You and Your Bank-A Partnership for Success

Your relationship with your bank should extend beyond the periodic transfer of money.

By Ed Fritsch

As a business owner, you want "your money's worth" from the bank that has given you a loan. The best way to achieve this is to develop a partnership with the bank.

Usually business owners don't hesitate to hire an accountant to develop needed financial papers. Nor do they hesitate to hire an attorney when necessary. Your banker can provide another source of financial advice. But how do you select the right bank?

First, shop around in the banking community and choose a couple of banks that actively work with small businesses. Ask your accountant, attorney, insurance agent, or your business peers for their suggestions. Other organizations that may be helpful are chambers of commerce, professional groups and trade associations.

After selecting a few banks, visit each one and talk to the person who would likely be your agent in that bank. As when selecting any professional, look for compatibility. Assure the banker that you will share all of your financial information, both the good news and the bad.

A business is more than tax returns, profit and loss statements and balance sheets. When you begin a relationship with a banker, you need to be informed on what the bank needs to issue you a loan. The following includes some of the paperwork the bank will need. If you have these ready to go, you are more likely to avoid a rocky start to the relationship.

1. A business plan
2. How the loan amount was determined, including start up costs and cash flow projections
3. How the money will be spent
4. Your knowledge and experience in this type of business
5. The quality of accounts receivable
6. Credit history, tax returns and quality of collateral
7. Valid marketing analysis, industry trends and possible business cycles
8. Three years of company tax returns

The usual sequence of events in a loan transaction goes like this:

1. A business owner needs money.

2. The business owner submits required information to obtain a business loan.

3. The bank approves the loan and issues a check.

4. The business owner makes the required payments on time until the loan is repaid.

Simply going through this process doesn't create a sound business partnership that will provide the greatest benefit for both the business owner and the bank. Although the business received the needed money and the bank profited from the loan, the relationship shouldn't end there.

What is missing in this typical business loan process? A partnership. The goal of building a partnership is to create and maintain a win-win relationship.

The goal is to build a strong relationship with your banker so that when times are tough, the relationship holds. One of the most important elements in the relationship is thorough and honest communication. You want to instill the banker's confidence in your ability to repay the loan and possibly create potential for future growth. The best way to do this is to keep your banker informed about the state of your business through periodic reporting about what is happening and how you see the future. Be honest, and tell the both the good and the bad.

The advice and resources of an involved banker can be invaluable in helping you achieve your desired business goals. The good news, according to the banking industry, is that banks today are favoring the growth of small businesses because they are the job-generators in today's economy.

Services and advice a bank can offer to help grow your business and build a periodic relationship:

1. Periodic monitoring of your investments, accounts receivable and credit standing

2. Helping you to understand the language banks use

3. Offering workshops and meetings to network and educate small business clients

4. Reviewing your financial statements

5. Serving on your board of directors/advisory board

The bottom line to developing a partnership with your bank is to create a business partnership that can expand the growth of your business.

Ed Fritsch is a business counselor with SCORE, Counselors to America's Small Business.

Above article first appeared in the Kansas City Small Business Monthly, October 2005