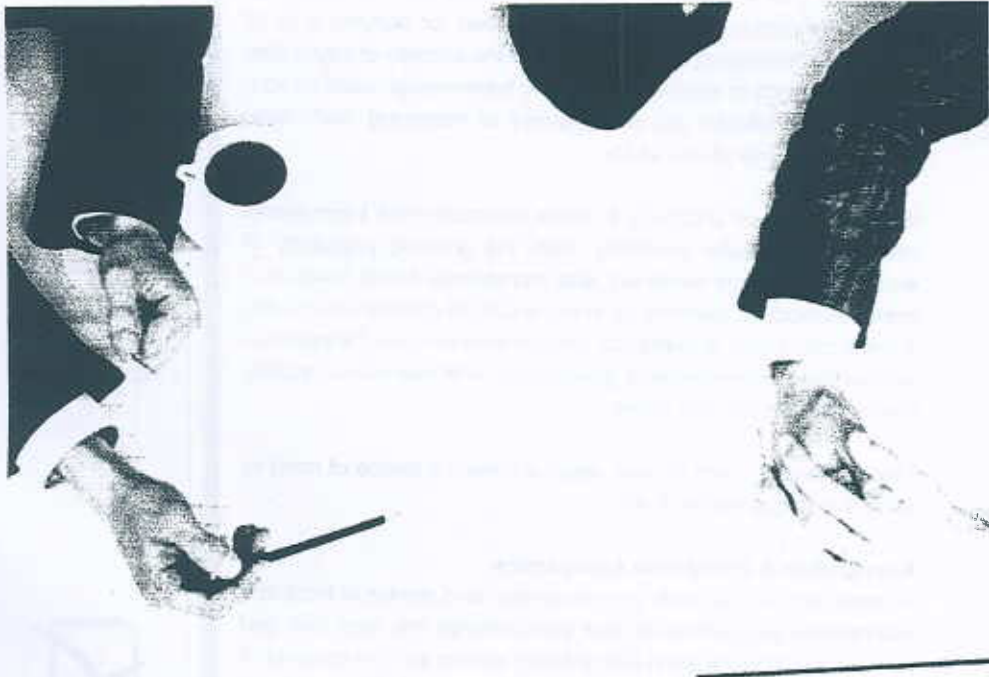


Biz financing and its risks



Companies should develop a relationship with banks that is strong enough to carry it through a financial crunch

BANKS play an important role in money management for businesses. So, it's important to cultivate a win-win working relationship with the bank.

Business financing

As businesses are sensitive to the ups and downs of the economy, they need financing aid to ease cash flow. They need access to cash to continue their operations while waiting for customers to pay for their products or services.

Most companies need to set a line of credit at the bank. Usually, banks are willing to lend money to companies to buy land, buildings, machines or equipment. These items are considered assets and can serve as collaterals for the loan.

If companies default on the loan, the bank can take and resell these assets to recover most, if not all, of the loaned amount.

In fact, most banks require company directors to sign as a personal guarantor. This means banks can recoup part of the debt from the company directors' personal assets.

Banks also provide a line of credit as working capital. Eventually, the bank may lend against the company's outstanding receivables if the borrower has proven to be a good customer.

All about minimising risk

As a financier, banks always try to minimise risk. Since they use customers' money to lend to businesses, they have to protect it. That's why banks are sometimes known as "fair weather" friends — they are there when you don't need them, and not around when you really need them.

Contrary to what many business owners think, banks are not in business to fund company growth. They are in business to lend money and minimise risk.

So, if a bank perceives increased risk, it may react. That's why sometimes

YAP MING HUI



It's advisable to have more than one bank involved in business financing. Never put all your eggs in one basket. Divide the financing needs or have backup financing if the primary funding source is impacted

business owners find that when they need more financing, their bank would cut their line of credit and demand repayment.

Steps to take

If a company has a solid track record and a good relationship with the bank, the bank may allow some time for the company to work out its financial issues.

So, companies should have a good rapport with bankers at all times. Meet with them, discuss business plan and show your cash flow and balance sheet. Set up a line of credit as soon as possible, but draw down on it promptly to prove that the company is responsible and has the capacity to repay.

Companies should also check with the banker every now and then, report on how the business is doing, and develop a relationship that is strong

enough to carry it through a financial crunch.

Case in point

Alfred has been in the plastic manufacturing business for more than seven years. A portion of his business is derived from an established retail company, but that company went bankrupt and owed Alfred RM2 million.

That led to losses and affected Alfred's loan with the bank.

When it was time to renew the line of credit with the bank, Alfred told the banker what had happened and what he was doing about it and what the business needed.

The banker said: "I just need one signature. You guys are doing a good job. You'll get through this."

Although the banker appeared to be supportive, the bank was not. Not only did the bank not renew Alfred's RM3 million line of credit, but also asked him to repay the outstanding loan as soon as possible.

Due to the double blow, Alfred failed to repay the loan. The bank exercised the personal guarantee that he had signed and seized some of his personal assets to recover the loan.

So, no matter how good your banking relationships are, there is a chance that some event beyond your control can turn a relationship around.

Contingency plan

It's advisable to have more than one bank involved in business financing. Never put all your eggs in one basket. Divide the financing needs or have backup financing if the primary funding source is impacted. Remember, risk management is as important as return management to ensure success.

The author is managing director of Whitman Independent Advisors Sdn Bhd and author of five best-selling personal finance books. He will be sharing more money management tips at a seminar on Nov 27. For details, visit www.yapminghui.com.