

Business Loan Basics (cont.)

- Should I seek alternative financing (Small Business Administration/SBA guarantee, state loan)?
 - Who should I ask for? Why?
 - Which alternative? Why?

How Much Do You Want Your Banker to Know About You?

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Not too long ago banking, as far as small business owners were concerned, was relatively simple and routine. Their bank was home-based, community oriented and in most cases, the small business owner had a direct personal relationship with the bank. Most decisions concerning banking services were made quickly and easily. Thus, a loan decision could be made very quickly without a lot of paperwork.

Today, the small business owner must keep in close contact with the bank and the loan officers that they are working with for many reasons. The following are just a few of these reasons.

1. The time to borrow money is when you don't need it, thus creating a line of credit that is not chargeable, as far as interest is concerned, until you need the money.
2. Keep your banker informed of changes within your company, as well as the industry.
3. Develop a relationship with the bank that encourages exchange of ideas. Hopefully, your banker becomes a springboard to bounce off new challenges and ideas.
4. If you anticipate cash-flow problems, work out your need for money as far in advance as possible. Do not wait until last minute.
5. Remember, when taking out a balloon loan, you may not be dealing with the same bank or individual when the note comes due. Always keep in mind that there is a possibility that the note will not be renewed because of the new credit policies of a bank that has been bought out, or if your loan officer decides to leave.
6. Do not play games with your loan officer. Always be truthful and as honest as possible. Not only share the good things, but be willing to let the loan officer know you understand the risks involved.
7. When filling out financial information, be sure to make it accurate and complete. Keep in mind that if you provide false information, you could end up in jail even if you repay the loan.
8. If you intend to make this banking relationship long-term, you must remember to pay your bills, especially to the bank, on time not abusing the grace periods that most banks allow. As a small businessperson, you do not like it when the people pay you late.

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9. From time to time, drop in to see your loan officer just to give them an update or let them know how things are going. It is bad business just to visit the bank when you need something.
10. When your business wins an award, develops a new product, helps in the community, etc., let your banker know the good news. This is not bragging. This is just keeping your banker informed of your activities.
11. Another way to create goodwill is to tell new business or acquaintances about the good services that you received at the bank. This falls into the category of "you scratch my back and I'll scratch yours."
12. Never pressure your bank to make loans to your friends, relatives, or employees. It is one thing to direct a person to a bank for help, but it is another thing to pressure the bank to make a loan to someone with whom they normally would not have made a loan.

If you are a brand-new business, you should establish an ongoing relationship with a particular bank, even before you set up your business. It is best to establish a small line of credit with the bank even though the small business does not need the money immediately. Always keep in mind that the more knowledgeable and familiar the loan officer is with the borrower, the more likely the bank is to be understanding and accommodate individual needs later on. Advice on credit issues, as well as general business expertise, can be gained from most banks. It is in the banks' best interest for not only you to be successful, but when you are successful they are successful. Many small businesses see the bank or the banker as an adversary rather than a helpmate.

As a generalization, the smaller you are, the better off you are with a community bank that would understand your needs and with which you could develop an individual trust. A large bank can be a good source for a loan if your business has been operating successfully for a number of years (usually your loan needs would be greater than \$2 million). Also, larger banks are usually at the forefront of developing technology that will allow them to reduce the time and costs of their loan application process, as well as more sophisticated computer technology to help your small business. The secret to selecting the right bank has a lot to do with how you feel about your relationship with the bank and bankers. Please keep in mind that what may be a good bank for one person may be a bad bank for another. Shop around for your bank the same way you would when you shop for a car or truck. The closest bank may not be the best bank. Make sure you get the right products and services with which you feel comfortable. Do not wait until you are in extreme financial trouble to approach your bank. Many times by communicating with your banker, you can head-off problems before they become problems. In closing, keep in mind that the banker is your friend and is there to give you advice, but they can only help you if you keep them informed.