

# TIPS *from* LauberCFOs

## How to Maintain a Win-Win Bank Relationship!

In most cases, a good banking relationship is critical to a company's ability to grow. Unfortunately the role of the bank is often misunderstood by many small business owners. Over the years we have heard comments like "they gave me an umbrella but wanted it back when it started to rain." These comments most often arise because of confusion over what is the bank's role.

Let's start with a brief discussion of where money the bank lends comes from.

- Small businesses deposit cash they will need to pay payroll at the end of the week.
- The widow sells her home and moves into a senior apartment. The proceeds are deposited into a money market account which is drawn on to supplement social security to cover living expenses.
- An investor deposits money in a CD to maintain liquidity and minimize risk in a diversified portfolio or as resting spot while awaiting other investment alternatives.

These funds along with borrowed money become part of the pool of funds that commercial banks lend to business customers. In all cases, these depositors have no tolerance for risk. They expect the money to be there when they need it. They have every right to believe the bank will not make "risky loans" that might jeopardize the availability of these funds. Risk capital comes from other sources at a much higher cost. With that as a backdrop, what defines a good banking relationship?

- There when you need it, at a competitive price, delivered on a professional basis while maintaining the dignity of all parties.

Over the years, we have learned good relationships have little to do with how tough or how easy you negotiate rates and terms. Nor does it hinge on the type of business or industry. A good banking relationship represents a special connection between bank and customer. It must be a Win / Win situation and will be enhanced by a variety of factors:

- Honesty has got to be at the top of the list. Fundamental to any lending relationship is trust. Whether lending hedge clippers to a neighbor or money to a customer, the lender needs to trust that the borrower will return the property / money in good order.
- If honesty is # 1, "no surprises" is a close second. Money was lent based on a set of circumstances. If these facts change, the lender needs to be kept informed in advance if possible. Consider the neighbor who says; "your hedge clippers? I can't get it to you this weekend; my brother-in-law in Ohio has it. I am sure he will bring it along when he comes back to visit."
- Good Surprises will not always be viewed as positive. "If management can miss what was happening by that much, could they also miss it in the other direction?"
- Keep in mind that every lender reports to someone who is generally less informed about your company. Even the bank President reports to a Board and to the Regulators. Keeping them informed protects them within their organization.
- Have a plan and do what you say. Being consistently overly optimistic will eventually compromise the trust relationship.
- Pay attention to the covenants in the loan agreement. Making payments on time is only part

of what was agreed to. These covenants are in place to help the bank maintain its fiduciary responsibility to their depositors. Think how you would feel if your mother was the widow mentioned above.

- Be realistic on how you view rates. Think about how you respond to your low margin customers. Do you want your lender thinking about you in this way? Remember, a quarter point on a \$250,000 loan costs an extra \$625 per year. Compare that to the cost of being viewed as an unprofitable account.
- View the relationship as long-term. Consider the banks other services (home mortgages, investments, cash management, etc) if they can add value. If you are satisfied with your bank, refer them to others. In other words, increase your value to your bank.
- If the bank invites you to a social event. Go! Getting to know each other in a relaxed environment can often lead to better understanding. Reciprocate when possible.
- If you get in a tough cash bind, make sure you pay your payroll taxes. Without getting into a legal discussion, unpaid withholding taxes can jeopardize the lenders secured position. This is never a good thing.
- Listen!
- Be consistent. If things are changing on your end of the relationship, remember the “no surprise rule”.
- Know your customer. Understand their business. Be aware of the challenges and opportunities. Serve as a resource. Introduce the company to successful new ideas or services. You see a broad cross section of the marketplace that your customer may not be aware of.
- Most banks today have a catchy slogan. “They are all good”. Live your slogan.
- Take the mystery out of your lending process.
- Recommend your other services only when they can add real value. If the value isn’t clear, remember the “trust relationship”.
- About rates, be fair. You deserve to make a profit, but again remember the trust relationship.
- Introduce the customer to your back up person. It’s never positive if that introduction happens in a transition meeting.
- Keep the client’s interest in mind on the depository side of the relationship not just the borrowing side.
- “No, but have you considered...” is often a better answer.

As with any relationship, it is a two way street. Customers have a right to expect some things from their lender. Here are some suggestions to our friends in banking that will help foster better bank / customer relationships.

*“Tips from the CFO”* is published by LauberCFOs, Inc., Milwaukee, WI. The material contained in this publication has been prepared for our clients and business associates for general information purpose. It is not intended to be used as the basis for specific action without obtaining further professional advice. Feel free to contact LauberCFOs for additional information. © Copyright 2006. All rights reserved.