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Treating Your Bank as a Key Account: How to Successfully Apply for a Small Business Loan

When money is tight across the board, finding financing is the tricky part for companies. Big companies are rushing to issue stocks and bonds to suddenly hungry investors. However, credit is still scarce for thousands of mostly smaller companies that rely on bank lending. Because banks have a tight grip on their money right now, business loan applicants should expect to be closely scrutinized. By working as an interpreter between company and bank, an experienced coach can help to facilitate the loan review process.

The dilemma of banks: A return to more rational pricing of risk

When the economy boomed banks rapaciously extended credit to ill-equipped borrowers. They were overly optimistic about continued rises in asset prices and did not look closely into the nature of the assets of their clients. There was little incentive to closely scrutinize a borrower's ability to repay a loan. This failure of market discipline together with flawed financial regulation caused a credit crunch where banks stopped lending and started hoarding cash because they were afraid of rising bankruptcies. For an economy that has been fueled by easy access to borrowed money, tighten credit could spell trouble for companies that need loans to pursue their business plans. What we're seeing now is a return to more rational pricing of risk. Since small businesses traditionally represent a riskier segment of the lending business, obtaining a small business loan can be a trying ordeal. To qualify, owners and executives must understand the risk assessment processes bankers use in loan determinations. This starts by knowing what your lender wants. Be prepared to answer questions and show that you know what you are doing. You need to make a good impression as a capable and understanding entrepreneur.

The human side of lending: Cultivating a relationship with bankers

The human side of lending requires as much attention as the technical aspects. Small-business owners should cultivate a relationship with a (local) banker — ideally, long before they need a loan — and treat that relationship as a long-term partnership. Relationships can be beneficial when it comes time to apply for a business loan or large credit line. Keep your bank informed of upcoming issues and missed projections. Get to know your bankers and help them to understand your business. A good relationship between the business owners and bankers allows for the free exchange of knowledge and the ability to meet the needs of business. A banker informed of your business can not only provide you with a business loan but also offer practical advice on financial matters.

As many businesses, banks do specialize. Often another bank better suited to your business needs or alternative funding will be the solution. A good way to find your ideal lender is to contact an experienced business advisor.

How to become a good creditor

Banks are in business and all companies need to assess risk and make profits. To maximize your chances of receiving approval on a business loan from a bank, it's wise to look at the situation from the standpoint of the lender. A lender wants to know exactly how your business operates and why it's expected to make money. Be ready to answer questions about your business, and be ready to highlight your financial performance both in the past and in the future. You will be more impressive if you have carefully thought out and become familiar with your business plan. You will also need to have the most recent financial statements available, projections for the business (this is typically in the business plan), and a repayment plan, plus collateral. And don't forget to show the bank that a business relationship with your company will lead to a sustainable win-win situation for both sides. Bring your accountant or an experienced consultant if you need help.

Communication is the key when dealing with banks. Your goal is to convince the lender as best you can. Failure to do so may result in not getting the loan and jeopardizing your company. Therefore, when applying for a business loan, think of it as a presentation to an important client or customer, and you'll have a better chance of success.

Experienced consultants can assist you to find the right institution for your financing and coach you to be well prepared for successful talks with loan officers.

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