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Troubling times call for proactive communication

Being up-front with bankers can help keep them on your side

By BERNADETTE STARZEE

When a company gets into financial trouble, informing the bank is often the last thing it wants to do. "It's like when you do something wrong and you're afraid to tell your parents," said Joe Perri, president and chief executive of Gold Coast Bank in Islandia, who hosts seminars to teach accountants and other professionals best practices in dealing with banks.

But keeping the bankers in the loop can get the bank to work with you.

Ronald J. Eagar, a partner at Grassi & Co. CPAs in Jericho, has found it helpful to call a meeting with the bank once a client's financial position takes a turn for the worse.

"Before the year end, we let the bankers know if projections are off. The banks – particularly the smaller community banks – want to be part of the team and to help the company address its issues," Eager said.

In the current economy, many companies are having trouble meeting the debt service coverage ratio specified in their loan covenant, which is a promise on which a commercial loan is based. Compliance certificates are typically due on a quarterly as well as a year-end basis. "If your banker only learns that you have breached the covenant when he receives the certificate, he's going to want to know why you haven't told him beforehand," said Ira R. Halperin, a partner who co-heads the corporate law group at Meltzer, Lippe, Goldstein & Breitstone, a law firm in Mineola.

As a banker, Perri said he has a tremendous amount of respect for companies that recognize the problem early and communicate it. Doing so signals that there won't be any unpleasant surprises in the future and gives the banker ample time to notify his superiors.

"Once a banker goes out and extends a loan to a company, he becomes the representative for that company inside the bank," Halperin said. When the company gets into trouble, the banker has to go to his superiors to convince them to agree to work with the company. "If the banker doesn't have the confidence that the company's management is dealing with him on the straight and narrow, he's not going to want to go out on a limb for the company," he said.

BANKS TIGHTEN UP CREDIT AND FORGET THEY'RE IN THE BUSINESS TO LEND MONEY

When a firm communicates proactively, the bank often will grant a waiver or temporarily loosen the restrictions of the loan covenant, Halperin said.

Anticipating problems before they happen can allow companies to deal with banks from a position of strength. "A real estate company with a tenant whose lease is expiring may worry that it won't be able to find a new tenant or get as much in rent," said Harry Moehringer, the partner-in-charge of the real estate group at Marks Paneth & Shron, an accounting firm with an office in Woodbury. "If the loan will be coming due in the near future, the company may want to approach the bank about an early refinancing, while the tenant is still there." According to Moehringer, the bank is apt to be "less flexible" once the space is empty.

Customers should detail in a letter exactly what has happened, focusing on the plan to solve the problems, Perri said. "If sales are decreasing, they should show that they have analyzed the situation." For instance, they may have gone out and talked to their customers to find out if it's due to the general weakness of the economy or if there's a problem with the product.

"A number of our customers have cut operation costs and stabilized, showing us their ability to manage through the economic crisis," said Doug Manditch, chairman and chief executive of Empire National Bank in Islandia. "Their profits may be lower than in the past, but we don't overreact and pull credit for companies that are managed well."

Sometimes, however, even if a company is up-front, Halperin said, the bank will reduce a line of credit or pull the loan, depending on what industry the company is in.

"If you're servicing the automotive industry, for instance, banks are going to be more concerned right now about your ability to repay the loan," he said.

Credit is not yet loosening up, as banks continue to be ultraconservative. "It's a cyclical issue that I have seen about a half-dozen times in my career, though this is probably the worst," said Thomas N. Dufek, president of Dufek & Associates, a financial advisory firm in Huntington. "Banks tighten up credit and forget they're in the business to lend money. Eventually, they will get back to the realization that the only way they're going to make money is to lend money."