Business Banking

Cultivating a Strong Relationship

By Greg Gault

Sustainable business relationships require mutual benefit in an environment of open communication. Business banking relationships are no different.

Small businesses look to banks to provide capital to fuel their businesses. Banks rely on small businesses to provide demand for loans and to supply deposits. Successful business bankers attract and retain quality clients for their banks. It takes effort to gain the trust and cooperation of prospective clients to obtain the information necessary to put a financing structure in place.

This is a process bankers refer to as underwriting, and it involves gathering financial statements and supporting schedules from the business and, more importantly, getting educated about how the business operates: its industry, customers, suppliers, competitors, etc. Time spent educating the banker is time well spent for the business owner. Business bankers represent the business and its owner at the bank, and they will be better able to speak on your behalf and address your specific banking needs when well informed about your business.

Deal preparation

Once the banker has the requested financial information and you have answered the banker's questions, he or she should be able to provide you with a proposed financing structure. Ideally, the business banker will initiate contact with the business owner regarding their financing structure prior to completion of the loan approval package. A term sheet is a helpful tool for getting a look at the proposed structure. While it is not a binding commitment, it should provide sufficient details regarding the dollar amount, rate, term and covenants to enable you to determine whether or not it is workable for your company.

Regardless of whether or not the banker presents you with a term sheet or proceeds directly to a commitment letter, you are well advised to study the financing proposal carefully, with particular attention paid to the payment terms and covenants that will govern the post-closing relationship. Covenants are typically expressed as ratio tests that will be applied to the financial statements, or limitations on balance sheet changes.

Sharing information

If you believe that the prospective banker is a good fit for your business, but have concerns about your ability to comply with the proposed covenants, you owe it to yourself and the banker to say so prior to closing, so that the banker can make the necessary adjustments.

There are few periods in a banking relationship when the information is more free-flowing than in the weeks leading up to approval and closing. The banker and business owner remain in regular contact with one another regarding the financials, terms, conditions and covenants of the loan documents. As a result, both are well informed of one another's concerns. Once the closing occurs, there is a natural tendency to feel a sense of accomplishment and, to a certain extent, relief; however, the banking relationship is really just starting.

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Following through

Post-closing, it is important for both parties to perform on the commitments made at closing. Payment as agreed and managing your checking account in a satisfactory manner are givens, as is the bank's responsibility to post transactions correctly. Sending in the financial statements and other required schedules in a timely manner not only will make the banker's life easier and generate goodwill, it will keep him or her supplied with the information needed to stay on top of developments in your business. A competent business banker will be in contact with you no less frequently than once a quarter to discuss your needs. Such meetings will be a much better use of time if the banker is armed with a current picture of the business' financial condition.

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Sustainable business banking relationships are built upon a foundation of understanding. For the business owner, this means sharing the characteristics of your business and your goals with your banker so that he or she can work on your behalf. Both parties must benefit from the relationship if it is to be sustainable.

Selecting a bank requires effort and a willingness to share confidential information regarding your financial condition. Bankers spend a great deal of time and effort attracting clients, and it is their preference to retain them. By taking the initiative to keep your banker informed about your business, you will provide the banker with the tools needed to satisfy your needs and cultivate a mutually beneficial relationship.

INFORMATION LINK

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