

The current economic expansion has created numerous changes in the ways businesses and banks react to one another. The goals of the banks have not changed, and a desire to market and obtain good loans remains.

Stereotypically, bankers have never been known for their risk-taking desire, but got caught up with the rest of us in an ever-expanding economy in which anyone with an idea was worth financing. All too often banks become partners, rather than lenders. It seemed nothing could go wrong and in particular real estate was risk free. Banks remain cautious not to repeat the sins of past posterity.

### **A Banker's Eye View**

In theory, basics behind obtaining a loan have not changed. Banks still look for a sound idea or sound product in an industry that has potential, a proven track record and competent management. A personal signature on a loan protects a bank for the downside and sends a message to the business person that the majority of risk should be on the business owner and not on the bank. Banks usually express this in standard terminology as wanting to see a commitment to the business by the owner.

The purpose of a loan remains not to finance losses but to finance expansion and / or specific growth. Obtaining financing requires the preparation of historical and prospective information about the finances of a company as well as a business plan showing the bank how the business will succeed and how the bank will be paid.

### **Bank as Devil's Advocate**

Careful preparation is crucial. Banks scrutinize information presented with greater depth than they ever have before. It is important that the information be put together thoughtfully and realistically. Banks understand things go wrong and are looking for the downside. Expect that the bank will play devil's advocate.

To some degree banks have become auditors using the mentality that something is hidden or something is wrong, and they must look with a jaundiced eye at whatever is presented. It is not that banks do not want the business, because they do. They need to grow and increase their portfolios, but they have been shaken and have come under more scrutiny than any of us would wish for ourselves.

### **An "Intro" is Required**

Obtaining financing first of all requires a referral from a qualified professional who knows a particular banker or bank with possible interest in your industry. There is no sense in contacting a bank with no interest in your industry or one that has been trying to reduce its current portfolio of your industry. It's a waste of everyone's time.

It is best to be introduced and brought to the bank. If you were referred to the bank by a lawyer or accountant it is usually best to have that person have a brief discussion with the bank first to find out their general interest by providing a synopsis of the company and what the company is looking for.

If the bank continues to show interest, a meeting can be set up with the owner and key management personnel, along with the professional who made the referral. At that meeting a presentation should be made that is well thought out and contains adequate information arranged in summary format with detailed information available.

## **First Impressions**

*The following information should be presented and made available to the bank at your first meeting to show that you are serious and were willing to do some homework prior to learning whether or not the bank had an interest.*

- A trend schedule of the prior five years' financial statements in a summary format covering the balance sheet and income statement.
- A projection going out two to five years.
- A fact sheet on the company, listing its products and services, current management, the size of the firm, and pertinent statistics about the company's standing in the industry.
- An outline of your specific request of what the firm is looking for from the bank and a statement as to the purpose of the proceeds and how the company will disperse them.
- A general write-up of the company, its philosophy, the competition and what niche the company serves that will cause or continue it to be successful.

## **Salesmanship to the Fore**

You should understand that obtaining financing is the ultimate in salesmanship. You must go into that meeting to sell. You should be confident and competent, while realistic and aware of the risks you and the bank will be taking.

The bank owes you nothing and has more concerns today than it has ever had. Don't expect to get the loan simply on your charm and don't take it personally if the banker cannot share your enthusiasm to the same degree. You need to be enthusiastic, but the banker needs to be skeptical. In presenting information to the bank, and in subsequent follow-ups, you need to be responsive and you need to show the bankers you understand their concerns and are willing to comply with their requirements. Negotiations are not only possible but are expected.

In summary, bank financing is still very much possible. It is only more difficult and time-consuming. Be realistic and be prepared.

*Editor's note: This article was prepared for the Massachusetts Society of Certified Public Accountants, Inc. Guest author is Robert A. Ryter, CPA, Ryter & Company, P.C.*