

## **Transport Capital Partners**

October 17, 2008

### **The Current Lending Environment for Trucking and How You Should Respond**

Turmoil and uncertainty in the credit market is hurting everyone seeking to borrow funds. In the past week, we have spoken with nine lenders who support our industry to see where they are now and what they expect over the coming months. We spoke with contacts from national banks, regional banks and from non-bank lenders. The comments we received apply to both working capital and equipment financing.

The good news is that some but not all are open for business with truckers. The bad news is that the cost of funds is high, the terms and conditions are tougher, qualifying for credit is harder, and it will be this way for some time.

Over the past year, some banks backed away from the industry and at times motivated their carriers to replace them with new lenders. This normally occurs whenever trucking takes a downturn, as we saw in 2007. In addition, this year more equipment lenders have been requesting down payments on new units. Recent credit market events have hurt the ability of all lenders to make new loans, further affecting trucking. A few lenders, due to internal capacity constraints, have a moratorium on making loans to new customers. All lenders have a higher cost of funds, and that cost of funds has fluctuated significantly over the last two weeks. The interest rate margins above LIBOR or T-bills had already risen this year between one and two percent prior to the past two weeks' turmoil. As an understatement, now is not a good time to seek new borrowings.

We all hope the credit markets settle down some in the coming weeks. One major bank's predictions are for the credit markets to remain strained through 2009, which will keep borrowings tough and expensive. My contacts agreed with that prediction. Some agreed with my expectation that there will be fewer lenders -- possibly a shortage of lenders -- to support our industry over the next 18 to 24 months.

#### **How Should You Respond?**

1. Know your bankers. Make sure you currently know several key people with your lender and deepen the relationships. You should know what they expect and need from you. Find a way to stay with them for your financing needs this year. Understand that any new borrowing this year will be expensive compared to last year.
2. If you do not believe your bank will support you through this difficult time, begin now to carefully find the right lender and cultivate a relationship. Do not expect them to come knocking on your door.
3. Take care of your own house. Banks will need to see that you have more cash coming in than going out. This is not just about making a profit; it's also about managing receivables, inventory and equipment trades. The more you help yourself the less you need to borrow and the more confidence you give a lender that you are in control.

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4. If you have equipment on order, start lining up financing today. For now you may want to delay locking in pricing, but get commitments in writing to fund the acquisitions.
5. If you fail a bank covenant or otherwise give your lender a right to renegotiate your loan terms, know that it will be an expensive and painful process. Work with your lender as much as possible.

We are in for a difficult time: for the economy, for credit availability, and especially for truckers. But, there are lenders who do and who will support us. Ours is an essential industry that must have capital to move the nation's goods. Manage your business well and plan to work harder to find financing.

Transport Capital Partners is in the business of helping truckers and transportation businesses. We assist with buying or selling transportation companies, we help you source capital for your company, and we provide assistance to improve operations, financial structures and financial management of your business.

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