Small Business' Guide to Business Bankers

Many small business owners do not realize they could be leaving money on the table right where their money sits - at their bank. Whether you are a depositor, a borrower, or both, your business has leverage with a banker.

When people think of whether they have a good relationship with their bank, they typically think of their interest rate. If they are a saver, they think of the rate they are getting on their savings, money market fund, or even their investment account with the securities or trust arm of the bank. If they are a borrower, they think of the rate they are getting on their loans.

For some commercial banks, the rate is the "shiny object" that keeps the business customer's focus away from other fees and terms. Customers who have proactive, professional bankers, or an astute financial planner on their side, find there is much more to banking than just the rate. Once a customer's full relationship, and potential relationship, with the bank is communicated, they sometimes find that they not only get a better deal financially, but they get better service, too.

How To Find The Best Banker For You

If you are a business owner and do not have a banker assigned to your account, get one. In my 20 years working at big banks, the most common times I saw missed opportunities were when business customers had not been assigned a true business banker. They thought the service manager in the branch, or even the teller, was their "banker." While this may sound bureaucratic, it's not too different from needing an orthopaedic specialist vs. a general practitioner for a complex bone problem. At a certain level, it helps to specialize.

How do you determine which banker is right for you? One consideration is to find the banker who specializes in customers of your revenue size, or even industry. In a small bank, this person may be sitting in the corner office at the branch. With the large banks, they may be downtown, or if your business is large enough, in another city. Business bankers focus their time on servicing existing business customers and acquiring new ones. All of their time is spent understanding business owners' needs. Most of them are under pressure to produce new business, which can be good for customers. However, not all of them are under pressure to keep what they have, which can be not-so-good.

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The most successful commercial bankers are the ones with the best brains and the best attitudes. That is, they are smart enough to consult with customers on complex financial issues, and effectively advocate for them with (or protect them from) bank management, but are not hung up on see-saw incentive plans and arbitrary manager bonuses. Ideally, they are also independently wealthy, but it helps if they act like it. In other words, they are smart and competent, but do not take themselves or their jobs too seriously. They are not sycophants, eager to do business with everyone. They view their "book" of customers as if it were their garden, and they are picky about what they plant in it. They ask lots of questions about a business's current operations and long term plans. They tour the plant and operation more than once. They listen. They bring the bank's management and loan underwriters out to the business to understand it better.

How They Are Paid

As with other industries, behavior in banking is driven by incentive programs. It helps to understand your banker's compensation. Commercial bankers are typically paid a salary plus bonus. Bonus plans vary widely from bank to bank and, within a bank, from year to year. This can make some bankers dissatisfied, as the bonus can feel quite arbitrary. One year, the bank may need to grow loans, and structure the bonus plan to emphasize loan growth. Just as the bankers are getting a good pipeline of loans going, the bank changes course and decides it wants more deposits.

While the bonus-plan-du-jour may have a stated formula, many commercial bank managers are given a bonus "pool" for the department, with wide discretion on how to distribute it. To add to the banker's frustration, then, not only does the bonus plan change, but subjective dollars are added at the boss' discretion. Needless to say, bankers do not always agree with the boss' judgment on who "deserves" bonus pool money. Banker bonuses are not chump change. A commercial banker can make twice their salary, which is easily over $100,000 and can run up to $350,000. On the other hand, they can make no bonus at all.

Once you get to know your banker, you can ask how the overall bank is doing, and what areas the bank is emphasizing. You can even ask what kind of customers benefit them personally the most. If they get offended, move on to someone more open and authentic. Your banker is a quasi-partner. You need someone you can trust.

Getting Great Service

Once you have a banker you like, how do you get their attention? In a thriving local economy, it can be difficult. The "good" bankers have plenty of opportunities to work on. However, if you have a successful business, and show active interest in establishing a relationship with a professional banker, they will listen. If the banker has never visited your office, invite him or her over for a tour. Show them around, introduce them to your staff, and explain your business direction in a heart-to-heart manner. Establish why you need them, and why you think they need you.

This may sound like a big investment of time. What could be the possible payoff for it? There are several, when you think about all of the different financial services a business could need, and the terms on which those services are provided.

Signs That Something Is Wrong

The most amateur but common mistake made by bankers is to overpromise and underdeliver. This can cost a business lots of money in lost time and sometimes in wasted fees. Bankers who are eager to "demonstrate what we can do" often come up short. Beware of a banker who says a deal you are discussing can be done when they have not yet discussed it with management. Ask them if they directly have the authority to make such a statement, and if they would put it in writing, even if it's in ball point pen, right there. The point is not to trap them, but to see if they are exaggerating their authority within the hierarchy. Never pay for an appraisal on equipment or real estate unless a signed commitment letter "subject to" the appraisal is in hand. Commercial loans do not have application fees. If the bank takes a loan through the underwriting process and cannot make the loan, no fee should be charged.

Bankers should return all of their phone calls or emails from business owners within 24 business hours. Responsiveness is a basic expectation of a professional serving in this role. Bankers should have assistants who are knowledgable about the bank's computer systems and adept at fixing routine service problems with dispatch. If a banker has trouble keeping assistants, it could be the bank's compensation plan for assistants, or it could be the banker. Either way, lack of an effective assistant will produce sub-par service for a business and, again, could cost it money.

Turnover at the top levels of a bank may or may not mean trouble for its customers. In most instances, it leads to a change in the incentive plan, which the bankers are accustomed to anyway. The larger the bank, the slower the trickle-down effect of turnover to the local level. This goes for acquisitions, mergers, firings, or hirings.

Turnover is inevitable, and new management will occasionally re-draw division boundaries in the name of efficiency or "six sigma" or whatever the McKinsey consultant is advising at the time. That does not mean all customers are expected to go along, particularly if it means losing valuable accounts. Never allow the bank to transfer your relationship to a different banker or department if the present one is satisfactory. Keep protesting up the management chain. It will blow over when the consultants leave, or when the manager gets replaced, or when the next incentive plan comes out. Banks make exceptions, all the time.

The Long-Term Multiple Banker Strategy

Sometimes, though, protesting may be to no avail, or the banker or department that has worked wonders will truly be disappearing. This is why it is crucial to maintain a communicative, open relationship with at least three different bankers at all times. This is three times as much work: three banker groups to tour the plant and operations. Answering the same questions multiple times will be necessary in order to narrow down all the bankers to three good ones. Once the three good ones are identified, call them three or four times a year and invite them over for updates on the business. Ask all the bankers about management turnover and current strategies at their bank. Ask directly what the bank is emphasizing in the bonus plan this week. (The good ones will laugh.) Invite the underwriters out to the business. Treat bankers as business partners, and, before you know it, they will act like it.

Questions Worth Asking

Following are a few more questions worth asking.

- How am I being charged for routine deposits, check clearing, and other transactions? Am I in the best type of account for my type and level of activity to minimize my monthly service charges?

- If I have no monthly service charges, is my spare cash better kept in an interest-bearing account? Would it make sense to pay for a sweep service to sweep excess balances?

- Is the way I am handling foreign exchange (incoming or outgoing) the most cost-efficient? Am I hedging my exchange risk appropriately?

- Is my borrowing rate really the fairest for my relationship? If I moved other business to this bank, provided additional or different collateral, or changed the way I managed cash, would you consider lowering the rate?

- Am I better off reshuffling my mix of floating rate and fixed rate debt? Is an interest rate swap appropriate for me?

- Are there other services made available to similar customers that I may not be aware of?

By asking your banker all the right questions, you may gain a advocate for your business, as well as a few more dollars at your disposal.