

[TOPIC]

# Banking Beyond the Numbers

[ADVICE]

Lately, I have been hearing businesses ask how they can improve their relationship with their bank. What else goes into a strong relationship beyond the financial performance numbers? For businesses, it must feel like visiting the Wizard of Oz. One prepares themselves to have their financial meeting with their banker only to find that there is no real formula for credit decisions. The rules seem to change based on unclear reasoning that even the lender doesn't quite understand. The times they are a changin'. By now, everyone has come to realize that credit standards are more lengthy and tighter than a few years ago. The other way to look at it is that we are really only back to fundamental safe and sound banking and credit practices. However, that being said, your banker needs to be able to explain what the credit standards are for getting credit. I would argue that it is more important to understand what are the non-financial expectations for a strong banking relationship.

The ability to operate a business has gotten more difficult as we continue through the new economy. Business owners need to understand and prepare for much more than sales orders and overhead expenses. Today's business needs to consider such things as commodity pricing, transportation surcharges related to rising oil costs, health insurance regulation, international market opportunities and the looming worries about inflation. In fact business owners are making their own credit decisions when they ship a product prior to receiving payment. One of the largest risks facing businesses today is the collectability of receivables. On top of these more complicated questions come the need for good balance sheet planning. For many years the health of a business was seen as having a strong income statement. Today, the balance sheet is equally if not more important in sustaining a business through economic stress.

What is the point of bringing this up? To have a strong banking relationship, these risk factors need to be discussed with your banker. I can assure you that banks are discussing these questions about their customers. If your banker isn't discussing other risk factors with you, look for a new banker... unless you like visiting the Wizard of Oz.



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