How to make your borrowing efforts successful

The trick is being prepared; if you have a plan, the money is yours

By Harry E. Rourke
Thoro System Products

When it comes time to deal with your banker, there is a way to get your loan. You do not have to be a financial wizard to deal effectively with a banker. What is most important is that you understand the banker’s point of view.

Bankers are in the lending business. Remember that like you, your banker is in business—the business of leasing money—and he wants to make a profit. A banker’s assets are the loans and investments he makes, plus a minimum cash reserve. His liabilities are his depositors’ checking and savings accounts. The banker needs your business, because he cannot make money without making loans.

Not surprisingly, he likes to make loans when he feels confident of getting his money back—on time and without hassles—with an interest rate that is attractive. Of course, the Federal Reserve Board and the state of the economy will affect the availability of credit. But, even when credit is tight, if the banker has confidence in you and your firm, he will try to grant the loans you need.

Why Bankers Worry

A recent survey of 100 commercial loan officers asked what gripes they had about borrowers. The results were interesting:

• 78% complained that would-be borrowers fail to prepare important information, like projected cash flows.
• 50%—half—said that borrowers are in a hurry, coming to the bank at the last minute in the middle of a crisis.
• 46% said borrowers provide too little detailed information about their businesses.
• 28% complained of borrowers’ unwillingness to disclose all of the information a banker believes is important to the granting of the loan.
• 27% said the borrower was unattractive because of the lack of a qualified accountant in compiling vital information about the company and its financial records.

And, a common complaint was that prospective small business borrowers frequently don’t even know how much money they need! Simply telling a banker “I need more working capital” is no way to gain his confidence. You should have a clear idea of the magnitude, timing, and duration of your financing needs—before you see the banker.

Be Prepared

You don’t have to wait for your banker to make a loan proposal. By starting the ball rolling yourself, you can show that you know what you are doing. You also increase the probability that you will secure the loan—and, securing it at terms satisfactory to you.

Your proposal should include the amount of capital you want to borrow, the type of loan you are seeking (short or long term, revolving credit line, etc.), the terms of the loan (secured, unsecured, endorsed, guaranteed, etc.), the desired interest rate, and a proposed payback schedule.

If you can’t generate a proposal, you must clearly explain the purpose of the loan and why you need the particular amount you request. You should also be prepared to show this information to the banker:

• Cash flow and pro forma operating projections throughout the life of the loan.
• Sources and schedule of repayment.
• Balance sheets and income statements for the past three years.
• Available collateral, including accounts receivable, inventory, fixed assets, life insurance and marketable securities.
• A listing and aging of accounts receivable.

You should also be ready to provide non-financial information pertaining to the loan, such as your business strategy. You should also provide data on your industry and your standing within it and a list of your trade suppliers as references.

Bankers generally prefer to deal
with your financial officer or the person who is most knowledgeable—and who can best enter into discussions—of the company’s finances. A team approach—perhaps both the president or CEO and the accountant—provides for a very effective presentation.

**Getting The Loan**

The loan officer’s main objective criterion for granting loans is the ability of the borrower to repay the loan. He may use ratio analysis to determine your balance sheet strength and liquidity, including the debt, current and coverage ratios. Ideally, the banker should be familiar with your industry. If you are a contractor, your ratios should be evaluated differently than those of a manufacturer. Trends and potential for the future are also important, and they may offset a weak balance sheet.

Management skill and character are critical in gaining the confidence of your banker. He is concerned about your intent, as well as your ability, to repay the loan. Your company’s past credit record will help here. Also, who you choose as a banker can be important, because personal compatibility will help with a well-prepared presentation.

Maintaining a good ongoing relationship, then, is also important. Good post-closing practice is more than just making the principal and interest payments on time. You should periodically provide your banker with interim reports, aging of receivables and any changes in your company’s plans or status. Such a practice preserves a good working relationship.

If there are loan covenants, follow-up reporting may help persuade the banker to ease them, should they become unnecessarily restrictive.

Since money is what makes a business run, the ability to raise money when you need it is as valuable to you as having the right equipment or the right employees.

By planning for your financial needs in advance and by providing the banker with the information he needs to do his job, you will greatly enhance your ability to borrow—and to borrow again, and again and again.