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Think Like a Banker

That's How to Get More of What You Want From Your Financial Institution

By *UMBERTO SANTANIELLO*

In the movie *Caddyshack*, Ty Webb (played by Chevy Chase) offers a piece of sage advice to his caddy: "Danny, there's a force in the universe that makes things happen. And all you have to do is get in touch with it, stop thinking, let things happen, and be the ball." Ty then blindfolds himself, walks up to his ball, and sticks it stiff to the pin.

In the spirit of that famous line, when you want to score a great deal and cultivate a longstanding business relationship with your banker, be the banker. Think like a banker. If you were the banker, what would make you sleep like a baby or give you nightmares?

As a certified public accountant, I advise my clients that there are several important characteristics a banker evaluates before lending you money. These characteristics can be broken down into three categories: financial, management, and environmental.

Financial characteristics include cash flow, collateral, and the availability of liquid assets to cover unanticipated losses. Management issues take into account the integrity, history, and reputation of the management team, as well as the ability to include additional guarantors on the note and the existence of a compelling strategic business plan. Environmental characteristics could include national and local economic conditions and legal and regulatory issues

impacting the financial health of the business.

Let's start with financial characteristics, and your first opportunity to be the banker. What do cash flow, collateral, and the availability of liquid assets have in common? They determine a business's ability to repay a loan. Now, can you really blame a banker for being concerned about your ability to repay a loan? Any viable business needs to ensure that their customers can pay their bills. Banks are the same way.

In a perfect banking relationship, the banker lends money; the customer lives by the covenants of the loan and repays the loan. But sometimes the banking relationship becomes less than perfect, and the customer defaults on the loan. In the event of a default, the banker will want to sell the assets that were used to collateralize the loan.

So put on your banking shoes and say to yourself, "I don't really want to get stuck with a bunch of assets that are valued less than the loan ... I don't really want to get stuck with any assets at all. I just want my customer to repay their loan. On the other hand, I'd sleep better knowing that if my customer defaulted, I'd have some way to recover my losses and make my bank whole." Valuable, saleable collateral and back-up sources of liquid assets make bankers happy.

With a focus on management issues, be the banker again. As a banker, why would you be so interested in the integrity, experience, history, and reputation of the management team? The management team makes most all of the decisions impacting day-to-day and long-term operations. If the management team makes well-thought-out decisions, the business will probably be successful and have the ability to repay its debts. If the management team makes poor decisions, the business will suffer — it may fail — and be unable to repay its debts. If I'm the banker, I'd feel a lot better lending money to an experienced management team with a good track record.

Moreover, the ability to add additional guarantors to the banking relationship helps your banker sleep at night. Additional guarantors provide another safety net for a banker. If you and your business are unable to meet the obligations of the loan, the bank would have another option to seek repayment. That being said, an individual would only agree to be a guarantor if they believed in you and your business. Guarantors are typically stockholders of the company or family members. Many times, you'll need to

present your strategic business plan to potential guarantors to persuade them to sign their name on the dotted line. This is yet another reason to write an intelligent strategic business plan.

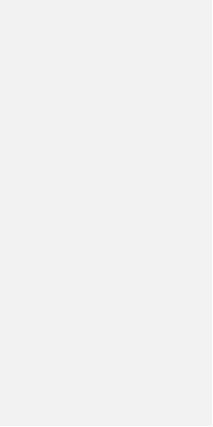
A good management team alone does not make for an attractive customer to a banker. It's easier for a banker to lend money to a management team with a compelling strategic business plan than to lend money to a management team with scribbles written on Post-it Notes. A talented, experienced management team armed with a clear, compelling strategic plan is a winner in the eyes of most bankers.

So how can you get more of what you want from your bank? As a business leader, think as a banker thinks and make decisions as a banker makes decisions.

- Before initiating conversations with a banker, I advise my clients to take some of the following steps:
- Strengthen your cash position. Start now, as this may take time;
- Build a solid management team. Be prepared to talk about their track record;
- Dust off and update your strategic business plan. Make sure it's presentable;
- Carefully examine your operating environment. Be ready to talk about strengths, weaknesses, opportunities, and threats;
- Plan for the unknown. Aggressively project expenses and conservatively project revenues;
- Conduct a valuation of your assets. You may have to hire a business-valuation professional;
- Line up additional guarantors who believe in you and your business model; and
- Retain earnings in the business or personally to protect the business in challenging times. It's good business sense, and bankers really like seeing that cushion.

Want a great deal from your banker? Of course you do. A banker wants to reduce the risks associated with writing a deal. A banker wants you to repay your loan. A banker wants to protect himself if you default on the loan. If you think your business will need access to funds sometime in the future, start preparing it now. And think like a banker.

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