Contractors navigate financing in the Corridor
By Desiree Smith-Daughety
(Article for Corridor Inc.)

The recent economic turmoil and resulting credit pinch has surged up and down the Baltimore-Washington Corridor. With banks tightening the lending reins, many contractors are struggling even more to find the mobilization dollars necessary to fulfill government contracts — and to stay afloat while doing so.

William Moore, majority owner of Capstone Corp. in Alexandria, Va., remembers his company's early days. "What's that saying, 'when you have money, everyone will loan you money, and when you don't,' well…"

Moore recalls going from office to office, asking "Please, will you hear my story?" Moore said that banks will work with you if you're bigger and have a track record. But to grow his business, he turned to a commercial finance company for credit.

Unless entrepreneurs have a personal balance sheet to draw from for carrying costs, they have to scramble to locate financing to get them through the initial 90-day period before seeing their first payment on a contract. And as Base realignment and Closure (BRAC) contracts enter the Corridor's picture, a potential logjam of contractors looking for lenders could occur. For many, this could bring their business to a grinding halt — and their entrepreneurial dreams with it.

For businesses that are experiencing tougher bank scrutiny and watching their lines of credit dry up, alternative means of financing are being sought from both the public and the private sector. And there are still resources available, especially for small, minority-owned, and women-owned businesses — even during economic uncertainty.

"It's a double-edged sword. You don't want to see this kind of stress in the marketplace," said Stanley Tucker, president of Meridian Management Group, which manages a financing program provided through the Maryland Small Business Development Financing Authority. "It provides a need for us that's ten-fold or more. And with a lot of BRAC opportunities, our program will really be needed."

The program, called the Contract Financing Program, offers either financing or a guarantee to banks that will do the financing. Tucker said business has increased as contractors have experienced a slashing of their credit lines.

"We don't want them to stop going for business. Opportunities are there — we don't want them to get discouraged. We want them to know we're here," he said, referring to the many minority- and women-owned businesses that need them now more than ever.

On a county level, Prince George's County Economic Development Corp. started the Contractor Cash Flow Fund in July.

Agency officials noticed many contractors were running into cash-flow problems while trying to take advantage of the development opportunities happening in the county. Developers need contractors to perform on the awarded contracts, and contractors need working capital to purchase equipment and cover payroll and other expenses while fulfilling those contracts. And with the current business climate, "small businesses are impacted significantly," said Charlotte Ducksworth, director of Small Business Initiatives (SBI).

The Contractor Cash Flow Fund, seeded with $750,000 to start, is designed to provide bridge loans covering the first 90 days, during which time smaller companies can start performing on the contract, prove sustainability and secure a traditional line of credit. A banker's task force in the county helped capitalize the fund, along with a grant from the state, and contractors have begun the application process.

Shelly Gross-Wade, director of FSC First which funds the loans referred to it by SBI, considers it a much-needed resource. "This is the best and most innovative solution for helping small businesses compete locally."

Private lending firms are also busy.

"Our activity has picked up," said Kwesi Rogers, president of Federal National Payables, a commercial finance company located in Bethesda, Md.

His company works with government contractors, but also with companies such as staffing agencies, IT service companies, guard services, and facilities management firms.

"It's tougher for young, entrepreneurial start-up firms," Rogers said. He notes that many contractors who had relied on home equity lines of credit to fund their operations are seeing that source also dry up.

Rogers understands the multi-layered complexity of financing, from the perspective of the banks, to the concerns of the contractors, to the challenges and risks faced by private lenders in extending credit.

For contractors with only their residence on their personal balance sheet and just a short history in business to stand on, a bank won't want to give them a loan.

"The bank industry is highly regulated and has criteria they must meet," said Rogers. He recognizes that entrepreneurs don't always understand this.

What do they understand? "That they need money to realize their dreams."

Desiree Smith-Daughety is a contributing writer in Edgewater.