How Will an Interest Rate Hike Affect Your Company?

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It has become the most anticipated question in the financial press over the summer: When is the Federal Reserve going to raise interest rates? Ever since the Fed started sending signals that an increase in interest rates is a matter of *when*, not if, speculation has run rampant concerning when the Fed is going to finally pull the trigger on an increase in the Federal Funds rate, which is the benchmark rate banks use to set their rates.

A couple of months ago, most prognosticators seemed fairly certain that the quarter-of-a-percentage-point rate hike would come as soon as September 2015. Then after China's economic difficulties prompted a stock market meltdown in mid August, many changed their tune, believing that the Fed couldn't afford to potentially disrupt the markets further by raising rates while the markets were in such turmoil. As the president of the Federal Reserve Bank of New York put it on August 26, the case for a rate increase in September had become "less compelling."

What Does a Rate Hike Mean to *You*?

Whether the inevitable interest rate hike comes in September or later this year isn't really the issue, though. Interest rates *will* go up at some point in the future — they cannot remain near zero forever. The real question is what does an interest rate hike *mean* to Los Angeles and Southern California business owners and entrepreneurs and their companies? For example:

- What is your current cost of capital and how does this impact your decisions and actions?
- How will a rise in interest rates affect your borrowing costs?
- Are there new borrowing opportunities you should be considering?
- Should you plan to refinance any or all of your debt and, if so, when?
- Should you look at alternative financing structures?

The first step in determining the answers to these questions is to gather all the details about your current outstanding debt. This includes amounts outstanding, current interest rates and debt structure (i.e., floating or fixed rate), and loan maturity dates. Only then can you perform a debt analysis and start to make intelligent decisions about debt strategies, including whether or not you should consider new borrowing opportunities, plan to refinance existing debt, or look at alternative financing structures.

This might also be a good time to investigate other sources of financing in case your current lenders are unwilling to work with you on refinancing. If it's been awhile since you talked to a new banker, think about making an appointment soon to meet with one or two banks other than your current bank to discuss how rising rates might affect your debt situation and how they might be able to help you deal with any negative repercussions.

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A Detailed Debt Analysis

Finally, is there someone on your staff who is capable of performing the analysis and research necessary to make wise decisions about debt? Many mid-sized firms do not have an experienced financial professional on staff who is qualified to perform a detailed debt analysis and make the best decisions about what to do in a rising rate environment.

An outsourced CFO services provider can conduct just such an analysis for your firm. This analysis will typically include the following:

- A determination of exactly where you are from a debt perspective. For example, what is your current debt position and based on this, what new financing opportunities are available to you?

- A suggestion and review of alternative debt strategies and a determination of which ones make the most sense for your company.

- An introduction to new potential sources of financing, including both traditional banks and alternative lenders like factors and asset-based lenders.

With a detailed debt analysis in hand now, your company will be better prepared to proactively manage your debt situation when interest rates start to rise. You will have a good understanding of exactly where you are with your various debt instruments and cash flow, which will help reveal the best course of action moving forward. In the end, you could end up actually reducing your borrowing costs and end up with a more efficient debt-to-equity strategy than before.

Concluding Thoughts

Whether it occurs in September or later this year, an interest rate hike is not a matter of if, but when. The more important question is what does an interest rate hike mean to your business? To determine this, you need to perform a comprehensive debt analysis to enable you to make intelligent decisions about debt strategies going forward. An outsourced CFO services provider can conduct a debt analysis for your firm by determining exactly where you are from a debt perspective, suggesting and reviewing alternative debt strategies, analyzing which alternatives make the most sense for your company, and introducing you to new potential sources of financing.

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