

MAKING YOUR COMPANY BANKABLE

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Entrepreneurs may have more to do with making their companies bankable or unbankable than any outside issue. You need to build a personal relationship with your banker that includes teaching your banker about your business so that she/he can be an enthusiastic champion of you within the bank. Meanwhile, you must manage your company so that it conforms to the "five 'Cs' of banking."

Banking is a very changed business. Gone are the "handshake" loans of our childhood. Instead of the experienced, older bank officer who has spent his whole career at the same desk in the same bank (and he might be a member of the family who owns it), you will find the experience of the account officer likely to be much less than it was even twenty years ago. In the last twenty years, banks have evolved into a fewer number of larger banks. These banks tend to look alike, and provide you with fewer alternatives. The increase in size caused more internal departmentalization, which has organized banks by market segments, and products and services.

BUILDING A RELATIONSHIP

The best way to build a relationship with anyone is to become acquainted and say in touch. Just as you build a relationship with your customers or clients, you need to

assess what the bank needs from you as well as what you need from the bank.

- Now, as always, essential to your relationship with any bank are the five 'Cs' of banking:
- Character -- want commitment to whatever deal you strike, without this, any deal will probably be dead
- Capacity -- the earning stream of a company
- Capital -- the reserves, equity, and holdings of a company
- Condition -- the general health of your company
- Collateral -- banks can't do business without it.

These five points cover the entire expanse of your relationship with your banker, from his/her point of view.

You need to build a personal relationship with your banker because with it, the character issue cannot be addressed. This relationship moves your position with your banker from "I hear that she/he is a capable, committed, ethical person," to "I know that she/he is a capable, committed, ethical person." There is a world of difference.

You also need to build a business relationship with your banker before you borrow money. It is a good policy to take your banker to lunch, but you should periodically invite your banker to your place of business. Let the banker see your operation, meet your employees, and learn about your products. If you do this you can help your banker play the role of spokesperson within the bank, provide referrals for your company, answer trade inquiries, and introduce you useful community contacts.

Beyond social contact, make sure that your bank file is complete and accurate in both documentation and financial information. You should even review good and bad news with your banker. Long before you want to borrow money, discuss with your banker the "remote possibility" of a loan, and let him/her help you.

Since bank personnel tend to change jobs more often than ever before, you also need to build relationships with the people who work with your account officer. You should know your banker's backup person, and also their superior. This can make your banker's job easier, as well as make your position more secure.

If your banker is unwilling to participate in learning about your business, you need to weigh the services that you receive from the bank versus the benefits you receive and the costs you pay. You should forge the relationship you will need for credit long before you seek a loan.

The Kinds Of Credit Banks Seek

Since it is futile to ask for something someone cannot provide, you need to know what kinds of credit your bank is interested in providing. The types of credit available are better defined today than ever before. You can thank failed banks that brought tighter banking regulations, and the homogeneity of banks. Banks prefer to arrange loans along a revolving line of credit structured annually, rather than a series of 90-day notes that once was common. Term loans that amortize in five to seven years or less are also encouraged.

Bankers and banks receive criticism for unproductive loans that result in financial losses. Banks actually have a fairly low-margin on their loan-products which makes the possibility of loss much more onerous as contrasted with the venture capitalist who has a very high-margin on their investments. For these reasons, bankers remain highly conservative.

Banks like to finance growth and expansion of established, profitable businesses. They like real estate, but only when the loan (and the real estate) are marketable. Some banks like to finance new ownership of an

established, profitable business, or related debt restructuring. In all of these, it is the debt/equity ratio that ultimately can kill a deal. While the best ratio is not cast in granite, and may vary among banks, a comfortable ratio is 2.5/1 to 1.5/1. To know of you have a bankable debt/equity ratio, ask your banker what she/he wants to see.

Repayment of any loan is the prime concern of a bank. To this end, banks want well-defined primary and secondary repayment sources on all loans. A weak primary sources must be backed up by a strong secondary source. They want adequate cash flow with a demonstrable ability to pay back the loan with interest above and beyond the cost of daily operations (including your salary) and the use for which you borrowed the funds.

The Types of Loans Banks Can Make

When you apply for the loan, the banker will go to your file. This is why you need to need to make sure it is always current, accurate, and complete. In addition to the information in the file, the banker is going to want to see the most telling documents about your business.

You will need to provide the final year-end financial statement prepared by your CPA according to generally accepted accounting practices (GAAP), and your income tax returns for the last three years. The banker will also want to see the monthly (quarterly) interim financial statements. These

documents indicate the company's capacity to produce and the management's interest (compare with the five 'Cs' of Credit). These financial statements demonstrate the seasonality or trends of the business. You will also need to provide your accounts receivable and accounts payable aging, and financial projections in the form of a balance sheet and profit and loss statement, for the next twelve months by month or quarter.

In addition, you will need to present brief resumes on principals and senior management, and personal financial statements of the principal owners.

Your relationship with your banker after the loan should become closer than before. It continues from its pre-loan state. Continue to periodically meet with your banker. Show the banker how you used the funds. Bankers, like all other people, relate better to tangible information. Reading about something is not a real as seeing it.

After the loan, it is even more important to keep your bank file complete and accurate. Make sure that the appropriate information is regularly added to the file. Make it your business to tell your banker both the good and bad of your business and the climate of your industry. Make sure that your banker does not read the bad news in the paper. If you want your banker to be supportive of your company, do not give him/her any bad surprises. If you need more money, or cannot meet a payment, or worse yet, cannot meet payroll or taxes, you will know at least a few days before the ax drops. Tell your banker the same day you know.

Do not do it over the phone. It is better to make an emergency appointment and reveal the awful truth, then ask what your banker can do to help.

Remember that your banker is in the business of banking, not real estate, or business brokerage, and therefore does not want to foreclose. Given a good relationship, you should be able to depend on your banker to help you remain solvent and bankable.

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