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for business owners.*

Outgrowing Your Bank

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MEMBER

By Dima Berdiev

At a previous job, I remember looking through customer files and stumbling upon records of a small company that was launched as a start-up close to 50 years ago. Today, it is a well-known technology company trading on the NYSE. My bank had financed some of the company's start-up costs. However, within just a few years the financing needs of that company increased to millions of dollars and the bank was no longer able to support it.

Many of my former customers have experienced similar situations, and many small-business borrowers will continue to run into this in the future. On one hand, it is great news that your business is growing by leaps and bounds. On the other hand, you need to invest a considerable amount of time and effort in finding a new lender and moving your existing financial relationship (which typically include loans, deposit accounts, cash management services, and others) to another bank.

If your total borrowing relationship with one lender exceeds its lending limit, your lending officer will tell you that his or her employer is no longer able to increase the loan size. At that point you do not necessarily have to go somewhere else. An alternative solution could be a loan participation. For example, if my customer wants a \$10 million loan and if I can go only up to \$7 million, I may consider inviting another organization to lend the remaining \$3 million. The benefit to me is that I get to keep a valuable business customer. The benefit to you is that you are still serviced by me, while the other lender essentially acts in a shadow capacity.

If your current lender is unable or unwilling to arrange a loan participation with another lender, then it is time for you to move your business relationship. If you bank with a large organization, such as Citizens Bank or Bank of America, you will simply be moved to another group within that bank, which handles larger loan relationships. Does this mean that you should not work with smaller lending organizations? Not at all. My experience tells me that on average, smaller lending institutions are able to pay more attention and provide better service to smaller companies (mind you, on average!).

Before you look for a new lender to meet your company's financing needs, you need to know what questions to ask to avoid having to look for yet another lending institution in the near future when you become unhappy with your newly-found lender.

First, find out up to what total loan size — the sum of all of your loans — your prospective lender is able to do business. This is to ensure that your loan needs will not hit another ceiling any time soon.

Second, you should also evaluate what products and services your business uses actively. Also, what services and products you may need, but your present lender does not provide?

Third, analyze product offerings at prospective lending institutions. How do they compare to what you currently have, including price? Brochures and information on websites of prospective lenders are frequently confusing and do not provide you with all the details. Treat this as an opportunity to test the quality of prospective lenders' customer service. If they are not able to take the time to simplify things for you, think twice about moving your business there.

Finally, talk to your customers, suppliers, business partners, and associates, particularly if their companies' size is similar to your business. This is a great way to learn who they borrow from and whether they are happy with their lenders. By the end of this exercise you will have a list of lenders to pursue and others to avoid.

The natural reaction of many small-business owners is to find a lender as soon as possible with minimum time and research. I urge you to invest the time to explore your options, verbalize your needs, ask questions, and find the right lender. Moving your business relationship is a very time-consuming and frequently disruptive process. You can't afford to make a mistake and move your relationship again because you have made a hasty, unsubstantiated decision. To help you manage your lender selection process, you may find Chapter 29 and 30 of my book, *Loan Financing Guide for Small Business Owners*, helpful.

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