

MODERN DISTRIBUTION MANAGEMENT

*The Newsletter for the
Wholesale Distribution Channel*

Six Questions to Ask Your Bankers

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Now is a good time to think about your banking relationships

With interest rates close to a 50-year low, and all the talk about rate increases, is this a good time for distributors to take advantage of leverage to make an acquisition, obtain a facility, open a new branch location or buy equipment? Should you lock in today's low rates? Consider asking these six questions to your bank or to prospective banks.

The innovative CEO of an Evergreen Consulting client, a privately-held regional distributor, invited a prominent banker to be a guest speaker at a recent Board of Directors meeting. The bank executive, David Lucht, is executive vice president and chief credit officer of FirstMerit Corporation, a diversified financial services company headquartered in Akron, OH, with assets of \$10.5 billion as of Mar. 31, 2004, and 158 banking offices in 24 Ohio and Western Pennsylvania counties. The distributor CEO and his board posed some tough questions to our visitor. Mr. Lucht's answers were direct and practical. He has allowed me to share his thoughts with other distributors.

1. As a privately owned distributor, should we have a relationship with more than one bank?

The answer depends on the company's borrowing and other banking needs. For example, most banks can handle the credit requirements of a \$50-million distributor without the need to syndicate the risk. In fact, the typical distributor in this size range may not have enough banking business to be an attractive customer to more than one bank. It would be advantageous to find a bank that can meet all of the distributor's needs, and concentrate most or all of the banking business with that bank.

On the other hand, it does make sense to maintain a cordial relationship with at least one other bank. The relationship could include periodic sharing of financial information, so that the bank can maintain an active file on the company. In case of a change in the distributor's banking needs, another lender would be more readily available. And of course there is always a desire to ensure that the primary bank is offering competitive services and rates.

To maintain the second bank's attention, it may be possible to borrow for a specific purpose (such as a real estate loan) without disrupting the relationship with the primary bank.

2. What should I know about my bank's loan approval process?

Various banks manage the loan approval process in different ways. Some delegate significant lending authority to their bankers, while others use a committee process. The approach may vary within the same bank for different types of loans, such as asset-based lending.

The borrower needs to learn as much about his bank's process as possible. Understanding how the bank operates is useful in estimating how much credit is available, anticipating how long approval takes, and knowing whom the borrower should get to know at his bank.

3. How can I get to know my credit officer, and make sure he or she knows as much as possible about our company?

The customer's primary contact with his bank is the calling officer. The calling officer's counterpart at a distributor is the outside sales representative. Like distributor sales people, bank calling officers come in all shapes and sizes, and with varying amounts of knowledge and experience.

They also have widely different degrees of influence with the credit decision-makers at the bank. Some loan officers'

recommendations are taken very seriously when credit decisions are made. And, there are some loan officers whose influence is minimal.

It pays to develop a relationship with the credit officer responsible for your account. Most credit officers are anxious to have the opportunity to know their borrowers.

4. Is it wise to delegate maintaining the banking relationship to my CFO or controller?

Many privately owned distributors rely on their controller or CFO to maintain the day-to-day relationship with their bank. In some cases the CEO/owner gets involved in banking reluctantly, if at all.

Keeping a distance from your banker is generally a bad idea. The lender looks to the CEO, and owner if that is not the same person, as the borrower. The amount of credit offered, and lending terms, are largely dependent on the lender's confidence in the business acumen—and the character—of the borrower.

5. What can we do to make our company a more attractive borrower?

Avoiding unpleasant surprises is of paramount importance. A lending officer hates to be embarrassed by a sudden bad turn of events at one of his customers. And, nothing worries a credit officer more than unhappy surprises.

Share financial information and interpret significant developments with the bank regularly. Benchmarking information about the distributor's industry, such as the trade association's performance report, is helpful. Avoid quarter-end or year-end financial statement surprises resulting from failure to record transactions on a timely basis.

6. What will happen if we fail to stay within our loan covenants?

Loan covenants typically prescribe financial ratios that the borrower must maintain in order to remain in good standing with the lender. Covenants have become more common in recent years. Even a minor breach of the covenants may trigger the payment of fees to the bank, as well as elevating the interest rate charged (and, possibly result in further restrictions including renegotiation of the loan package).

In competitive situations, some lenders will make an aggressive offer to the borrower. But, the offer may be accompanied by loan covenants with which the lender knows the borrower may have difficulty complying. The fees and higher interest rates resulting from the breach may ultimately make the lender's offer much less attractive than it first appeared.

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