

Your Bankers – How to Keep Them in Your Court

Over the past few years during the financial crisis, we have witnessed a significant reduction in the availability of credit. Most businesses have also experienced changes in demand, their cost structure, and employee headcount due to the recession. Due to the effect of these overarching factors it is now more important than ever before that Owners develop and nurture their relationships with their bankers. This brief article will provide some objective advice that you can employ to develop and nurture those relationships. Before we discuss some of the other appropriate actions you can take to improve your banking relationships, the first and foremost item at the top of the list is to **COMMUNICATE** with your banker on a consistent and frequent basis.

- **In-Person Meetings**. Schedule meetings with your relationship manager on a periodic basis. If the business is experiencing significant volatility, monthly meetings may be appropriate. If the business is stable and growing according to plan, quarterly or semi-annual meetings may be sufficient. As noted above, you cannot communicate too much nor can you build relationships if you don't spend time together and get to know each other.
- **Annual Plan**. Create an annual business plan that outlines your business operating goals and objectives, the performance metrics you will use to manage and report progress against the plan, and financial projections/budgets. Share that plan with your relationship manager.
- **Quarterly Reports**. We recommend that you prepare quarterly, a brief write-up that reviews the quarter's business plan objectives; summary of financial performance (including revenues, margins, balance sheet, and cash flow); new client wins; and any other significant business developments. The information should be candid including both positive news and areas noted for improvement in future periods. The goal is to avoid surprising your banker – bankers hate surprises.
- **Covenants**. Calculate covenant compliance on a monthly basis – regardless of when reports are required by the bank. If your present financial information system does not generate these reports, modify the system to get them. Review the reports and metrics with your chief financial officer and be sure you understand the business drivers that influence and determine the covenant ratios. You can't manage what you don't understand.
- **Use of Credit Facilities**. Make sure you are prudent using the facilities and be sure to try to pay down working capital lines of credit to a zero outstanding balance at least once a year.
- **Profitable Operations**. Banks are facing increasing scrutiny from regulators when the regulators review their loan portfolios. Make every effort to ensure that you are profitable for the year; even it is only a small profit. Defer that Owner bonus or other discretionary expenditures until the next year if that deferral makes the difference between a profitable year and one that is not.
- **Secondary Source of Repayment**. Besides a personal guarantee from the principals, the bank will evaluate its security for the credit facilities and look for secondary sources of repayment. Today more than ever before, the bank will look for other assets – real estate, securities, hard assets, etc. that will support repayment in the event that the business cannot fulfill its

obligations. Don't be surprised when you are asked to pledge these other assets as additional collateral.

- **Risk Management.** The bank is not an equity investor nor do your loan officers think like investors. Consequently, you will have to convince them that existing risks have been appropriately mitigated and repayment of their credit facilities is not in doubt. This is an area where it is especially important to keep them apprised of business developments – remember - no surprises.
- **GAAP Accounting.** Proper financial stewardship requires that your financial statements be prepared in accordance with generally accepted accounting principles (GAAP). Banks have a difficult time understanding financial statements that are prepared using other methods of accounting. The easier you can make it for the bank to review and understand your financial statements, the better the relationship will become.
- **Audits/Reviews.** Obtain an annual audit or review from an independent certified public accountant. Not only will this report provide you with comfort that your financial results are properly reported, the report will provide credibility with the bank that you are conducting your business in a prudent and responsible manner.
- **Use of Bank Services.** You should also look for ways to broaden your relationship with your bank where possible. The more services you can use from your bank, the more profitable the relationship will be for the bank and therefore, the bank will likely be more flexible on credit issues. “Profitable for the bank” does not mean “unprofitable for you” as bank services can help businesses operate more efficiently.
- **Credit Pricing.** You need to be realistic about credit pricing in today's environment. If you have a loan that has not repriced in several years, banks will take any opportunity they get to increase the pricing to today's market rates. This means that a request for covenant flexibility or other considerations might likely result in higher credit pricing and such covenants and terms will be more strictly enforced.
- **Review Your Bank's Financial Condition.** Just as banks are more carefully scrutinizing owners and their businesses, owners should carefully evaluate their bank by looking at the bank's public filings to understand their capitalization, loan losses, receipt of government funds, etc. Banks under financial stress will be less likely to extend credit and no owner wants to be surprised that their bank is going out of business or that their credit line is being pulled.

In summary, your relationship with your banker is under your control. You choose how frequently to communicate with them and how much information to provide to them. Spending the effort now to build relationships will pay large dividends when your credit facilities come up for renewal. If you would like to discuss your unique situation with a member of the DCA Team, please call us.