# Working With Your Banker

***Attitudes***

1. The intimidation syndrome – "I am dealing with the most important person in town, therefore, I should be afraid."

2. The fear of mistakes – "I must not make a mistake in my presentation or else."

3. "I must meet the banker on his turf, dress for the occasion and talk his language."

***Reality***

1. The banker has a job and part of it is dealing with you. He is not the most important person in town, and quite the opposite, **YOU** are just as important. **BE POSITIVE** in your manner, your dress, and your words.

2. Meet for an informal discussion – you are not there to ask for money, but just to ask questions about the bank and it's policies. Interview the banker. Discuss preliminaries about potential plans. Talk about what ifs and the banks criteria for lending.

3. Don't always meet at the bank. Try coffee time, lunch, or some other out of the bank situation, but don't ambush the banker. Let him know you want to talk business. Feel comfortable wearing your work clothes, even if they may be different than the bankers. Don't try to snow the banker, talk plan and simple.

**What should you do before you go to the bank? Do research based on the following:**

Getting the loan depends primarily on three things. 1) Your loan application; 2) Your credit history; and 3) Your banker's attitude about you.

**Credit Report –** Call your local credit bureau and find out what you need to do to get a copy of your personal credit bureau record. New laws give you powerful access and control over your historical records. You might find errors or misstatements. Correct those now, following procedures set by the credit bureau. They will be glad to help you make corrections. They want accuracy at least as much as you do. Do not blame the credit bureau for errors, they only report what others tell them. They **DO NOT** make up things to put in the report. If what they are told is proved to be wrong, or the reporting company cannot substantiate their claim of poor performance, the credit bureau will drop the report. If you cannot overcome a report on record, you can put in your own explanation. Keep to the facts.

**Banker's Attitude –** Long before your need to borrow arises, you should get to know your banker on a personal basis. Have your checking account at the bank you intend to

borrow from. Make deposits in person. Let the banker know about your business, tell him your successes and share financial statements with him. Do anything you can to let him know who you are.

Sometimes, it is smart to take out some small short-term loans to establish a track record of your ability to pay and your financial responsibility. If you have to, borrow using savings as collateral and pay off the loan on time.

When it is time to ask for your loan, make an appointment. If you don't know whom you are going to see, ask for the name of the loan officer from the receptionist. Never go in to the bank and visit a loan officer unannounced. Take good information with you, but intend for this first meeting to be somewhat informal. Buzz your ideas by the loan officer. Find out if the bank does this type of lending, under what conditions, and discover any objections that the lender has. Do your best to find solutions to the lenders objections for the next meeting.

***Financial Statements***

These will be the keys to convince the banker that you have the ability to repay the loan. You must have good records. Most bankers are not very interested in IRS tax statements. They will want to see then, but will emphasize a balance sheet and profit and loss statement. If you statement quality is poor, don't be surprised if you are turned down. It is worth the money, if you can afford it, to get the help of an accountant in at least a presentation format if not the preparation of the forms themselves.

***Resume***

Don't expect the banker to know about your management ability, even if you have played golf with him and talked to him at the Lion's Club lunches. Tell him about it in a personal resume.

Include all of your management background, education, service on boards or committees, club memberships, or other indications of your commitment and involvement. If you don't know how to write a resume, go to the library and research resume writing. Prepare your resume so it says: "You know what you are talking about". If you are not a business owner, discuss your other job and management accomplishments, promotions, and other background that may qualify you for small business success. A resume can sell you or at least present you as a qualified owner/manager.

# Never Take ***No*** For An Answer

Does this sound familiar? You applied for a loan and the bank officer responded with the dreaded words, "I'm sorry, but…" and turned it down. Admittedly an unhappy scenario, it is not a unique one and happens to many businesses at some point.

Fortunately, you can turn what would otherwise be a negative rejection into a positive learning experience by taking some steps to find out why the final answer was "no".

**Personalize the Process**

It helps to first become familiar with how banks actually process loan requests (see chart following). If special circumstances apply to your business, describe them to the loan officer and ask what additional information might be presented to help your case. Openness about the particulars of your financial situation can help bankers look past the impersonal statistics alone.

If anomalies exist in your business or credit history point out and explain them before making the credit application. This personalizes the entire process and helps to establish trust between bank officer and business. It is commonly said that bankers don't like surprises, and one of the worst surprises is discovering bad credit.

**Why You Didn't Get the Loan**

Banks most often deny credit because of business has:

- **Bad Credit.** As noted above, a clean credit record is crucial in both business and personal finances. Anything else sends the bank warning signals about your likeliness of repaying the loan in a timely fashion – or at all.
- **High debt-to-equity ratio.** A typical ratio is three-to-one. Banks also look at other standard ratios for credit worthiness. In special circumstances, businesses that do not meet the usual standards may still be considered.
- **Insufficient collateral.** This is common for start-up businesses that lack collateral or significant assets to pay back the loan if the company should experience hard times

Other reasons may also lead the bank to reject a loan application. If yours is turned down, it behooves you to find out why the loan officer thought the proposition was too risky. The bank may even have suggestions on how to make your presentation more persuasive.

**What Banks and the Government Are Doing**

Banks acknowledge the difficulty in getting credit, especially for small, start-up and special sector businesses. Through new programs, government loan guarantees and private initiatives, however, banks are beginning to increase their loans to these segments. Under the Community Reinvestment Act of 1977, for example, the government began asking banks to make credit more available to small business owners in their own communities.

Due to recent government pressure to take action under this Act, some banks have developed programs specifically tailored to the needs of small enterprises.

**Beyond Banks for Funds**

Commercial banks or savings and loan (S&L) institutions are not the only source of credit. Other sources sometimes take on riskier propositions, albeit at a higher interest rate and possibly with a stake in the company. They may also be able to offer more flexible payback arrangements or alternative revolving loans that regular banks cannot.

*Commercial finance companies* typically offer revolving loans with a credit line based on accounts receivable and inventory. This is a flexible loan that allows the borrower to repay or borrow money daily, depending on the company's cash flow needs. Interest rates are usually one to four percent higher than on bank loans. However, because the borrower can pay on the loan as soon as a payment is received, interest is only charged on money actually used.

Evolving from a past reputation for granting only conservative loans, *insurance companies* have now moved into all areas of lending except short-term revolving debt. Most frequently they offer seven- to 15-year loans at an "interest rate" based on Treasury rate plus a risk premium. Many insurance companies are also interested in buying into growing firms to offset inflation worries on their fixed-rate investments.

*Venture capital firms* may be able to provide growth money for companies in a period of expansion. Although traditionally focusing on larger enterprises, venture capital firms have been increasingly willing to finance smaller start-up companies. Some firms require voting control before agreeing to finance a company, and most prefer to deal in equity securities or subordinated debt that is convertible to equity. The interest rate required is very high, generally from 35 to 50 percent.

*Employee stock ownership plans (ESOPs)* allow a company to keep cash on hand while contributing to employees' retirement. Instead of contributing cash to the retirement fund, the business contributes stock. Not only can this have tax advantages, but employees may find that ESOPs provide more incentive to improve job performance because of their personal stake in the firm's success.

# Where Does Your Loan Application Go?

## The Bank Branch

- You fill out the loan application.
- The relationship manager makes sure you have provided all necessary materials.
- Most banks rely on personal and business tax forms as their primary source of information.

Have you provided all requested materials?

**NO** → Then your application will probably be turned down. It is crucial to keep good financial records and work with the bank officer to provide all required information.

**YES** ↓

## The Central Credit Processing Area

Central Credit officers look at three primary questions.

From TRW or Dun & Bradstreet reports, are personal and business credit histories clean? Are vendors paid in a timely manner?

**YES** → Computed from tax return information, does it appear that cash flow is sufficient and the following ratios acceptable?
**Debt/Equity**
**Current Assets/Sales**
**Quick Assets/Total**

**YES** → Is secondary income or collateral sufficient to pay off the loan in an emergency?

**APPROVAL**

**NO** ↓ Poor credit history is the most untenable problem in a loan application. If special circumstances apply, they should be explained to the branch officer before submitting formal loan application.

**NO** ↓ / **NO** ↓

### SBA Guarantee Program

If the bank has an SBA guarantee program, you may still qualify for a loan. The SBA guarantee programs generally allow longer payback periods (meaning lower monthly payments) or help substitute for business' lack of collateral.