



# Pharr Valuation and Business Services, LLC

## Banking Relationships

### Keeping Your Banker Happy

Over the last several years we have seen a decreasing amount of interest from the bankers in our industry. Due to the economic crisis and the downturn in the jewelry industry banks have become more selective in not only who they want to obtain as a new customer, but also who they want to keep as their customer. On the gold and precious metals leasing side of banking, Bank of America exited that segment of the business several years ago when it sold its precious metals leasing division to The Bank of Nova Scotia. Sovereign Bank is in the process of closing its precious metals leasing division. Liquidity is shrinking. The pie is getting smaller and some of us will be left without a piece of it.

The easiest way to have a good relationship with your banker is to have loads of collateral, make lots of money, meet all your loan covenants, and borrow within your credit limits. Unfortunately there are very few jewelry companies in that position today. So, what should you do?

There are two basic rules to remember when working with your banker. First, they don't like surprises. Second, build your credibility with them. This is not a short term process.

Bankers don't like surprises. I was in the jewelry manufacturing and refining side of the industry for many years. A banker told me I was one of their few customers who actually prepared their own loan covenant, and financial ratio calculations. Normally, the banker did it for them. Therefore, the banker knew before the company owner that they did not meet the covenants and were in default on their loans. These calculations, along with the borrowing base reports, need to be prepared by your company and on a timely basis. If you do not have anyone in your organization to make these calculations, hire a financial consultant or your CPA to develop a spreadsheet and train you how to use it. When you see the financial picture going in the wrong

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direction, give the banker a heads up and communicate what steps you are going to take to improve it.

Bankers often require projections. They use them, along with historical data, when they go to the credit committee for approval of your loans and lines of credit. While the projections need be realistic, they should be on the conservative side. Even if you make your loan covenants, you and your business look better if you meet or exceed your projections rather than having prepared aggressive projections and missed them, especially if by a substantial margin. Again, if you cannot prepare the projections, hire a financial consultant or have your CPA work with you.

Build your credibility with your bankers. They want to be your advocate, when they meet with the credit and loan committees. Meet several times a year with them (They may even pay for the lunch.) just to let him know how things are going and what you see ahead. If your company is not performing as well as projected, let your banker know in advance and give him details of your plan to get back on track. Tell your banker what steps you will take and what outside resources, if any, you will use. Finally, and this is key, do what you say you will do. If your plan changes, let the banker know immediately and have solid reasons for the change. Your banker has to have the confidence to know you will follow your plan and make hard decisions when necessary. This is what builds your credibility and relationship with not only the banker, but the bank and their credit committee and it may even save you a few basis points on your interest rates.

You, the owner, also need to understand the importance of leaving capital in the business. It demonstrates a commitment to the business that bankers like to see and is another step on the credibility ladder.

If your company does not have someone with a financial background to prepare the covenant calculations, budgets and projections, an outside consultant with financial expertise in these areas, who has also worked with bankers in the industry, can be a cost effective way of getting this done. This same consultant can serve as an objective second set of eyes when financial performance is not as expected, help determine a plan of action, work with you to implement the plan and communicate the results to your banker.

Daniel Pharr is the President of Pharr Valuation and Business Services, LLC. He is a CPA and Accredited in Business Valuation (ABV) by the American Institute of Certified Public Accountants. He is a Certified Valuation Analyst (CVA), a certification awarded by the National Association of Certified Valuation Analyst (NACVA). Dan has 30 years of jewelry industry experience as an auditor, EVP and CFO of a manufacturing company, and business valuation analyst. His practice focuses business valuation and financial consulting for family owned and closely held companies within the jewelry industry. He may be contacted at [Dan@PharrValuation.com](mailto:Dan@PharrValuation.com) or 804-332-5458.