

## **ESTABLISHING A BANKING RELATIONSHIP**

A bank is more than a place to keep your checking account and the bank you choose for your business activities can play an important role in your success. Different banks can provide a variety of services some of which you will need immediately, some will be of no interest whatever, and some you may need in the future. Typical business services provided include:

- Checking Accounts
- Saving Accounts
- Foreign Drafts
- Notary Service
- Wire Transfers
- Financing
- Cash Management Services
- Letters of Credit
- Certificates of Deposit
- SEP/IRA Plans
- Lines of Credit
- Receivables Financing
- SBA Loans
- Federal Tax Deposits
- Merchant Credit Card Management

Also, a bank can provide valuable assistance and advice on money matters as they relate to your business. It's your responsibility to choose a bank that's right for your own needs.

### **CHOOSING A BANK**

Consider what your specific business needs will be and if the bank you have in mind can provide them. For example, if you are going to be doing business in other countries you should make sure the bank can handle international transfers and is familiar with letters of credit.

Consider banks within your own community if you are engaged in a "community oriented" type of business. For safety reasons, if your business takes in a lot of cash, choose a bank with a branch near your location. Visit a number of banks in your area. Don't simply rely on the bank you have been using for your personal banking needs. Since services and the rates charged vary widely among banks it is wise to shop carefully. Seek suggestions from other business owners and your other advisors.

Visit banks that are large enough to provide the services you will need but no larger than necessary. The smaller the bank, the more personal the service and the more likely you can deal with a more senior level official (preferably the President) of the bank. During your visit make sure you cover the points in the checklist at the end of this chapter.

Once you have made your selection, arrange for a visit by a bank representative to your place of business, even if it is your garage. Your business is your greatest advertisement. Impress your visitor(s) with your knowledge of and enthusiasm for the business, show them any equipment related to the operation, and discuss your plans. But don't talk too much. Listen to the banker to find out what he or she wants to know about you and your business. Sell to the bank!

Although a bank may be Federally insured (FDIC), you should do some additional investigation to ensure the bank is safe and healthy. The easiest way to do this is to use the services on one of the companies that professionally analyze banks by reviewing their financial data and producing periodic reports, usually updated each quarter. One such company is Veribanc, Wakefield, MA. (800) 44BANKS.

## **CHECKLIST: CHOOSING A BANK**

1. Is the bank in a convenient location?
2. Does the banker understand your business?
3. Does the bank have an SBA loan program?
4. Is the bank small enough so that you can deal with senior people?
5. Is the bank a member of FDIC and the Federal Reserve Bank? (Commercial and savings banks are required to be a member of FDIC.)
6. Does the bank provide the services you will need now and in the near future?
7. Is the bank's capitalization/asset ratio greater than 6%? (This is a good measure of a bank's "health") Calculate this ratio as follows: Divide the bank's "equity" (some-times referred to as "shareholders' equity" or "total equity") by "total assets" and convert to %. These figures can be found in the bank's financial statements, which the bank should gladly provide to you.
8. What are the bank's fees for various transactions? Are they competitive?
9. What are fees and interest associated with their credit cards? Are they competitive?
10. What balances are required on interest-bearing checking accounts?

## **DEALING WITH YOUR BANK**

Your bank is a service provider and as such knows that customer relations are important. However, if you are difficult to deal with, the service you receive may be less than satisfactory. When discussing any matter with your bank, always be pleasant and never demanding! If you can maintain a "gentle" approach even in the face of problems, you are more likely to get the help and advice you need and maybe even a little extra consideration.

## **MAKE YOURSELF KNOWN AT THE BANK**

Visit from time to time so people know your face. Use these visits to keep senior-level bank personnel up to date on your business activities ... both good and bad. It may also be a good idea to provide the bank with your most recently revised business plan. The more the bank understands about what you are doing and your situation, the more they can help. NEVER, never hide information from the bank.

Stay up to date by reading the bank's annual report and attend the annual stockholders meeting. If possible, socialize with your banker. The banker with whom you occasionally dine or play tennis is more likely to be sympathetic to your business problems.

## **BANK LOANS**

Your bank can be a prime source of business loans. When dealing with the bank for a loan remember that about 90% of their decision to loan is based on two numbers; your cash flow and current net worth. The remaining 10% of the decision is based on such items as credit history and continued business viability.

When approaching the bank for a loan make certain you have complete and up-to-date information concerning the present financial situation of your business. This would include, at a minimum, your business plan, personal balance sheet, business pro forma, and cash flow projections. The process will be much quicker and more likely to be successful with this information in hand. It can also be a very good idea to bring along your accountant ... they can talk the bankers' language perhaps better than you can.

Make the decision to give a personal guarantee only after you fully understand all the ramifications. You are now personally liable for the total value of the loan, if the business cannot pay. It does not make any difference if the business is incorporated, a partnership, or a sole proprietorship.

Banks frequently place liens against your personal residence as part of these guarantees and this can be done without your knowledge.

Personal guarantees are a fact of life for the small businessperson, so be prepared for them. Make certain you understand the worst case scenario.

Ted had been in the manufacturing business for about 3-years and was doing quite well. During this time he borrowed a number of times from his bank to purchase raw materials and some capital equipment. Without warning his major customer canceled their order (Ted's largest) and the business was left with considerable material which had been purchased for this job. Eventually Ted was forced into bankruptcy, first Chapter 11 and then Chapter 7. Ted had forgotten that he had personally guaranteed the loans when times were good and now was faced with having to deal with the bank outside the bankruptcy proceedings. Business or no business, Ted was solely responsible for the loans.

### **SUMMARY**

Choose your bank intelligently and get to know your banker. He is a great source of information, can help you network within the local business community, and, possibly even more importantly, he may be your financial partner, holding the key to your business and personal financial survival.

(This article is an excerpt from "The Small Business Start-Up Guide" by Robert Sullivan. Robert is also the author of "United States Government - New Customer!". Both books are available at major bookstores or direct. Call 1 (800) 375 8439. Visit Robert's site, "The Small Business Advisor" at <http://www.isquare.com> for a wide variety of success-oriented small business information)

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