

How to Approach Your Banker

by Mike Pendrith

You have decided to start a business.

You have prepared a preliminary budget and realize that you will have to borrow some money in order to start your business and to operate it for the first few months, until cash flow from operations are positive.

When starting a business, most people think of borrowing money from a financial institution – a chartered bank, a caisse populaire or a credit union.

Below are the steps that you should take when approaching your banker.

Business Plan

In order to approach your bank / financial institution for a loan, you will require a Business Plan.

(For more information about writing a Business Plan, see the article “How To Write An Effective Business Plan”.

Most well written Business Plans are 30 – 40 pages in length and contain eight sections: Executive Summary, Management Profiles, Business Environment, Marketing, Operations, Financials, Risk Analysis and Conclusion.

Your banker will be most interested in the Business Environment, Marketing and Financial sections.

The Business Environment section tells the reader about the industry (trends, opportunities, threats, competition and technological advances) and how you plan to position your product or service relative to the competition. This allows the banker to fully understand the industry in which you plan to participate.

The Marketing section describes the target market (demographics, psychographics, size, location, etc.), and what strategies and programs you will use to reach the target market (advertising, promotion and channels). This allows the banker to understand your target market, how you will reach them and it validates your sales projections.

The Finance section contains all of your start up costs, first and second year Income Statement, first and second year Cash Flow Statements and an Opening Balance Sheet. The Finance section demonstrates the viability of your business and your ability to repay the loan.

Initial Approach

Most business owners start their business accounts with the same branches where they have their personal accounts.

Depending upon the size of the branch, the person assessing your loan application will be the Branch Manager, an Assistant Branch Manager or the Loan Officer. Make an initial visit to the branch to determine who the person is who handles commercial (business) loans.

Ask if you could briefly meet with that person. When you meet with that person, introduce yourself (if they don't already know you), tell them that you are a customer of that branch, that you are starting a business and would like to make an appointment to meet with them to discuss a loan and to review your Business Plan.

The commercial loan officer may ask you briefly about your business. Give them a brief overview of the business without getting into too many details. Agree upon a meeting time for your next visit.

Be Familiar with your Business Plan

Before you return for your appointment with the banker, become familiar with the contents of your Business Plan. Should the banker ask a question about the marketing or financials or for that matter any other section of the Business Plan, you want to be able to answer the question without hesitation.

Trial Presentation

You should develop a 20 minute presentation that highlights the contents of your plan. Rehearse your presentation with a spouse, partner, friend or relative several times. If you become very proficient at making this presentation, it will impress your banker.

You want to highlight the following: the nature of your business, why it is a good industry to be in, your background and experience, your target market and some key financial indicators – first and second year revenue projections, profit projections, cash flow projections, how much money you are looking to borrow, what the money will be used for and how long it will take to repay the loan.

Also mention how much of your own money you are planning to put into this business venture. Bankers like to see that an individual is willing to invest some of their own money as opposed to attempting to obtain all of the financing from the bank. For example, if you need \$100,000 to start your business and you can provide \$30,000 - \$50,000 and require another \$50,000 - \$70,000 from the bank, that will carry a lot more weight than if you ask to borrow the full \$100,000 with no personal investment.

Confirm the Appointment

The day before the scheduled meeting, call to confirm your meeting. Bankers are busy people and often their schedules change.

Reschedule if Necessary

If you arrive at the bank the day of your meeting and find that your lender is not available, reschedule your meeting. Do not leave a copy of your Business Plan for him /her to review without you being there. You want to be able to make a presentation in person.

Be Honest

Run through your presentation with your banker. Highlight the key things you rehearsed.

Do not give your banker any false or misleading information. If you “get caught”, that will destroy your credibility and call into question your integrity and trustworthiness.

If the banker asks you a question for which you do not know the answer, tell him so. Tell him that you would be pleased to get the information and get back to him / her.

Gaining Trust and Confidence

Bankers are by nature cautious and conservative individuals.

In your meeting, you want to try to gain your banker’s trust and confidence.

You want to convey that you are passionate about this business, that you are committed to working hard to make it successful and that you will be more than capable of repaying the loan.

The Process

You will be asked to fill out a loan application form. The banker will then take your application form and the Business Plan and advise you that he / she will call you back in a few days time.

Usually within 7 – 10 days your banker will call to advise you whether or not you received the loan.

Acceptance

If you have been dealing with the same bank / financial institution for a number of years, have a good credit rating and a well prepared business plan, based on my experience, it is not too difficult to obtain a loan of up to \$50,000 from a bank / financial institution. Usually decisions of up to \$50,000 are made at the local branch level.

That is not to say that banks will not lend you an amount larger than \$50,000. Most often, when the amount requested is greater than \$50,000, the loan application goes to

an individual or a committee at a regional or Head Office. Unfortunately these people do not know you, whereas your local Branch Manger does. Head Office will examine your credit rating, banking history and carefully review your Business Plan. Sometimes the local Branch Manager or Loan Officer will put in a good recommendation for a customer.

Rejection

Sometimes new business owners are turned down by their bank. If that happens, do not be discouraged. Go to another bank. Try several if necessary. Bankers are human beings. One banker may see an opportunity that another banker sees as a huge risk.

Developing a Relationship

Once you receive your loan, keep your banker informed of the progress of your business. Every 2 – 3 months, plan to meet with your banker, just to update him / her on your progress against your plan. Whether the news is good or not so good, your banker will appreciate the fact that you are keeping him / her informed.

(For more about financing your business, see the article entitled, “Sources of Funding for Your Business”).

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