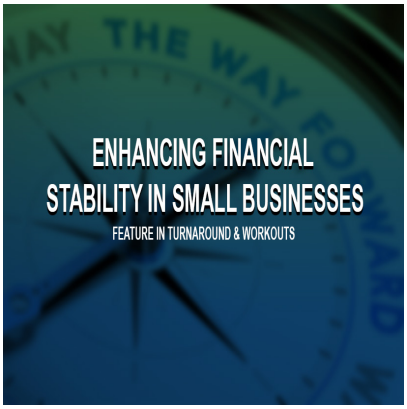

Enhancing Financial Stability in Small Businesses: A Guide for Bankers and Chief Credit Officers

Description

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Sparked by current trends in credit deterioration at banks, in our recent Newpoint Navigator Webinar, we focused on identifying red flags during the company reporting season, a crucial period for financial oversight. As trusted advisors, Chief Credit Officers (CCOs) and relationship managers have a unique role, where their deep community ties enhance their impact on small businesses and the jobs they create. As distress professionals we are attuned to watching the special asset/servicer gate keepers at lending institutions. From a recovery standpoint, this latent signaling only exacerbates the potential company survival.

Understanding the Financial Landscape

Reporting season is pivotal for small businesses and their trusted advisors, The challenges they face can have disproportionate impacts on the communities they serve. In the current environment a tangled web of issues continues to fester rather than cool down leading to complications for weaker companies where their defenses decay from the multiplicity of attacks:

- **Sustained high interest rates** increase borrowing costs and complicate cash flow management.
- **Escalating insurance and labor costs** add to operational burdens.
- **Regulatory changes and demographic shifts** necessitate agile adaptations in business strategies.

The Role of CCOs in Community Empowerment

CCOs, particularly those in smaller community banks, are currently witnessing the complicated impact of the economy of this fragile but essential element of the US economy, giving them unique first responder like insights into the needs and challenges of small businesses. Their trusted advisor role is not just about risk management but also about empowerment:

- **Community Impact:** CCOs and lenders possess a superpower in that they can objectively frame the financial issues a distressed company is facing far better than the company itself can. Small business management is often understaffed or equipped to recognize the severity of economic distress on their business. In the moment, entrepreneurs may notice the pain, but not the trend that is building in a bad direction. However, a credit professional sees it coming from a mile away.

- **Recognizing the Need for External Assistance:** As CCOs identify when a business's challenges exceed what internal resources can manage there is a critical window of time where the credit function can become the trusted advisor (and for the lawyers reading this – without triggering lender liability). In fact, it is often the disappointing lack of consistent conversation in this moment that creates the greatest lender liability – loss of a customer or loss of recovery. This is where specialists can step in, providing specialized expertise to stabilize and improve business outcomes, including operations.

- **Leveraging External Resources:** Seeking help from consultants like Newpoint Advisors (or alternative capital, or excess asset disposal, or lawyers for conflict resolution) isn't a sign of defeat but a strategic move to augment the business's capabilities and secure its future and avoid losses. So often, the timely conversation is missed, the resources not deployed in a leadership fashion resulting in last-minute theatrics, massive costs for recovery leading to a bad taste in everyone's mouth, including the employees that lose their jobs.

Critical Red Flags for Proactive Management

CCOs and lenders are uniquely positioned to observe and act upon early signs of distress in small businesses:

1. **Delays in Financial Reporting:** Timeliness is crucial, and delays often forewarn of deeper issues.
2. **Inconsistencies in Financial Statements:** Such discrepancies may indicate mismanagement or financial stress that need addressing.
3. **Surges in Debt Levels:** "no" no longer means "no" when there is a vast and growing grey economy of fin-techs that will hand a banker's customers debt instruments when a lender turns them down. Unexpected increases in debt signal financial instability and operational breakdowns.
4. **Downturns in Cash Flow:** Monitoring cash flow is essential, as declines can threaten operational viability. Most businesses do not even know the weekly cash planning tools that do exist or how to interpret them.
5. **Frequent Changes in Financial Staff:** As our population ages out and events like COVID accelerate the same trend, high turnover in essential functions like accounting can disrupt financial management and signal internal problems. It is not just a staffing issue – it looks more like nobody is driving the car.

As small businesses navigate the complexities of the company reporting season, it is crucial for CCOs and lenders to remain proactive and attuned to client behavior. Recognizing and addressing financial red flags early can prevent more severe issues down the line, securing the health of the business and, by extension, the local economy. Specialists are here to support you in this endeavor, providing expert guidance to ensure CCOs clients can turn potential challenges into opportunities for growth and resilience.

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