

Raising Money with Your Banker - by Dan Sautner

It is very difficult to run even the most profitable business without some bank financing. When a company grows or when its growth is uneven, chances are that it will out-pace the cash flows that it generates. In many cases the business cycle is uneven with a disproportionate amount of business part of the year. A business may be down sizing, but the changes being put in place will require time to generate the saved cash flow. All of these are reasons to approach the primary source of lending, that being your banker. The following are ways to approach this lending institution, and what they will be looking for in determining your chances at getting a loan.

Think about the process of getting a loan before you actually need it. More importantly, do this prior to a crisis situation. Bankers have a hard time understanding that you are properly managing a good company when all of a sudden you run out of cash. Your cash flow needs are predictable and you should be seeing this shortage ahead of time.

When you need a loan, ask the banker to visit you so (s)he can see your business and how you operate it. Make sure that your banker is involved in the commercial lending; otherwise, you will be required to do it all again. Explain what you would like and why. Be prepared to fully explain. You have to show the banker that you really know your business and what it takes to be successful. When your meeting is over, ask the banker to write you a letter describing what you will need to supply the bank. The bank may already have pre-printed lists of needed information. Use those.

When everything is ready and packaged neatly, call the banker for an appointment to bring the package to him(her). Have a complete package, as your banker had told you what you need. The banker does not want to have a partial loan request cluttering his(her) desk until you are ready with everything. If you start off on the right foot, and show that you're organized, you'll have a better chance a getting your loan approved. Below is a listing of the common requirements. Have your Padgett Business Services accountant help you prepare these.

- * A cover letter of request: What are you looking for? How much? Why? What good will the loan do for your business? How will you repay it? You may want to include a bit of your company's history: how you started, how you've done, what your product is, etc. Be specific. Be realistic.

- * Personal Financial Statement.

- * Last 3 years' income statements for the business (or personal tax returns if you're a sole proprietor).

- * Projections (pro-forma statement): How will this loan affect your company's cash flow over the next year or two or three?

In general, there are two types of bank loans (although they can be structured in a multitude of ways). Short-term loans will tide you over until you collect a receivable or complete an anticipated large sale. These are set up as notes repayable in 30, 60 or 90 days or they may be set up initially as

a line of credit. Unlike your personal line of credit, with these, you will probably have to ask the banker to advance the funds as you need them. As a rule, these loans cannot remain outstanding for over a year. The banks usually require that they be completely paid off for at least a month each year. Long-term loans are set for a specific amount and for a specific length of time, such as a year or two or longer, and are repayable in monthly installments. These are used for specific purposes, such as equipment purchase, remodeling, building purchase, and restructuring existing debt (however, be careful of borrowing for this reason). In some cases, you may be able to repay only interest, but only for a while. Discuss this with your banker. Your Padgett Business Service accountant can advise you as to whether this is advisable.

In determining whether or not to approve loan requests, bank loan officers frequently refer to the "Three C's of Lending". These are: capacity, collateral and character.

CAPACITY is your ability to repay the loan. If this loan is approved, will you be able to repay it out of your company's regular cash flow? Do you have other assets to fall back on in an emergency?

COLLATERAL is the security to the bank if they approve the loan. This could be your equipment, your building or other real estate, stocks, your accounts receivable, or your inventory. What will its value be if they have to foreclose on you and have to sell it at auction value to repay the loan? This figure is sure to be a lot less than you would think. No matter what type of loan you need, expect to personally guarantee the loans, most often using your residence or other asset(s), such as stocks, as (additional) collateral. If you are reluctant to do so, the banker will think that you are not sure about your ability to repay the loan. If you're not willing to take a chance, why should the bank?

CHARACTER includes your credit history--do you pay your bills on time? If you had a problem in the past, that may be OK if you can explain the causes for it and if you are currently paying your bills on time. Character also includes your general integrity. Do you have good moral standards? Are you a positive influence in the community? This segment of the loan decision process is intangible. If your application is on the borderline between approval and rejection, your character will sway the decision in one direction or the other.

Now you can do all of this perfectly and still be denied credit. This can simply be because your bank is tightening up on its credit across the board. It may be useful to talk to other bankers. Sometimes you will meet with resistance because the amount you are looking for is too small. In this situation consider borrowing the money personally and advancing it to the company. In any case you want to be thinking ahead of the game. Good Luck.