When a perfect storm hit, AFB came to the rescue.

AFB CASE STUDIES

American
Founders
Bank

When things get out of control, a good partner can help.

“We didn’t realize there was a problem until…”

Anyone who owns or has managed a business knows it’s almost never plain sailing. With so many balls to juggle, anything can go wrong at any time. To further complicate matters, some of those variables are in your control while others are very much out of your hands. Too many going wrong at once and it’s a perfect storm.

For one of our clients, a Kentucky-based commercial property development company, new software combined with external issues created such a perfect storm, one that almost resulted in the company going under.

Having invested in new estimating software, the company should have been looking forward to improved estimate accuracy and more consistent profits. However, what ended up happening was every contractor’s worst nightmare: the estimating software had been set up incorrectly and was miscalculating material quantities.

“We didn’t realize there was a problem until four major projects were well under way and suddenly we were missing our budgetary expectations. We were under contract to perform the projects, and we couldn’t back out, but by the time we had worked out what was going on we realized we were going to make losses. And for us, that meant big losses. In any business this creates a potentially fatal situation. What made it infinitely worse was the timing.”

“... the impact could have been devastating.”

This all happened in the second half of 2008, when the financial crisis brought about by the collapse of the subprime mortgage market was really beginning to effect real estate projects. Even though this company was not involved in any residential projects, the most badly affected real estate sector, most of the real estate industry is linked. It is all part of a chain, a chain that is only as strong as its weakest link. So there was a combination of negative factors – a software glitch, major financial losses, and the broader issues effecting real estate.

Talk about a perfect storm. Contractors stopped paying in 30 days and started paying in 90 days, the company had cash flow problems, the economy was collapsing, and the real estate industry was bearing the brunt of the damage.

“Our business had been going for 25 years without any major problems, but this was the closest we had come to shutting the doors permanently. Other businesses we knew did not survive the economic turmoil we faced – and for us, as a family-owned and operated business, the impact could have been devastating. Almost everyone who works for us, including many of our subcontractors, are members of our extended family.”

Things really came to a head when the company’s bank, a major national corporation with whom it had a long-term (and successful) relationship, notified the company that it was withdrawing from the real estate business and cancelling its revolving line of credit.; effective immediately.

“AFB helped us restructure our debt obligations...”

“Even though we were making our obligatory payments, as we had always done, we were informed that our bank wanted its money back, pretty much overnight. With almost no notice, we had to seek a way to refinance our debt and recapitalize our company. We approached an attorney first, and he said we had some legal standing because we had never been in default on our debt repayments. This would take time and money; we decided to switch paths.

It was up to us to search for a new bank, a bank that was willing to look past the economy, current financial situation, and see us for a thriving, 25 year successful family business. Thankfully, that bank was American Founders Bank.”

What the company needed was time reorient, cash flow assistance and a new bank that wasn’t willing to turn its back on us; that’s and that’s what AFB was willing to offer. This company might have been in what many banks considered a very high risk industry, but we were willing to give them a chance to turn things around. Especially after learning more about the people and the history of the company. We liked the business so much that we became as close to a business partner as a bank can be.

“AFB helped us to restructure our debt obligations so that our cash flow could be better maintained, to make it more manageable. We were able to refinance the debt to the point where we were making principle payments that were higher than required, and we are now close to becoming a debt-free company.

That we not only survived but have since thrived is all down to American Founders Bank being willing to take a chance on us, to listen to our personal story, to consider us as people rather than just a company with a balance sheet, and to examine how we had operated our business for many years prior to this situation. We also had to act fast, and AFB was willing to understand that and create the opportunity we so desperately needed. It was the difference between the company closing our doors and remaining open.”

Trish Osborn, SVP at AFB, says that this situation highlighted AFB’s willingness to understand a situation and the people involved in a way that most banks don’t: “For American Founders Bank, the big issue wasn’t necessarily the broader market. We always thought that the real estate crisis would pass and that those companies that survived would

“It (the company) was going through a tough time and we wanted to help.”

be in better shape to benefit. The bigger issue was that this company had been a part of its community for almost three decades, and in that time it had clearly been well managed, had always looked after its financial obligations, and had an excellent reputation. It was going through a tough time and we wanted to help. Getting to know them sealed the deal and we are delighted to have played a part in its survival and its current excellent state of health.”

At American Founders Bank we pride ourselves on not being a typical bank. In this case, a business that had supported its community for almost three decades was threatened and found no support from other sources of funding. Our communities need people that will take the risk to create businesses – and banks that will take the risk to support them when they need it most.