



## MANAGING YOUR BANK RELATIONSHIP: WHAT TO DO IF YOU SEE TROUBLE AHEAD

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Meeting any business loan obligation is important, but more difficult in challenging economic times. Not only might cash flow be tight, but banks may impose additional restrictions due to their fear of not recouping loans. Here are some pointers to avoid these problems in the first place and handle them as they come along:

- 1) **Understand your loan documents.** Review your agreements in advance, know your obligations and rights. If financial statements, etc., are required, deliver them on time to demonstrate good faith.
- 2) **Promptly disclose potential problems.** If you think you cannot make a loan payment, contact your lender – do *not* just skip payment. You have a better chance of restructuring the loan.
- 3) **Understand your loan officer's position.** Banks have to answer to federal or state regulators, and therefore must report non-performing loans. Therefore it is recommended that you be as helpful with your lender to meet the requirements for a loan workout.
- 4) **Don't avoid a lender's calls.** Refusing that bank officer's call is a red flag that your business is in trouble – work with them instead to try to get a restructuring deal, instead of making them angry.
- 5) **Continue to pay your trade debt.** Pay suppliers when possible to avoid cash-depleting COD status; but be aware secured lenders may be upset if unsecured lenders are paid when they are not.
- 6) **Explore other financial resources.** If your business is still fairly healthy financially, you may find other lenders to refinance the debt. The American Recovery and Revitalization Act of 2009 ("Recovery Act") provides for availability of small business loans, a rebate for borrowers' fees in some cases, and more.
- 7) **Sell non-critical assets.** You may have assets that are not essential to your core business needs; be sure to check the provisions on your loan documents that may require the lender's consent to sales of assets outside of ordinary course of business.
- 8) **Consider investing in the business.** You may be able to invest with equity or a shareholder loan, but again check your loan documents to ensure the agreement does not prohibit company from incurring additional debt.

Loans are a necessary part of most businesses, and all loan situations are different. But being realistic about your relationship with your bank, and creative about possible solutions, may provide you with the leverage for your business to weather a rough financial patch.

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