

# ProSales

## Credit Crunch Survey -- Complete Results, October 2008

Oct. 15, 2008

On Oct. 7-14, 2008, PROSALES conducted an online survey of LBM dealers, distributors, and manufacturers regarding how the credit crunch and financial crisis in the United States had affected their businesses. A total of 234 people responded to the survey by answering questions posted via the *SurveyMonkey.com* Web site. Here is a summary of the results.

Aside from providing results for all respondents, this report gives the results for several subgroups:

- Building material dealers and lumberyards alone. (146 respondents)
- LBM dealers, molding/millwork dealers, and short line specialty dealers but NOT wholesalers, manufacturers or “other” respondents. (168 respondents)
- Building material wholesalers. (18 respondents.)
- Building material manufacturers. (30 respondents)
- Dealers located in New England and the Mid-Atlantic states: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Delaware, Maryland, West Virginia, and the District of Columbia. (15 respondents)
- Dealers in the South and Southwest: Virginia, North Carolina, South Carolina, Tennessee, Kentucky, Georgia, Florida, Alabama, Mississippi, Louisiana, Arkansas, Texas, and Oklahoma. (72 respondents)
- Dealers in the Midwest and Plains states: Ohio, Indiana, Michigan, Illinois, Wisconsin, Minnesota Iowa, North Dakota, South Dakota, Nebraska, Kansas, and Missouri. (58 respondents)
- Dealers in the Western United States: Colorado, Wyoming, Utah, New Mexico, Arizona, California, Nevada, Montana, Idaho, Oregon, Washington, Alaska, and Hawaii. (21 respondents)

Please contact PROSALES editor Craig Webb with questions or comments, as well as with ideas for future surveys.

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**1. What Is Your Firm's Primary Business? (233 answered the question)**

	% of Respondents
Building Material Dealer/Lumberyard	62.7%
Molding/Millwork Specialty Dealer/Distributor	6.0%
Short Line Specialty Dealer/Distributor	3.4%
Building Material Wholesaler	7.7%
Product Manufacturer	12.9%
Other	7.3%

**2. Type of Ownership (233)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	<u>Dealers/ Specialty/ Shortline</u>	<u>Dealers</u>	<u>All</u>
We're an independent establishment	77.8%	66.7%	89.9%	89.7%	86.7%
We're part of a publicly traded company	16.7%	23.3%	5.4%	4.8%	8.2%
We're part of a private equity company	5.6%	10.0%	4.8%	5.5%	5.2%

## Dealer/Specialty/Short Line responses by region

	<u>New England/ Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>
We're an independent establishment	94.1%	91.7%	89.7%	81.0%
We're part of a publicly traded company	0.0%	2.8%	6.9%	14.3%
We're part of a private equity company	5.9%	5.6%	3.4%	4.8%

**2. What Is Your Job Title (232)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	<u>Dealers/ Specialty/ Shortline</u>	<u>Dealers</u>	<u>All</u>
Chairman, President, Owner/Partner, EVP, other corporate exec (except finance)	61.1%	33.3%	64.1%	64.1%	59.1%
CFO, chief accountant, accounts receivable officer, other financial officer	0.0%	0.0%	10.8%	9.7%	8.2%
General manager, store manager, department manager (except finance)	11.1%	30.0%	15.0%	15.9%	17.7%
Any other title	27.8%	36.7%	10.2%	10.3%	15.1%

## Dealer/Specialty/Short Line responses by region

	<u>New England/ Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>
Chairman, President, Owner/Partner, EVP, other corporate exec (except finance)	64.7%	71.8%	58.6%	52.4%
CFO, chief accountant, accounts receivable officer, other financial officer	17.6%	8.5%	12.1%	9.5%
General manager, store manager, department manager (except finance)	5.9%	7.0%	20.7%	33.3%
Any other title	11.8%	12.7%	8.6%	4.8%

**4. In Which Region of the U.S. Do You Live? (233)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	<u>Dealers/ Specialty/ Shortline</u>	<u>Dealers</u>	<u>All</u>
New England (ME, NH, VT, MA, RI, CT)	0.0%	10.0%	2.4%	2.1%	4.3%
Mid-Atlantic (NY, NJ, PA, DE, MD, WV, DC)	5.6%	13.3%	7.7%	8.2%	8.2%
Mid-South (VA, NC, SC, TN, KY)	11.1%	16.7%	28.0%	29.5%	24.0%
Deep South (GA, FL, AL, MS)	33.3%	0.0%	7.7%	6.8%	9.4%
Mideast (OH, IN, MI, IL)	5.6%	20.0%	8.9%	8.2%	10.3%
Southwest (LA, AR, TX, OK)	11.1%	13.3%	25.6%	26.0%	22.7%
Midwest/Plains States (, IA, WI, MN ND, SD, KS, NE, MO)	11.1%	3.3%	7.1%	7.5%	6.9%
Mountain West (CO, WY, UT, NM, AZ)	0.0%	0.0%	3.0%	2.7%	2.6%
Far Southwest (CA, NV)	5.6%	13.3%	4.8%	4.1%	5.6%
Northwest/Pacific (MT, ID, OR, WA, AK, HI)	16.7%	10.0%	4.8%	4.8%	6.0%

**5. What Is the Annual Sales Volume of Your Organization? (229)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	<u>Dealers/ Specialty/ Shortline</u>	<u>Dealers</u>	<u>All</u>
\$1 to \$999,999	0.0%	3.6%	5.4%	3.4%	6.1%
\$1 million to \$9,999,999	22.2%	17.9%	45.5%	46.9%	41.0%
\$10 million to \$24,999,999	27.8%	10.7%	29.3%	30.3%	25.8%
\$25 million to \$99,999,999	11.1%	25.0%	12.0%	11.7%	13.1%
Over \$100 million	38.9%	42.9%	7.8%	7.6%	14.0%

Dealer/Specialty/Short Line responses by region

	<u>New England/ Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>
\$1 to \$999,999	5.9%	4.2%	5.3%	9.5%
\$1 million to \$9,999,999	17.6%	50.0%	52.6%	33.3%
\$10 million to \$24,999,999	64.7%	30.6%	15.8%	33.3%
\$25 million to \$99,999,999	11.8%	8.3%	17.5%	9.5%
Over \$100 million	0.0%	6.9%	8.8%	14.3%

**6. What Percentage of Your Company's Sales Come from Building Professionals?  
(230 answered question)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	<u>Dealers/ Specialty/ Shortline</u>	<u>Dealers</u>	<u>All</u>
0% to 24%	22.2%	10.0%	6.6%	5.5%	10.4%
25% to 49%	5.6%	20.0%	9.6%	11.0%	10.4%
50% to 74%	16.7%	13.3%	24.1%	26.2%	21.7%
75% or higher	55.6%	56.7%	59.6%	57.2%	57.4%

Dealer/Specialty/Short Line responses by region

	<u>New England/ Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>
0% to 24%	0.0%	5.6%	8.9%	9.5%
25% to 49%	17.6%	6.9%	10.7%	9.5%
50% to 74%	17.6%	18.1%	33.9%	23.8%
75% or higher	64.7%	69.4%	46.4%	57.1%

**7. With How Many Banks Does Your Company (or Branch of Your Company)  
Have Accounts? (180)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	<u>Dealers/ Specialty/ Shortline</u>	<u>Dealers</u>	<u>All</u>
One	26.7%	22.2%	38.0%	39.2%	33.9%
Two	53.3%	27.8%	31.4%	30.0%	33.9%
Three	13.3%	5.6%	13.1%	12.5%	12.8%
Four	0.0%	5.6%	5.8%	5.8%	5.0%
Five or more	6.7%	0.0%	8.0%	8.3%	6.7%
Don't know	0.0%	38.9%	3.6%	4.2%	7.8%

Dealer/Specialty/Short Line responses by region

	<u>New England/ Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>
One	40.0%	39.7%	37.0%	33.3%
Two	40.0%	31.0%	30.4%	27.8%
Three	13.3%	10.3%	15.2%	16.7%
Four	0.0%	8.6%	4.3%	5.6%
Five or more	6.7%	8.6%	8.7%	5.6%
Don't know	0.0%	1.7%	4.3%	11.1%

**8. Does Your Company Currently Have a Line of Credit With a Bank? (179)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	<u>Dealers/ Specialty/ Shortline</u>	<u>Dealers</u>	<u>All</u>
Yes	93.3%	44.4%	85.3%	84.0%	81.6%
No	0.0%	22.2%	12.5%	13.4%	12.3%
Don't know	6.7%	33.3%	2.2%	2.5%	6.1%

Dealer/Specialty/Short Line responses by region

	<u>Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>
Yes	93.3%	72.4%	95.7%	94.1%
No	26.7%	25.9%	2.2%	0.0%
Don't know	6.7%	1.7%	2.2%	5.9%

**9. Does Your Company Currently Owe the Bank Money on That Line of Credit? (179)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	<u>Dealers/ Specialty/ Shortline</u>	<u>Dealers</u>	<u>All</u>
Yes	66.7%	27.8%	58.8%	55.5%	55.3%
No	20.0%	27.8%	36.8%	39.5%	35.2%
Don't know	13.3%	44.4%	4.4%	5.0%	9.5%

Dealer/Specialty/Short Line responses by region

	<u>Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>
Yes	66.7%	46.6%	66.7%	72.2%
No	26.7%	51.7%	28.9%	16.7%
Don't know	5.7%	1.7%	4.4%	11.1%

**10. Since Aug. 1, Has Any Bank With Which You Have a Line of Credit Changed the Dollar Size of That Credit Line? (169)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	<u>Dealers/ Specialty/ Shortline</u>	<u>Dealers</u>	<u>All</u>
It REDUCED the size of our credit line	0.0%	12.5%	6.2%	7.0%	6.5%
It EXPANDED the size of our credit line.	0.0%	6.3%	1.5%	1.7%	1.8%
It CUT OFF our credit line.	0.0%	0.0%	3.1%	2.6%	2.4%
No change	100.0%	81.3%	89.2%	88.7%	89.3%

## Dealer/Specialty/Short Line responses by region

	New England/ <u>Mid-Atlantic</u>	<u>South.</u>	<u>Midwest</u>	<u>West</u>
It REDUCED the size of our credit line	0.0%	5.7%	8.9%	5.6%
It EXPANDED the size of our credit line.	0.0 %	1.9%	2.2%	0.0%
It CUT OFF our credit line.	7.1%	1.9%	2.2%	5.6%
No change	92.9%	90.6%	86.7%	88.9%

**11. Since Aug. 1, Has Any Bank With Which You Have a Credit Line Changed the Terms of That Credit BESIDES Changing Its Size? (172)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	Dealers/ Specialty/ <u>Shortline</u>	<u>Dealers</u>	<u>All</u>
Yes	6.7%	17.6%	10.0%	11.4%	9.9%
No	73.3%	47.1%	80.8%	79.8%	75.6%
Don't know	20.0%	35.3%	9.2%	8.8%	14.5%

## Dealer/Specialty/Short Line responses by region

	New England/ <u>Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>
Yes	0.0%	11.3%	10.9%	11.1%
No	92.3%	84.9%	76.1%	72.2%
Don't know	7.7%	3.8%	13.0%	16.7%

**12. If So, How?**

Here is a sampling of responses:

- Changed and added covenants.
- [It] hasn't happened, but I'm VERY anxious that it could any second.
- Require guarantee and require cash infusions for losses.
- Asked personal guarantee. Suggesting possible move of part of the line to an asset-based lender.
- Increased requirement for security, communication and information to maintain line.
- Our credit line is on hold. We are able to draw against it but it is not being renewed on a 12 month basis as usual. We are going day-to-day on it right now
- One bank has informed us that they would like to have all "construction related" debt paid off / eliminated within the next 6-9 months.
- Put a floor on the interest rate of 7 %. We changed banks because of that.
- From prime to prime plus 6%
- Reduced our rates and dropped our personal guarantees.
- Raised the interest rate by 2%
- Required owner investment to make them comfortable with our debt load.

**13. Does Your Company Have a Term Loan With Any Bank (i.e., Has Your Company Borrowed a Specific Sum of Money for Which It Has Agreed To Pay a Specified Amount Over a Set Period of Time?) (178)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	Dealers/ Specialty/ <u>Shortline</u>	<u>Dealers</u>	<u>All</u>
Yes	40.0%	27.8%	55.9%	55.8%	50.0%
No	53.3%	33.3%	39.7%	39.2%	41.0%
Don't know	6.7%	38.9%	4.4%	5.0%	9.0%

Dealer/Specialty/Short Line responses by region

	New England/ <u>Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>
Yes	53.3%	49.1%	67.4%	50.0%
No	40.0%	49.1%	28.3%	38.9%
Don't know	6.7%	1.8%	4.3%	11.1%

**14. Has Your Bank Since Aug. 1 changed the Payment Terms for That Loan? (132)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	Dealers/ Specialty/ <u>Shortline</u>	<u>Dealers</u>	<u>All</u>
Yes	0.0%	0.0%	3.1%	3.4%	2.3%
No	88.9%	52.9%	91.8%	92.0%	84.1%
Don't know	11.1%	47.1%	5.2%	4.6%	13.6%

Dealer/Specialty/Short Line responses by region

	New England/ <u>Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>
Yes	0.0%	2.5%	2.7%	9.1%
No	100.0%	95.0%	89.2%	81.8%
Don't know	0.0%	2.5%	8.1%	9.1%

**15. How Often on Averaged This Year Have You Asked Any of Your Banks for Money for Your LBM Operation—For Instance, To Meet Payroll or Make a Strategic Purchase? (169)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	<u>Dealers/ Specialty/ Shortline</u>	<u>Dealers</u>	<u>All</u>
Once a week	0.0%	7.1%	3.8%	3.4%	3.6%
Twice a month	7.7%	7.1%	3.0%	3.4%	4.1%
Once a month	0.0%	0.0%	6.0%	5.2%	4.7%
Once every two months	0.0%	0.0%	4.5%	4.3%	3.6%
Once every three months	0.0%	0.0%	4.5%	4.3%	4.1%
Once per quarter	7.7%	7.1%	6.0%	4.3%	7.1%
Once this year	38.5%	14.3%	14.3%	14.7%	16.0%
We haven't asked a single time this year	46.2%	64.3%	57.9%	60.3%	56.8%

Dealer/Specialty/Short Line responses by region

	<u>New England/ Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>
Once a week	0.0%	7.8%	6.7%	5.9%
Twice a month	14.3%	1.8%	2.2%	0.0%
Once a month	0.0%	10.5%	2.2%	5.9%
Once every two months	0.0%	1.8%	6.7%	11.8%
Once every three months	0.0%	5.3%	6.7%	0.0%
Once per quarter	0.0%	5.3%	8.9%	5.9%
Once this year	7.1%	15.8%	15.6%	11.8%
We haven't asked a single time this year	78.6%	57.9%	51.1%	58.8%

**16. Has Your Financial Lender Taken a More Active Role in Your Business Activities? (Examples Would Include Asking for Financial Results More Often, Contacting You More Frequently, or Being More Active in Reviewing Accounts Receivable Reports.) (176)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	<u>Dealers/ Specialty/ Shortline</u>	<u>Dealers</u>	<u>All</u>
Yes	26.7%	35.3%	23.9%	22.9%	24.4%
No	66.7%	29.4%	70.9%	72.9%	66.5%
Don't know	6.7%	35.3%	5.2%	4.2%	9.1%

Dealer/Specialty/Short Line responses by region

	<u>New England/ Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>
Yes	14.3%	17.5%	35.6%	22.2%
No	78.6%	80.7%	57.8%	66.7%
Don't know	7.1%	1.8%	6.7%	11.1%

**17. If So, How?**

Sample responses:

- Questions, questions, questions.
- VERY tight cash flow has sucked up a lot of time to insure we get bills paid on time (or at least close)
- More stringent reporting requirements.
- Requiring more reporting of sales, income, losses, etc. They are asking for more collateral than in the past.
- More in-person meetings asking for projections. More careful auditing of inventory and A/R.
- Increased requirement for security, communication and information to maintain [credit] line.
- Asking for financial statements every month
- Quarterly reviews of AR and income statement
- I took my financials after August to my principal bank and asked them for a review. I want to know where we stand with that institution. If the answer is unsatisfactory, I quite possibly will shop the account. Knock on wood, we are successful through August.
- Sitting in on board meetings.
- More information requests including budgeting and forecasting.
- Meeting with our CFO more often
- We have met quarterly to review for 10+ years that continues to this day.
- We must report detailed AR and inventory on a daily basis.
- Payables monthly, financials monthly, written business forecast monthly. Prior to April, these were required annually.

**18. Are You a Member of the Board of Trustees of Any Financial Institution With Which Your Company Does Business? (173)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	<u>Dealers/ Specialty/ Shortline</u>	<u>Dealers</u>	<u>All</u>
Yes	0.0%	0.0%	15.7%	17.1%	12.7%
No	100.0%	100.0%	84.3%	82.9%	87.3%

Dealer/Specialty/Short Line responses by region

	<u>New England/ Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>
Yes	13.3%	19.6%	13.3%	11.1%
No	86.7%	80.4%	86.7%	88.9%

**19. To What Degree Are Your Contractor Customers Reporting Any Change in Difficulty Securing Construction Loans? (162)**

	<u>Wholesalers</u>	<u>Mfrs.</u>	<u>Dealers/ Specialty/ Shortline</u>	<u>Dealers</u>	<u>All</u>
No change	36.4%	8.3%	21.5 %	21.9%	23.5%
Slight difficulty	45.5%	41.7%	39.2%	42.1%	38.3%
Significant difficulty	18.2%	50.0%	39.2%	36.0%	38.3%

Dealer/Specialty/Short Line responses by region

	<u>New England/ Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>
No change	50.0%	14.8%	25.0%	11.1%
Slight difficulty	28.6%	46.3%	34.1%	38.9%
Significant difficulty	21.4%	38.9%	40.9%	50.0%

**20. How Have Your Banking Relations Been Affected by any Difficulty Your Customers Are Having in Accessing Credit From Those Banks?**

Sample responses:

- Moved from cash flow to asset based.
- I haven't seen any real change with my customers and their banking relationships. We are still receiving A/R in a timely fashion.
- Customers with less cash = lower sales & profits for us. Lower profits makes banks ignore us. [It's a] downward spiral...
- Clients cannot get financing; builders cannot build until financed.
- Payments have slowed and have resulted in more lost prompt pay discounts with more companies paying net terms.
- Our banking concerns have mainly been with our home owners' lack of ability to borrow money

- Accounts receivables growing because of customer not having good relationship with bank. Customers [are] always waiting to the last minutes and [we] find out too late.
- I feel they have been strained by what is going on in the market right now. We have been around for 40 years and haven't seen times like this since the early 1980s.
- Many builders can't get loans to start homes even in proven sales areas.
- No effect on our banking relation based on our customers difficulties.
- Harder time getting paper work done. Bank puts off the payment of the draws.
- They are running scared of anything related to housing. But, with us in the middle, they feel more secure about getting paid.
- Yes, Some banks are causing more loans to not close
- Slowed some of our new home building
- None
- Our builders are finding it very difficult to get their draws from the lenders and this has increased our days outstanding by about two weeks.
- We had two builders go out of business and of the two, one has paid two-thirds of his balance. The other is totally broke. We seem to be fortunate We will bad debt that one, but it could have been lot worse.
- Making people think twice about building
- Strained
- Stretching out the terms on AR
- Cash flow.
- Most of our dealer customers do not have a bank line of credit, making times like this tougher for them and their suppliers (trade/supplier financing)
- Slow-paying customers have caused a problem by their receivables "tainted" so that we can not use them on our borrowing base. This limits our ability to borrow money.
- Our business is suffering tremendously due to home builders/owners not having access to the credit they feel they deserve. Many large remodel/addition projects were frozen due to banks unwilling to allow the use of an equity line.

**21. Please Add Any Comments You Believe Would Help Us Understand Your Current Relationship With Your Bank(s).**

Sample comments:

- Mainly we use them for our line of credit, which we have used a lot this year.
- Our bank has very limited local decision-making authority.
- We are well capitalized. Have never borrowed.
- Our bank has told us they have money to lend if we need any.
- Last year's profits were down. This year (with real profits), when we asked for an increase in our line amount, we were declined. We're treated like a NEW client each time we need to do anything with our (20year history) OLD bank (3 year P&Ls and more info needed... for payroll auto deposits requests of our own money!!!). We're currently switching to a new bank because our old bank doesn't want to loan money. I don't understand how a bank can even stay in business if they're not interested in loaning money?
- Good relationship with bank. [We] did not meet some covenants for banking relationship - was asked to pay \$500 fee.

- We are 100-year-old company that is very fortunate in the fact that we do not owe any money. We also have other business interests.
- We are a true wholesaler, selling to lumberyards and pro dealers. We are seeing many of our customers go out of business or downsize. Our bank is seeing the industry in trouble and has declined our requests for an increase in our line of credit, forcing us to be undercapitalized.
- They are tightening the money supply a lot more than in the past. They want to see more of our books on a monthly basis.
- [We have] been with this bank for over 15 years. They are treating us quite well under the circumstances but it is getting increasingly difficult. Likely we will begin to visit with other banks.
- Our lead bank, Wachovia, has frozen their loan commitment to us at the current level.
- Thus far the credit crisis has not affected us as we are currently flush with cash. Because we lost a little money last year (due to writeoffs) the bank lowered our line of credit and bumped our rate. Our borrowing has been at zero on the line. The crisis has affected our customers more severely, and is causing a real constriction in our business. It looks like this is going to last for some time to come.
- I bank with community banks where the 3 "C" still matter, Cash flow, collateral and character. My bankers are my customers and know my business/staff first-hand.
- Although they have not changed the terms or payments of existing credit lines; they have indicated they are not willing to look at any expansion loans, acquisition loans, or increase in our existing credit line.
- We don't borrow from our bank very often but we have an active role in securing the home loan with the customer. This part has been difficult.
- No changes to date
- We have relationships only with financially strong banks whose reserves for questionable loans are low.
- We renewed our line of credit on Oct. 1. This was overdue by three months due to no fault of ours. The LOC was renewed with no changes to fees, interest rate (at prime), collateral, or conditions. We feel very fortunate, given that our bank will not entertain new loans and has pulled various lines of credit from other borrowers.
- With us it has been business as usual.
- We're boring. We deposit receipts and pay our vendors. No borrowing.
- We will never sit in the room with a bunch of suits (bankers) and none are our friends! Know your banker and his loan authority!
- We are our banks oldest commercial account, over 80 years
- The lender we had for five years cut down our line of credit in March. We opened a new line of credit with a new bank late July. Their terms and interest rate were much better.
- We are actually being courted by one bank and they have offered us various options, including suggesting options on how to infuse money into the system on a term loan or equity line.
- We had a meeting with the bank two weeks ago. While they say that things are unsure right now, our company is doing a good job of holding its own.
- One of our banks is being watched closely by their regulators and are not loaning any money out to new home construction.

- We have several general accounts with the bank and we keep a open line of credit just in case but have only used it once just to make a strategic purchase prior to a price increase.
- We are a two step, so are not directly affected by contractors' difficulties, however indirectly, it affects us in sales volume, like it does everyone else in our business.
- We bank with a credit union, which is not seeing the difficulties that are being reported in the media.
- I have learned that you need more than one bank. When we switched banks during this crisis we found some banks more receptive for my business than others.
- Maintaining and keeping a good relationship is imperative in today's market. Being proactive in meetings is critical.
- Significant sales decline due to inability of customers to finance sales contracts
- We are not experiencing any difficulties in our banking relationship. Our issues revolve around our customers [being] unable to meet their financial obligations
- [Our] bank [is] doing risk analysis on all loans and withdrawing from certain industries across the board, including construction and autos.
- Several new home buyers are having trouble obtaining final commitments for new homes. These are home buyers who have never experienced any type of credit problems in the past.
- We have been doing business [with our bank] for 25 years. We do all of our business with this bank which has strengthen our relationship
- They don't want to talk about new loans.
- Our communications with our bank have, for many years, been consistent. We have always considered them a partner so we have educated them about our business and have always informed them of positives and negatives affecting our business. Our attitude towards them has been to not drop any surprises on them.
- We have always been proactive with our lenders by keeping them informed by letter twice a year. One letter is provided with the annual financial statements, the other is provided mid year. In these letters we update the bank on economic events in our industry, provide comparable financial reports which we download from the public pro yards and we update them on our company. We always make it a point to invite them to visit any of our facilities at any time.
- We are having the most profitable year in our 43 year history, yet our bank has told us that we must leave them by Dec. 31. Their denial of a loan in 2007 after they encouraged us to commit to opening a new store that cost us \$1.5 million in 2007. All of our operations in 2007 except the unopened store made money then.
- Our bank is working well with us. We understand their stance and the reason for the concern on their part. Given our debt load, most banks would probably have called the loans.
- Lenders of construction loans are killing us because they have no knowledge of where construction draws go. Subcontractors and suppliers are not getting paid. Liens are worthless at foreclosure. There is no protection. Everyone is now asking where the money went. Even landowners who hire builders to build custom homes are having to pay twice for final bills after closing on their house and then having liens filed. The suppliers who have gone bankrupt had worthless receivables. Other than

top line sales growth, which everyone is fighting, bad debts will cause many other companies to fail.

- Lenders are calling in loans of our builder customers putting huge pressure on them.

**22. FOR LBM DEALERS: Since Aug. 1, Has Any Manufacturer or Distributor Changed the Terms By Which It Expects Payment From You?**

(Only responses from dealers/specialty/short line companies are shown. – 127 responses)

	New England/ <u>Mid-Atlantic</u>	<u>South</u>	<u>Midwest</u>	<u>West</u>	<u>All</u>
Yes	20.0%	22.2%	30.2%	33.3%	26.0%
No	80.0%	75.9%	65.1%	66.7%	71.7%
Don't know	0.0%	1.9%	4.7%	0.0%	2.4%

**23. FOR MANUFACTURERS AND DISTRIBUTORS: Since Aug. 1, Have You Changed the Credit Terms You Use in Serving Your Customers?**

(Only responses from manufacturers and wholesalers are shown –29 total)

	<u>Wholesalers</u>	<u>Mfrs.</u>
Yes, we've adjusted them for all our customers.	7.1%	13.3%
Yes, we've adjusted them for selected customers.	14.3%	13.3%
No changes have been made since Aug. 1, but we're considering them.	21.4%	20.0%
No changes have been made since Aug. 1, and we're not planning on any.	57.1%	46.7%
Don't know	0.0%	6.7%

**24. If You Answered "Yes" To the Questions Above, Then How Have Those Terms Changed?**

Sample responses:

- Several national LBM dealers have dictated new terms that they will pay by, sometimes taking 2% 59, Net 60 terms.
- [Banks are] making [the] mistake of cutting discounts when the only one they are hurting is the good credit customers that have always taken advantage of early pay discounts.
- Credit insurance has been purchased for those having increased difficulty and the cost has been passed onto the customer. Some have been moved to payment at time of order.
- Only one has made a fool of themselves over terms, but they seem scared and their market share is shrinking as a result.
- [We're getting] shorter terms from vendors. We are looking at doing the same.
- Filing prelims on all jobs; holding shipments until payment for previous shipments have been made, converting delinquent balances to notes.
- Customers asking for extended terms
- We eliminated our 1%, 10 day prompt payment discount.
- Require payment on shorter terms
- Actually given better dating to get us to buy. It has worked in some cases.

- Lower early pay discounts
- Terms are tighter. We always mailed checks due the 10th on the 10th. Some vendors consider this late now.
- They are expecting payment on the date due and if we are a day or two late due to mailing it isn't an option and they will not allow the discount.
- Some vendors are eliminating or cutting their discounts. Others are going from 10th of following month to 10 days
- We are considering closing down all accounts more than 30 days past due.
- Our major supplier has cut the amount of our credit line by two-thirds. They inspect on a weekly basis how much we owe them..
- Much tighter terms. No "good ole boy" grace period on terms. One supplier is now rating its customers based on how they pay and is then limiting the rebates/discounts, credit and terms available to that company based on the rating.

**25. FOR LBM DEALERS: In General, Are You Paying Your Distributors and Manufacturers More Slowly Now than You Were in 2007?**

(Only responses from dealers/specialty/short line companies are shown. – 128 responses)

	New England/ <u>Mid-Atlantic</u>	<u>South.</u>	<u>Midwest</u>	<u>West</u>	<u>All</u>
Yes	20.0%	16.4%	14.0%	40.0%	18.8%
No	80.0%	81.8%	86.0%	60.0%	80.5%
Don't know	0.0%	1.8%	0.0%	0.0%	0.8%

**26. FOR MANUFACTURERS AND DISTRIBUTORS: In General, Are Your Dealer Customers Paying Your More Slowly Now Than They Did in 2007?**

(Only responses from manufacturers and wholesalers are shown –29 total)

	<u>Wholesalers</u>	<u>Mfrs.</u>
Yes	71.4%	33.3%
No	28.6%	46.7%
Don't know	0.0%	20.0%

**27. If So, How?**

Sample responses:

- Some are 30 days late
- DSO has stretched out 6 days.
- Higher rate of bankruptcies = no payments. Good accounts are paying from several weeks to months longer
- More paying net terms rather than discounting for prompt pay.
- We running about a week behind last year.
- 45-60 days instead of 30
- Accounts are stretching from 30-45 days; out to 45 to 60 days; and in some selected cases, payments have been suspended until our customers can sell the units they have constructed.
- 20% are 15-20 days later in paying
- Our receivables are 12-14 days older

- We may hold a check a few days longer before mailing, but we are with all our vendors.
- Those that used to pay in 30 are stretching to 60 days, and those that used to pay in 60 are stretching even further. Fewer customers are discounting on their monthly statement.
- DSO extended 12-15 days
- I have more accounts that are 30-60 days past due that used to pay on time (within 30 days)
- +5 days on DSO

**28. Please Add Any Other Comments Here To Help Us Understand the State of Credit Relations Between Dealers and the Distributors and Manufacturers That Serve Them.**

Sample responses:

- Ours have stayed good.
- More day-to-day and order-to-order in some cases.
- The bottom line is, there isn't enough work to go around right now. Some competitors are running scared and bidding jobs way too low. The ones that survive this time in our industry will come out strong, but I believe there will be quite a few that fail. We have had to trim down staff immensely over the last year and may have to trim more.
- No change from last year.
- A lot of distributors and manufacturers have sent out new credit applications to be completed by us. Some we have dealt with for 20+ years or more. We always discount our payables. But they are cautious, just like us dealers.
- Distributors and bankers should be treated the same. If you are having problems, keep them informed & make things happen. I only want to do business with people who will loan me their umbrella when it is raining not just when the sun is shining.
- Builders/developers have been utilizing their construction loans to cover overhead instead of paying their subs and suppliers in accordance with their contracts and bank budgets. Therefore, they are out of cash by the time they get to the end of the job; and can't pay their subs and suppliers until units actually begin selling. With the sales prices dropping and financing becoming almost impossible to get, it is very difficult for builders to sell units.
- Credit cards are being added as an extra fee to pay for goods from many yards. We have not done that but may soon.
- [We're] receiving calls from suppliers' credit departments that we did not receive before. They're-checking in before the fact.
- With lower sales volume, attributed to lower costs, which result in lower gross profit dollars, we are taking every discount possible to offset the gross profit dollar loss. The enhanced credit relationship with our vendors also leads to lower cost of goods sold.
- We feel we have a great relationship with all our vendors and we do discount all accounts payable.
- Credit is a concern. We have been more diligent in monitoring credit limits.
- Things in Texas have been good for three years, and still are. September was our largest sales month ever. We used the last three years to pay off all loans and repair or

replace equipment and facilities. We are monitoring our A/R closely, but so far everyone is paying normally.

- We pay all discounted invoices promptly all other bills before next billing cycle.
- It is tough because our customers are paying slower, which means it makes it more difficult to pay vendors in a timely fashion. Of course we could just go and get more money from a bank, but then we are still in the situation of having to pay the bank back.
- As a wholesale distributor, I have to buy in bulk to get my dealers the best price. I have asked my vendors to change my terms to net 60 from net 30. Some have changed them to help with the cash flow. The constant shingle price increases are killing the small businesses. There is almost no way to keep up and not go out of business. I tell my sales staff that we will have to take lower margins in the interim. You can't always get your replacement cost on new purchases.
- Demand for money seems higher even though we always pay our bills on time
- There is no credit available for homeowners to finance new projects --NONE!
- We have never missed a discount in my 30 years here. We have a great relationship with our vendors.
- Personal Guarantees and/or audited financials are now mandatory.
- All my distributors have been very helpful except my buying group.
- Since our suppliers are no longer willing to allow us to pay a little late without cutting off the supply, we have been forced to pay quicker than last year, thus relying on our bank more for credit. If the bank cut our lines or called loans and the owner was unwilling to pay off debt we would never find financing in this climate. We would be out of business.
- We are working closely with our supplier base and paying within terms.

**29. Is There Any Question Regarding the Credit Crunch That You Wish ProSales Had Asked? If So, Please Let Us Know.**

Sample responses:

- Have you changed banks? Why or why not?
- Why are the manufacturers and distributors hurting customers that have good pay history and helping customers who are not going to take advantage of early pay discounts? They should want a higher percentage of good-paying customers!
- How many dealers have had builders whose customers did not show at closing on a custom or semi-custom home or whose customer qualified when the house began but lender changed qualifications later so the borrower could not qualify to close?
- For those having problems with their bank, are they community banks or chain banks?
- What are the interest terms that you are receiving from the bank(s) that is/are providing you a line of credit?
- Is the credit crisis affecting sales up or down? Have people been able to secure their own financing, or in-house financing with the lumberyard/dealer?
- What is the average sale in dollars and cents since Aug. 1? How many total sales or orders are you getting now vs. Aug.1?
- How many collection calls does your company make per week or month?

- I think the vendors are taking advantage of the oil situation. I am told that shingle prices and metal or nail prices want be coming down in the coming months, I don't understand that. A 30 year architectural shingle today cost as much as a 50 year architectural shingle in March. Something is real wrong with this picture.
- How many employees have you cut to get your expense level in line?
- Are you paying in time for discounts or giving up discounts instead of paying interest?
- Additional focus on the bankers supporting our builder customers. \$700 billion of AD+C loans are outstanding to financial institutions that must increase their capital base in some fashion. These builders need support and TLC from their lenders, but I'm concerned that the banks won't be able to help due to their own problems.

Questions? Comments? Contact Craig Webb, PROSALES editor, at [cwebb@hanleywood.com](mailto:cwebb@hanleywood.com) or at 202-736-3307