

IDEAS

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ASK ALAN | BY ALAN FRIEDMAN

HOW TO GET A LOAN

Alan,

I'd like to know how to find the right banker and how to get a loan in this rough economy. People will often tell me various things, like I need to find a community bank and develop a relationship with the right person in the bank. How do you know if you've got the right bank and if you're dealing with a decision maker? I think I have all the right documents, but is there anything I can do to improve my chances of getting a loan?

*Leslie Faltin, Owner
Instrumental Music Center
Tucson, Ariz.*

Leslie, you've asked one of the most important questions to a store's survival — mostly because we are now in the midst of a global economical decline and full-blown banking and financial crisis. This crisis has nearly obliterated the global financial landscape due to the fiscal irresponsibility of banks and financial institutions we've historically viewed as financial goliaths. This has, in turn, prompted unprecedented interventions by governments and central



banks scrambling to rescue these institutions from collapse as they buckle under the weight of "toxic debts."

Consider what has taken place, both here and abroad, over the past few months. Bear Stearns, the fifth largest investment bank in the United States, collapsed and was taken over by J.P. Morgan. Mortgage lenders Fannie Mae and Freddie Mac were effectively nationalized by the U.S. Treasury and placed into conservatorship. Lehman Brothers filed for bankruptcy. Merrill Lynch posted losses in the billions and was sold off to Bank

of America. AIG, the world's biggest insurer, was bailed out by the U.S. Federal Reserve. Washington Mutual posted losses in the billions and was sold to J.P. Morgan. Wachovia lost billions and was sold to Wells Fargo. Icelandic bank Landsbanki was nationalized and froze U.K. customers' accounts. The United Kingdom bailed out banks RBS, HBOS and Lloyds at a cost of \$63 billion as the country's economy shrank. Our stock markets plummeted, and the U.S. Senate reacted by passing a \$700-plus billion bail-out plan. Swiss bank UBS posted billions in losses and cuts 2,000 jobs. Bank of America announced 35,000 jobs to be cut in layoffs over the next three years. Detroit's big three automakers sought a federal bail-out in lieu of filing bankruptcy.

Is there any wonder why bankers are more nervous than usual about lending money?

But remember, banks still need to make loans to make profits. They just need to do so in a manner that minimizes their risk. There are steps you can take to increase your chances of getting that desper-

ately needed loan or line of credit. Here's 10 simple things to bear in mind as you walk into a bank and ask for a loan:

1. Banks need to make loans to stay in business. Don't be afraid to ask for one. To increase your chances of getting a loan, look for a bank that's already familiar with your industry (i.e. BGE Financial). Ask friends which banks they borrow from and if those banks specialize in small business financing.

2. Make sure you're thoroughly prepared when you request a loan. Walk in the bank with a completed loan application, financial statements, tax returns, "top" financial projections, a business plan and a cover letter explaining why you are seeking the loan.

3. Learn to anticipate your banker's questions. An informed and prepared borrower is way more likely to have his or her loan approved than a borrower who does not know the answer to the basic questions a banker will ask. Make sure you know how much money you need, how long you need it for, what you're going to

do with the loan proceeds, when and how you'll repay the loans, and what you'll do if you don't get the loan.

4. Don't be apologetic or have a negative attitude.

Present yourself as someone who can and will repay the loan. Boost your image by providing your banker with promotional materials about your business, such as brochures, ads, articles and press releases. An attitude of confidence enhances your chance of getting a loan. Make sure you demonstrate how you will be successful from the money the bank will lend to you.

5. Dress in a professional manner for the interview.

This is a business transaction, so treat it that way.

6. Never stretch the

truth. Never make broad or unsubstantiated statements, as your banker can easily check corroborative facts on your loan application. Do your homework to be able to support everything you say, including every single number in your projections. Keep financial forecasts on the conservative side.

7. Don't push your loan officer for a decision. Doing so might result in rejection. Your banker cannot make a decision until all your documentation is complete, so make sure you provide the banker with all the requested documentation as soon as possible.

8. Keep trying one lender after another until you get your loan. Before you

approach a bank directly, find an associate, friend or acquaintance who's in good standing with the bank and can give you a good referral. Bankers tend to deal more favorably with those who were referred to them by their best customers.

9. Discuss risk in your application. Every business has risk. If you do not discuss risk with bankers, they'll assume you haven't thought about it. Bankers will want to know if you have planned for the major risks and how you intend to manage them.

10. If at first you don't succeed ... Remember, the first loan is usually the hardest to get. Bankers prefer to lend money to borrowers who have borrowed at least once and have paid them back without

incidence. Bankers are not venture capitalists who make high-risk loans regardless of the profit prospects. They prefer to lend to low-risk, lower-profit ventures with a record of accomplishment.

Leslie, check out a couple of my *Music Inc.* articles from September 1999 and May 2001 on finding the right banker. You can find these articles at our firm's site, fkco.com. There's an old saying: "The best time to get a banker is when you don't need one." We'll all have to remember that when times get better. Right now, we all need a good banker. **MI**

Alan Friedman, CPA, provides accounting and financial services to music industry clients. He is a frequent speaker at NAMM U. seminars and can be reached at 860-677-9191 or alan@fkco.com. Visit his Web site at fkco.com.