

# Working Together with Your Small Business Lender

Small businesses seeking financing from a lender are most successful when they look at the process as a joint effort. Both parties want the same goal — a successful business. The following are suggestions to help you work with your small business lenders more effectively.

1. **Banks lend money to people that they know for business activities that they understand.** Be prepared to educate your lender about who you are, what your experience is, the details of your business and how you plan to repay the loan. Bankers may ask questions that seem silly or elementary; they are experts in finance, not in your line of business, so they will be relying on you to help them understand.
2. **Lending institutions (including state and federal) are using other people's money to finance your business.** Many people lose sight of this basic principle when they borrow. As a borrower, you are granted significant trust when you are lent other people's money.
3. **Recognize that state or federal lending programs are designed to meet a specific need** and are generally less flexible than private commercial loan programs. Eligibility for government loans may also be stricter. If you can obtain a loan from a commercial lender, you probably could not (should not) receive a government loan.
4. **Your individual character is one of the most important parts of the lending relationship.** Protect your reputation at all times and be upfront with your lender about your circumstances. Everything else you do with your application is built on an expectation of honesty and trustworthiness.
5. **It is inappropriate for a borrower to request a loan without providing all the required information** to substantiate credit status, loan or refinancing request. Full disclosure by both parties is essential to a good long-term lender/borrower relationship. If you are unsure about what should be included with your application, ask your lender, who may want to help you complete the forms properly rather than send them back for you to redo.
6. **Lenders hate emergencies.** Lenders may see the situation differently than you do; they may see your emergency as evidence of poor budgeting or bad planning. Never expect a loan to be granted immediately. Credit checks, title reports and other loan information and documents take time to research and prepare. If you push or hassle a lender for a rush decision, expect the answer to be "no."



7. **Be a good businessperson.** Know how much you need, why you need it, and how and when you are going to repay it. Then document it. Thorough documentation will impress the lender and aid in processing the loan request. Have good business records, take them with you when you apply for the loan and base the information you give your lender on those records.
8. **Be prepared to talk about your customers.** If you sell on credit, how do you keep track of your accounts and make sure that you can get paid? A customer with bad finances can damage your business and ultimately threaten your ability to repay the loan.
9. **Be prepared with the financial statements and production data for your operation.** Don't be caught not knowing specific information you should have at your fingertips.
10. **Use the loan proceeds only for the purpose stated in your application.** Doing otherwise violates the loan agreement and places your word and character in question. You might get away with it once, but if this is discovered you could be required to make immediate repayment and you will be subject to much greater scrutiny and oversight in any future applications.
11. **Know your repayment capabilities and structure your credit needs accordingly.** Also, it is your responsibility to select a knowledgeable lender who makes appropriate loans with realistic repayment schedules. Just because you can borrow the money to buy something, it doesn't mean that it's a good decision. A poor lender can cause as many problems as a poor financial manager.
12. **Do not rely on the lender to make correct financial decisions for you.** Lenders can be no more accurate than the information you supply since they are not in touch with the "intangibles."
13. **Don't prepare optimistic projections that you know can't be reached.** Provide realistic and conservative cash flow projections and then base your request on these projections. Can you make your payment comfortably? If you "stretch" to cover your loan, one illness or unexpected repair bill, etc., can put you permanently behind. Projections based on well-documented and well-organized business records are most valuable. A current income statement and a projected (pro-forma) income statement will be necessary. Also prepare a cash flow statement. Insurance rates and costs should be investigated.
14. **Fully disclose your working relationships and loan agreements with other lenders and suppliers.** It is usually necessary for multiple lenders to coordinate their lending activities, and a lender is often influenced by another lender's willingness or unwillingness to stay with you. If you are a new customer, a lender will want to know why you are changing.
15. **Be fully aware that failure to service debt as agreed can result in foreclosure action, loss of assets pledged as collateral and a court assessed money judgment** against other assets and your future income. If you are struggling, speak up immediately. It is more important to fulfill your commitments, even if you need other people to help, than it is to fail while trying to do everything all on your own.
16. **Most important, communicate with your lender and live up to your commitments.** Lenders don't like surprises, so anticipate problems before they occur. Lenders are regulated and their procedures may not allow instant response to emergency situations.

Communicate with your lender on a regular basis. Have your lender visit your small business and view your operation. If you have key people that help run the business, ask if the lender would like to meet your manager, bookkeeper, etc., and host the visit in a businesslike manner.

The better your lending institution understands your goals, the unique circumstances of your business and your location — whether it is Interior, Southcentral, Southeast or another area of Alaska — the more likely it is to want to do business with you.

## Warning Signs

The following points are indicators of financial problems that often cause small business lenders serious concern and usually result in a loan request being denied.

1. **Failure of the borrower to make a full and accurate disclosure of financial information**, particularly when it comes to listing all debts owed, all assets owned, all sources of income and estimated asset values. This speaks to character; why would you hide something? Accidental oversights should be quickly corrected.
2. **Reluctance to disclose income or production records or incomplete and/or unorganized records**. Again, this speaks to character; what are you hiding? If you are not truthful here, what else have you told me that I cannot rely on?
3. **History of past financial problems such as bankruptcy or collection problems**. This is a judgment call by the lender. Be prepared for a lengthy discussion about these situations and what has changed.
4. **An antagonistic attitude toward creditors**. Nobody wants to work with a jerk or lend money to somebody with a bad attitude.
5. **Existence of judgments, tax liens, mechanic's liens, child support actions and foreclosure actions**. Child support, IRS levies and state liens suggest irresponsible or reckless behavior. These are seen as serious personal commitments that have not been honored in the past.
6. **A "slow-pay" rating by other lenders, including trade creditors**. Again, be prepared to explain why this has occurred and what has changed.
7. **Hesitancy or evasiveness in explaining the purpose of the loan**. This should be clear and straightforward. Be upfront about why you want/need the money.
8. **Involvement in speculative financial ventures other than the primary business**. Stick to the business you understand.
9. **Undisclosed contingent liabilities**. Litigation can break a business, as can guarantees given out to help others. If you signed a car note for a family member, guaranteed a student loan, etc., that all needs to be on the table.
10. **Overly optimistic or unsupportable estimates of the business's profitability and cash flow**.
11. **Seeking credit far from home or operating a business outside the lender's normal trade area**.
12. **Reluctance to allow the lender to visit the operation**.
13. **Borrowing from numerous creditors**.
14. **Overdrawing bank accounts**. This indicates seriously bad planning or possibly a customer who is writing bad checks to pay the bills.
15. **Making purchases before arranging financing**. This shows bad planning or the inability to show self control.
16. **Serious personal (marital) problems**. Your home life touches every part of your business, including your customers. Problems are often a symptom of financial strains on the relationship.

It takes real courage for a business owner to admit that the business is in financial trouble. If you are willing to keep your lender informed and can talk through problems objectively, solutions or alternatives can often be worked out. The real trouble starts when a borrower is unwilling to cooperate with the lender in working matters out. For additional information, contact the Alaska Small Business Development Center ([AkSBDC.org](http://AkSBDC.org)) or SCORE ([score.org](http://score.org)).

[www.uaf.edu/ces](http://www.uaf.edu/ces) or 1-877-520-5211

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