant to put more in. But surprisingly, several sources report that credit standards, availability, and terms have generally *not been affected for machine tool financing* (other than the usual variation in market interest rates based on T-bills or similar benchmarks).

Why is machine financing different?

There are several fundamental reasons behind the much better situation in capital investment financing:

- The primary machine tool finance companies have not been large participants in the mortgage market and are not hurt by the fallout.
- The manufacturing industry has demonstrated continuous strength and modest growth since 2003. U.S. manufacturing output is estimated to be up 1.8% this year, with a similar increase forecast in 2008. Machine tool sales are up 6.7% through Q3 according to the USMTC report.
- The exchange rate of the “weak” dollar helps exports and strengthens domestic manufacturing, giving lenders confidence.
- Machine tool loans are based on an asset that is *known* to depreciate. Credit is granted based on a company’s proven ability to generate revenue, not on the hope that the asset will increase in value (part of the housing dilemma). Lenders structure financing terms like the down payment and monthly payment amounts so that the residual machine value is above the outstanding loan amount at any time.

Two types of machine tool financing

Financing can be structured in many ways, such as an operating lease (aka rental or tax lease), which keeps the transaction off the balance sheet and is reported as an

operating expense on the P & L statement. The end user does not take depreciation in this case.

The second general category of financing is called a capital lease or loan. This is recorded as an asset and liability on the balance sheet, and depreciation taken annually on the P & L. Variations such as balloon payments and skip-payments may be available.

Either way, start with the traditional sources. There are several nationwide financing companies that will work with you to address unique needs.

What do lenders look at?

In light of the good news above, it might be helpful to look at some of the criteria lenders use when reviewing an application to finance a machine tool. For an existing company applying for a machine tool investment up to \$350k, the evaluation is typically made “application only” – meaning financial statements are not required. The approval is usually handled by software that generates a score and there is little subjective evaluation. Here are some of the key evaluation points:

- At least 3 years in business
- Good personal credit history (a strong indication of how an owner operates his business)
- Home owner, with prior or present history of on time mortgage payments
- “Revolving” credit lines such as credit card, home equity loans, or business lines of credit, ideally \$70k or so with less than half currently tapped
- Favorable Dunn & Bradstreet Paydex score demonstrating a history of prompt payments
- History of comparable loans and good payment history, verified by UCC filings or Paynet report
- Traditional bank loans do not always show up in the computerized credit check, so the owner may be asked for such information if the other sources are not sufficient

Contrary to common assumptions, credit reviews typically do *not* consider business plans for generating new revenue with the new equipment. The lender usually wants assurance the company has enough cash flow and profit from present operations to pay the new loan obligations.

United Grinding has several partners and resources in the financing field. We will be happy to assist you in the process of justifying and obtaining financing for new investments. ■



grinding.com

Rick Martin • 540.891.4214
rick.martin@walter-grinders.com