Loan Modification May Be Option if Loan Is Current

As the economy slowly turns itself around for many, small businesses that have been hanging on even if struggling may have more financing options available to them than they're aware of. For a business to be able to get any concessions from a bank, however, it's imperative that it start talking to the bank before getting behind in payments on its business loans. That goes against instinct for many entrepreneurs, who may feel they'll turn the corner if they funnel their resources toward paying vendors for supplies to keep the business going, believing they'll then be able to pay their business loan, observes Joan Brubacher, CFO of Resolute Commercial Services, who has seen many small businesses take this approach and get in a hole they couldn't dig themselves out of. "Once you've gotten to the point where you're not making payments, you have severely limited your ability to come up with creative solutions to manage the problem," she says.

Banks' operations depend on their capital ratio, which is impacted by the health of their loan portfolios. Under the Dodd-Frank Act, once a debt has been classified a troubled loan — which is what a couple of missed loan payments will create — even the slightest loan modification must be reported to regulators. It then becomes an item considered in calculating a bank's efficiencies. Banks are, therefore, loathe to have troubled debt restructurings (TDRs) to report. But Brubacher notes that options banks can't offer *after* a business's loan has been classified a TDR they have the flexibility to offer *before* it gets to that point, such as extending the loan, allowing interest-only payments for a period of time and reducing the interest rate. **—RaeAnne Marsh**

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