Building and Sustaining a Positive Relationship with Your Bank

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After listening to a plethora of quarterly earnings reports from public companies, I began to consider how the discipline and transparency of effective communications practiced by a public company can be replicated for a privately-held firm. Besides keeping owners and investors in the loop, an effective communications strategy with your company's bank is just as critical.

The loan a company obtains from its bank will likely be accompanied by a variety of covenants. Delivering timely covenant reporting, however, should be merely a piece of your company's communication strategy with its bank. Managing a bank's expectations and staying ahead of the curve as the business grows and/or changes are similarly important to build trust and a positive, growing banking relationship.

Here are a few “good deeds” to help build rapport with your bank:

Quarterly Reviews

Bankers like to be informed (and not surprised) by their clients. Inviting the bank for quarterly reviews (just as public companies deliver quarterly reports) is key to building trust and keeping the bank educated about the nuances and shifting priorities of your business. These sessions are valuable not only to provide color on the quarter's financial results, but to communicate business strategy (i.e. new markets, new products) and to share financial projections. Demonstrate to the bank your company's ability to support its debt service as well as communicate your company's growth plans.

Contingency Planning

Should risk suddenly appear on the horizon, resulting in a miss to projections or a weak quarter, your company should persuasively communicate contingency plans to mitigate that risk. "What If" scenarios should be analyzed and action plans defined and presented to get back on track both from a top and bottom line perspective. Share with the bank the degree of flexible, controllable costs in your business that can be reduced or eliminated to sustain adequate debt service coverage and to conform to the bank's covenants. Calculate and communicate your fixed charge coverage (costs such as debt service, rent, equipment leases, and insurance that need to be paid regardless of your company's revenue). Know your numbers! Again, this helps to build your company's trust with its banker, and it demonstrates that you are taking care of your business as well as taking care of the bank's senior credit position.

Timely Submission of Financials and Covenant Reports

Never let a bank chase you for something. And should the financial reports raise a red flag or two, jump in ahead of time to explain it. Stay ahead of the bank's questions. A company should understand the key expectations of its banker and provide timely updates to manage the relationship. Be proactive! Remember, your banker will retain greater trust and confidence in you if you are forthcoming with information, however unpleasant that information might be.

Sharing of Financial Projections.

These give insight as to where you are taking the business as well as the opportunities and obstacles your company faces in achieving its goals. Try to stick with quarterly financial projections rather than monthly (this can give you time to manage to a bad month). Focus your projections on cashflow, and don't forget to support those revenue projections with realistic assumptions and contingencies should the projections not pan out.

Now that you have been on your best behavior with your banker, ask for more from your bank! You have provided a lot of information, spending time and energy on strategy, financial reporting and maintaining a solid banking relationship. So maybe it's time for you to ask for free services, reduced fees, or even a relaxed covenant or a short-term credit line bump to handle a timing issue. If you are renegotiating a line of credit (or asking for an increase), a positive relationship can help close the deal, and the additional business will be appreciated by your bank.

Bankers should be viewed as seriously as investors. They have a key stake in the success of your business. Keep your business growing, protect those assets, communicate regularly and transparently, and you will maintain a solid and growing banking relationship.

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