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12 Steps to Preparing Your Company for Its Banking Needs

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Whether your business is just starting up with a checking account and limited additional banking needs, or you are preparing to enter into a complex acquisition transaction financed in part with the proceeds of a commercial loan, the ease with which your business can satisfy its present and future banking needs will depend upon a variety of factors.

From the first moment you open your doors for business, and as your company continues to grow and mature, there are some simple and effective measures you can take to minimize the time and energy that will be required in order to maximize the value your company achieves from its banking relationships.

Here, then, are 12 steps you can take to prepare your company for its future banking needs:

1. So, you want to start a company — Even a simple matter like the type of entity you choose for your business can have long-term ramifications.

Should you form a corporation or a limited liability company, a general partnership or a limited liability partnership, you should consult you tax adviser and legal counsel.

In all cases, you should keep your growth plans and future banking needs in mind from the very start. Lenders know from experience that the most sophisticated businesses (think "public company") are conducted by corporations; however, when you are just starting out, the time and expense involved in forming and maintaining a corporation may not yet be justified.

2. Create a paper trail — Maintain a filing system for your company's formation documents (articles/certificate of incorporation, operating/partnership agreement, bylaws), minutes of meetings, your stock ledger and copies of stock certificates.

Lenders will request a copy of your company's formation documents and the better they look, the better you look. The same can be said for your company's key contracts and other agreements: There's no substitute for complete copies of important documents. Demonstrate that you pay attention to the details to make a good impression.

3. An ounce of prevention is worth a pound of cure — Make sure to register your company in all states where you do business, keep your company in good standing in each such jurisdiction, file all required annual reports and pay all taxes in a timely manner. Consult legal counsel to determine whether and where to register your company, etc.

Lenders will require that your company be registered and in good standing in each state in which you conduct business. By following basic formalities, you will show lenders that your company is organized and diligent, you will avoid late filing fees and overdue tax penalties and will spare management from wasting precious time on filing retroactive reports. Making the appropriate filings at the right time will also prevent you from having to do so at "crunch time," when you will want to focus on getting the deal done.

4. Cover your assets — Maintain accurate records of your assets (real, personal and intellectual), their location and value and update those records regularly.

Keep track of any liens, leases and licenses on, or other interests in, your property. Lenders will typically require a pledge of your company's assets as security for a commercial loan. You will be required to provide a list of your assets, to the extent you can identify interest-holders related to such assets up front, that will help to avoid any surprises and assist your lender in addressing any liens or other interests.

Make yourself appealing to lenders by providing them with a clear and accurate picture of your assets and liabilities, and be prepared to address any inconsistencies.

5. It's all about who you know — first, the banker — Banking relationships are like any other business partnership, so spend time and effort developing a good rapport with your banker.

First, find the lender that's right for you. That's a matter of understanding the lender and his or her organization's capabilities. Can they get the deal done or not?

Next, get to know the specific lender's superiors. They're the ones you'll be dealing with in a tight credit situation, or when your lender contact leaves for greener pastures. A good relationship on the front end will land you in a better position when it's time to negotiate tough terms down the road.

6. It's all about who you know — next, the bank — You might be surprised at the number and variety of available lending sources. In San Diego, new community banks are popping up all over. They serve a good purpose for smaller companies and personal banking needs; most also have a tendency toward industries that their investors/board members like or are engaged in. They typically reach a size and merge with others to create larger community banks that are eventually bought by regionals.

"Regionals" try to stay grass-roots focused to give their customers the feeling that they're community-like. They typically offer more services and higher lending limits, but a little more out-of-area bureaucracy.

"Super-regionals," those that cover a state or greater region of the country, usually are more centralized in their decision-making and not quite as nimble in what they can do "outside the box."

Then there are the really big players that have multiple niches where they operate under the umbrella of the larger organization, offering specialized services but access to lots of national and international resources for their clients. As your company and your company's needs grow, you will likely find your banking relationships changing and growing, too.

7. Know thyself — Develop and constantly reassess your business plan using realistic numbers. Have realistic expectations of what your financial needs will be in the short term and long term. Err on the side of conservative, instead of optimistic.

If your business plan is not realistic or you demonstrate an inability to "perform to plan," it may be tough to regain your business credibility (at least in the short run). That could lead to tighter financial covenants and more strict reporting requirements in any loan transaction.

8. The right stuff — In short, don't settle for anything less than a superior management team.

In his book, "Good to Great: Why Some Companies Make the Leap ... and Others Don't," Jim Collins says, "Get the right people on the bus, the wrong people off the bus, and the right people in the right seats."

Collins contests the notion that "people are your greatest asset." Instead, Collins proffers, "the right people are your greatest asset."

Choose your management and employees wisely and make sure they are working in roles that accentuate their strengths and experience. Like investors, lenders will follow (and lend into) a solid management team.

9. Join professional organizations — Anyone can "network." The key to good networking lies in leveraging the relationships developed. Consider joining professional organizations in your industry and/or relevant to your background.

At the right events, you're sure to expand your network of potential lending sources beyond your wildest imagination. You might also meet people who can fill out your executive team or otherwise provide sage wisdom and advise, often unsolicited.

10. Succession planning — Let's face it: nothing lasts forever. Prepare your company to function at the same levels of quality and efficiency when you aren't there for a week, a month and, ultimately, when you retire. That'll be useful both to you (and your family) and your lender.

Make sure at least one other person knows how your corporate records, agreements and accounts are organized. Save time and money by having multiple employees who are knowledgeable about relationships with your major suppliers and customers. Just as you should know your lender and her superiors, so to should they know you and your team.

11. Think outside the box — Figure out what your company can be the best at and develop a business strategy that is simple and effective.

If a lender can't understand your business, your strategy or your assets, he or she will have a tough time underwriting the relationship — no matter how well you know each other. That said, there's always room for creative thinking. Include your lender in your strategic development sessions; he or she has probably seen it before and can likely offer valuable insight to your team.

12. Keep your eye on the market — Keep apprised of what banks other businesses in your space are using for their banking needs and what kind of terms they are getting on their deals.

Don't be afraid to put that knowledge to work. Make lenders compete for your business. That way, everyone (well, almost) wins.

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