

# CASH, COLLATERAL AND CHARACTER:

## THE THREE Cs OF WINNING OVER YOUR BANKER

► BY LLOYD W.W. BELL III

What business owner hasn't pondered the paradox of how banks operate? When your company needs money, the bank isn't budging; but when the company has money, the bank is eager to lend.

From the bank's perspective, it's not really puzzling at all. Banks are like any other business, seeking to develop long-term relationships with customers who can pay on time. Among small business customers, they look for companies who meet the standards of the "three Cs" – cash, collateral and character.

**CASH FLOW** – Companies with stronger or more stable cash flow, the primary source of repayment of any debt, are more bankable than those with weak



or erratic cash flow. That's why banks won't fund start-ups.

**COLLATERAL COVERAGE** – The underlying assets used to secure the loan are the secondary source of repayment. Companies with high-quality, saleable collateral will borrow more easily than companies with

specialized equipment, large quantities of work-in-process or aged receivables.

**CHARACTER** – Banks know that the success or failure of a small business is due in large part to the character of its owner(s), both in their personal and professional lives. Banks want to support people who have the motivation to succeed and will adhere to high standards in achieving their goals. Owners demonstrate character through a commitment with respect to equity investment and personal guarantees.

Any negative change in one of these three will raise a red flag with the bank, which may impose more strict oversight or may foreclose on the loan. Refinancing isn't a likely option because banks generally follow the same standards in assessing lending risk.

### HOW TO LOOK GOOD FOR YOUR BANK

Speed and honesty are the keys to protecting your business when any deterioration occurs. It may be impossible to prevent shifts in the industry or the economy, but a reduction in cash flow is within your grasp. Improve customer collections, reduce inventory investment, cut non-essential expenses and re-examine product pricing. Throughout any change in cash flow and collateral, character should never be compromised.

You must inform your lender quickly and honestly, with a plan that explains what will be changed, when it will be changed, and how both parties will benefit. If banks aren't interested, turn to other financing sources such as finance companies, equipment lessors or private capital.

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