Mar. 25, 2013

In honor of National Mom and Pop Business Owners Day on March 29, 2013, the American Bankers Association is offering some tips to help small business owners best position themselves to obtain small business bank loans. The goal is to provide a glimpse into how bankers think in order to help small business owners develop a mutually beneficial relationship with a bank, prepare to get loans and evaluate offers.

1) Get to know bankers at several financial institutions in your community.

Before requesting a loan, find out which financial institutions in your market make loans to firms like yours. Not all banks specialize in business loans. Some specialize in lending only to firms in certain industries. Others lend only to those in certain stages of the business life cycle (no startups, for example). Work with bankers who understand your industry and find out how the current financial crisis has affected credit availability in your community. Not all banks have been equally affected by today's financial crisis.

Another reason to deal with banks experienced in your industry relates to the financial advice they can offer. Because these bankers work with firms facing the same industry-related problems that may challenge you, they're in a better position to provide helpful advice and financial products tailored to your firm's needs. Many times the advice a banker gives is far more important than the product or service they sell. Seek a banker who can give financial advice that will help you survive and thrive in today's economy. In turn, you should reward that banker with your business and your loyalty.

2) Be able to articulate your firm's "value proposition" to its target markets and

assumptions that underlie each of these scenarios.

3) Think like a banker.

Understand the risks of operating in your industry. Have a plan to mitigate those risks and share it with your banker. Bankers are going to do a risk analysis anyway, so it's important to help them. Most likely, you can provide a perspective that the banker hasn't considered. It's important for the banker to see that you recognize the risks of operating in your industry and that you have a plan for dealing with them.

4) Develop at least two ways to repay the loan.

Bankers look for primary and secondary loan repayment sources. For the sake of your business, you should, too. You are in the best position to determine possible repayment alternatives. Be sure to discuss these options with your banker before the loan is made. Secondary repayment resources could include the pledging of business or personal collateral as well as the addition of a loan guarantee by the firm's owners, suppliers or customers.

The more certainty that the banker has that the loan will be paid "as agreed," the more likely it will be that you not only receive a favorable loan decision, but also the best interest rate. Smart business owners understand that now is the time to think about alternative repayment sources, not when their business gets into trouble.

5) Don't ask for loans that should be funded with equity injections.

Bankers aren't paid to take equity risks; they get paid to make loans that will be repaid on time.

The amount of equity you need to operate your business will depend on several factors. One of the most important relates to your industry and what role your business plays in that industry. The amount of equity required for a manufacturer

relates to your firm's business model. Some firms offer easy credit terms to build market share and increase sales. Other firms operate on a cash-only basis. The sales terms your firm offers its customer base has an important impact on the amount of equity that your business will need to operate.

If your product or service is in great demand, consider asking your customers for upfront deposits on pending orders or extending favorable pricing terms to customers who pay their invoices within 10 days of receipt.

Another option is to ask suppliers for favorable terms of sale. Ask if they'll let you pay invoices later with no interest or give you discounts for paying invoices early. Any additional customer or supplier financing reduces the amount of permanent working capital that needs to be funded with equity contributions from your firm's shareholders.

Small Business