

Financing Your Growth: How to Talk to The Bank

It has been five years since the Dodd-Frank Wall Street Reform and Consumer Protection Act cemented the country's financial environment with increased oversight and regulation. Most manufacturers and distributors are now accustomed to the substantial documentation required by their lenders due to Dodd-Frank.

But if you are seeking new financing for equipment or real estate, or your existing bank has merged with another financial institution, or if you are considering a new lending relationship, you need to prepare for a new conversation.

Think about it this way: If you were the banker across the table, ask yourself whether you would lend money to your business. Here are five tips to help you create and maintain a strong banking relationship:

1. **Do your homework.** Self-assessment is always a good practice. Consider your business and its position from a potential lender's point of view. Banks are looking for stability, profitability and a solid cash management plan to ensure that your company can pay back its loan.

There are likely areas of your company that could use some fine-tuning. In particular, take a critical look at your financials. Are there personal expenses on the books that would worry (or horrify!) a lender? Are your receivables strong and current? Are your key performance indicators in line with or ahead of your industry and your competitors?

Be the kind of customer you'd like to have. Even a modest self-improvement effort can go a long way to enhancing your position with your bank.

2. **Craft your story.** Once you've assessed your company's strengths and weaknesses, you need to be prepared to discuss them in a compelling way. How will you make a case for a new loan?

As with any presentation, the key is to be prepared. Be aware of overall manufacturing and distribution industry stats. Know your specific niche and how your company measures up. Understand your product line profitability. Be able to discuss your customer base and its potential. Know the ins and outs of your sales pipeline, your R&D efforts and other areas of the company that point to future growth. In other words, refine your company's "story" like a sales pitch.

3. **Come clean.** Of course, while your story should tout your company's strengths, you can't be unrealistic or misleading. Lenders don't like surprises.

The key is to communicate with your banker up front about any shortcomings. If your inventory levels

or materials costs are out of line with the norm, explain why. If you owe back taxes, let the bank know. If you're expecting a lawsuit, be honest about it. If you're concerned about a new regulation or technology, tell lenders how your company might be impacted. By being honest and up front, you enhance your credibility.

- 4. **Prepare to negotiate.** Asking for too much or too little won't get you where you want to go. Instead, request financing that will adequately promote the growth you have in mind.

If the bank comes back with an offer of less money than you think you need, or asks for disproportionate collateral, respectfully push back. You are not out of line to ask for additional review or consideration, so feel free to present additional information to support your case.

- 5. **Work with your CPA.** Your trusted financial advisors can be uniquely helpful in preparing for your bank discussions. Not only can your CPA run pro forma numbers and assemble the financial information you need, but he or she can also help you hone your story, brainstorm which banks to approach and review your financials before you present them.

Remember, your bank wants as much certainty as possible about repayment of your loan. It's up to you to inspire their confidence.

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We hope you find this information valuable. We are happy to help you with your financing requests. Let's discuss your needs and next steps and any other questions or needs you may have as year-end draws near.



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