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How to Get a Better Deal at the Bank

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Many people feel intimidated when approaching a bank for the first time. However, remember that you are the customer and the bank is there to serve your needs. So, when you set out to look for a bank, keep in mind that it is up to them to show you that they want your business.

Although a convenient location is a practical benefit, don't make your choice on location alone. In banking surveys conducted by the Canadian Federation of Independent Business, the majority of members put a higher priority on having a competent banker than they placed on banking at a convenient location. In other words, experienced small businesses will go out of their way to deal with a better banker because they have learned that a good one can make all the difference in the long run and a poor one can make your life miserable.

Your best information source

Before you select a bank, conduct your own survey of other businesses, especially those that are similar to yours in age, size and type/sector. They can tell you how they rate the bank's service over time. They can also tell you about the level of experience the bank has in dealing with companies such as yours, their openness in communicating and dealing with customers, their practices on fees and service charges, and the overall lending policies of that particular bank. They will be able to offer insight about the bank's personnel, what they're like on a one-on-one basis, and perhaps how long they tend to stay in the posting before moving on. By sharing the benefit of their experience, they can also help you to better judge that banker's ability to both understand your loan and firm and properly explain it to others in the bank.

Specialized branches may not be best

CFIB surveying has shown that business customers of the commercial branches may not fare better than customers at certain general branches. Here's why. First, there appears to be higher banker turnover at the commercial branches which offers less opportunity to build a solid long-term relationship with one person. Research has shown that higher banker turnover may contribute to a less favourable loan package.

Certain commercial branches do a very good job. What you want to find out when considering this type of banking location is how long you can expect to deal with a particular banker, what the banker's experience is, and what the general lending policies of the branch are. You also want to know if all your services will come from that branch or whether you will deal with a local branch for some services and the commercial branch for others.

Find the best banker for your needs

The most important variable in a good relationship is usually the individual with whom you deal on a day-to-day basis. Make appointments with prospective bankers for your business and ask them about the following:

- How many small businesses they have in their portfolio and what types of businesses they serve or like to serve best, given their past experience.
- Their approach to evaluating loan requests.
- Whether they have the authority (and up to what amount they have authority) to approve your loan(s) or whether they will submit it to a higher level for approval.
- The banker's background and experience. Are there any types of business with which he/she has had a bad experience in the past which might affect his/her view of your application? Ask about his/her best and worst lending experiences.
- The percentage of time spent on small business accounts versus other responsibilities.
- Their policy on service charges (what do they include in standard monthly contracts?; what is their policy on increases/reductions of service charge rates?)
- Whether he or she would like to visit your business premises (a good indication of the level of service you might expect).
- The kind of information they want from you to establish a credit facility and to maintain that facility over time.
- Who will handle your account on a regular basis?

While you can't control banker turnover, you can do some research to determine how long you can expect your banker to stay with you. Ask the banker directly how long he or she expects to stay in the current location. If they can't tell you, contact the regional or head office of the bank to ask them the same question and to tell them that banker continuity is important to you. And, if you have a good relationship with your banker and he or she is transferred, consider moving your account to their new location if it is close enough to your business to still be practical.

Many companies prefer to deal with a local branch for a number of reasons. First, you may have a better chance of establishing a solid, long-term relationship with your banker which can make a difference in the terms and conditions of your loans. Second, research has shown that businesses dealing at local branches that also have adequate lending authority to approve loans at that level seem to get the best all around deal. Their loans have a higher likelihood of approval and they borrow with less collateral on average than other businesses dealing elsewhere in the banking system. Third, it is likely that a local branch will be more sensitive to the local market in which you operate, its unique features, and its particular opportunities. All of these factors may add up to a stronger, more supportive banking relationship.

First impressions are lasting

Once you have done as much as you can to identify the best bank, branch and banker for your needs, you need to lay the foundation of a solid, long-term relationship. When you go to set up your banking relationship, be sure you have all the information they need to properly and fully understand your business, and present that information in a professional manner. To the extent that this information is available or can be assembled, bring the following with you on your first appointment:

- Past financial statements, up to five years if you have been in business for that long, and interim statements or summaries for the year in progress.
- A business plan that is up-to-date and describes your current operations and outlook for the immediate and longer term, with detailed projections of earnings and cash flow.
- A list of your customers or clients in descending order of size; if your business serves many people (a retail store, for example), then provide an estimate of your number of customers or share in the market, plus a list of credit references whom the bank can contact.

- A statement of current inventory and accounts receivable, including an analysis of age of receivables and inventory turnover, and a statement of the current market value of machinery, equipment and fixed assets such as land and buildings.
- Copies of letters you may have from satisfied customers or other business references, and profiles of your management team.

While this may seem like a lot of information to bring on the first contact, you will find that the bank will ask for this information anyway. By supplying this information at the outset, you are presenting yourself as an open and cooperative customer, and standing yourself in good stead with your banker.

Credit—know the ground rules!

To set up and maintain a good credit facility, use these helpful guidelines:

- Understand from the outset that the banks are not in the risk business. They want to see a good base of equity investment, and they need assurance that loans can be repaid before they lend the money. They also want collateral security—more on that later.
- Give evidence of sound planning and cash flow management by setting up your credit facility in advance of when you are going to need it.
- Always pay loans as agreed, or before they come due. Your repayment record is the lasting indicator of your credit-worthiness, and stays with you forever!
- Provide your banker with all the ongoing information he or she has requested, on time.
- Keep your banker informed of any changes, preferably before they occur. If you do anticipate repayment problems, meet with your banker and be the one to suggest a solution. Remember, from any banker's perspective "the best surprise is no surprise!"

The nuts and bolts of negotiating bank financing

You should come prepared with all the information we described above, and more:

- Be very clear about how much you need, for what purpose(s), and what terms you can live with.
- Be prepared to suggest a combination of an operating line of credit and term loans. Generally, your line of credit matches your operating cash flow needs, while term loans match specific fixed assets.
- Be ready to negotiate the amount of the loan, the interest rate, and the collateral security required by the bank.
- Be warned—one in five small businesses do not get the amount of financing they request from the bank. That does not mean, however, that you should inflate your loan request—a straightforward presentation has a better chance of approval, and honesty is the basis for a good long term relationship.
- If you are turned down by your banker, ask to have the application reviewed by head office, or try another bank.

When it comes to collateral...

Canadian bankers are essentially collateral-based lenders. While they need to know all about the prospects for your business in order to make the loan, they tend to set loan amounts based largely on the collateral available for security. CFIB surveys have found that the average collateral provided by small firms was worth almost three times the amount of their approved loans. However, that's the average, and the newer and smaller your firm is, the more likely it is that you'll be covering your loans with more security.

When it comes to negotiating collateral, start by determining the value of your business assets and concentrate on proving the quality of these assets. Remember that security pledged now is not available to pledge in the future. Ask you banker to explain why he or she needs the amount of collateral requested—especially if it's in excess of double your loan amount. If you feel they are demanding too much, shop around for a better deal.

The issue of personal guarantees is one that is most troublesome to small firms, especially those who have long established businesses with a good record of earnings and loan repayment. If you had to offer a personal guarantee when your business was younger, go back to the bank to request that the guarantee be removed. Continue to make that part of your ongoing loan renegotiations.

...a few words about service charges

The recent, dramatic increases in service charge costs are no accident. As other sources of bank profits get squeezed by competition for large corporate business, losses on loans to large corporate customers, developing countries and other factors, banks are increasingly turning to service charges to make up the difference. And, unfortunately, service charge increases are likely to be with use for the foreseeable future.

However, there are some things you can do to reduce your service charge costs. CFIB research shows that shopping around for the best deal on service charges can pay off, and keeps financial institutions honest because they know they must be competitive. As well, don't just accept the first service charge estimate your banker gives you. See if you can negotiate a reduction, or a cheaper "package deal". But beware. CFIB surveys have indicated that package deals do not always mean a drop in costs, but are sometimes just a means of hiding increases on individual service charges within the overall package price. As well, some of the services you use most often may turn out to be excluded from the package.

Keeping these points in mind, and making sure that you know exactly how much you are paying in service charges over time and how the charges apply to each service, can result in significant savings in this growing component of overall banking costs.

Final tips...

Read the loan agreements you sign with your bank very closely. Know your obligations and recognize the bank's rights to seize collateral if you default on payment or fail to meet specific conditions of the loan agreement.

Once you have paid off a term loan, get the loan agreement cancelled and your security obligations released.

All of the above tips may seem like a lot of work, but considering the vital importance of a solid banking relationship to the success of your business, the payoff will be well worth the time spent.