COMMENTARY

Strengthening Your Financial Foundation: The Importance of Lender Relationships

In the ever-evolving landscape of business, securing a loan can be a pivotal moment for both an aspiring entrepreneur and an established business. For new entrepreneurs, obtaining financing can provide the necessary capital to launch innovative ideas and enter the market. For established businesses, a loan can facilitate expansion, modernization, or the ability to seize new opportunities. Regardless of the stage of the business, the ability to secure a loan is often a key factor in achieving long-term success and stability.

However, the process of obtaining credit is not always straightforward, especially for those without established relationships with financial institutions. This article explores the importance of building relationships with lending partners and offers practical advice for business owners on how to cultivate these connections.

The importance of relationships in lending
When seeking a loan, the absence of a relationship with a financial institution can be a significant hurdle. Many lenders prioritize existing relationships when evaluating credit applications. In fact, it is more likely for a lending institution to approve a loan when the applicant has a previously established banking relationship.

This is where the five c's of credit—character, capacity, collateral, capital, and condition—come into play. Of these, character is often the most subjective component of decision-making, and it is greatly influenced by the strength of the relationship. Character, in this context, refers to the trustworthiness and reliability of the borrower. Financial institutions are more likely to lend to individuals or businesses with whom they have an established relationship and can demonstrate a strong banking history.

Moreover, internal and external factors can influence a financial institution's lending capacity, often resulting in tighter credit conditions that favor existing customers. This means that businesses without a preexisting relationship may find it more challenging to secure financing, especially if their credit history is not robust. To achieve business success, it is crucial for business owners to proactively develop and maintain strong, long-term relationships with financial institutions.

The role of character and relationships
Character, in the context of lending, is closely tied to the relationship between the borrower and the lender. Financial institutions prefer to build relationships with small business owners before they need a loan,

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allowing them to feel confident and comfortable before extending capital.

For small business owners, relationships are foundational to achieving success, and collaborative efforts between both parties are more likely to yield creative solutions.

How to build a relationship with a lender

Building a relationship with a lender involves proactive steps and strategic planning. Here are some practical tips:

1. Engage early and often: Even if you don't need a loan immediately, start building a relationship with a financial institution you trust. Approach them with your future business plans and ask what financial information you need to prepare. Many loan officers are willing to sit down and build relationships with potential borrowers.

2. Shop around: Don't limit yourself to one institution. Visit different financial institutions to better understand which credit union or bank will provide the loan rates, structure, and services for you and your business.

3. Maintain your primary business account: Having your primary business account at the financial institution where you seek a loan can be beneficial. Lenders look at how deeply rooted you are within their institution, which can impact their decision.

4. Plan in advance: Avoid jumping into financial commitments too quickly. Plan your financial needs well in advance and ensure you have a solid relationship with your lender before making significant moves.

Common mistakes to avoid

One common mistake start-ups or newly established business owners make is trying to do too much too fast. For example, leasing a space with the intention of quickly buying or upgrading to another building can be risky. Many businesses attempt rapid growth, but lenders prefer to see controlled and stable growth. Expanding too quickly can spread your expertise thin.

The strategic advantage of relationships

Building a strong relationship with a lender is not just about securing a loan; it's about creating a foundation for long-term success. By engaging with financial institutions early, shopping around, maintaining primary accounts, and planning ahead, business owners can position themselves favorably when the need for credit arises. Remember, relationships are key to navigating the financial landscape and achieving your business goals. Cultivating strong lender relationships is essential for securing the financial support necessary for sustained business growth and success.

About Michael Griffiths

Michael Griffiths is the senior vice president of business lending and asset management at Mountain America Credit Union, where he also chairs the loan committee. With over 22 years of experience in the financial lending industry, including 17 years in leadership roles, Griffiths oversees the largest commercial portfolio among U.S. credit unions and leads the top SBA lending team.

Griffiths holds a bachelor's degree in finance from the University of Utah, an MBA, and has completed the graduate school of banking at the Foster School of Business, University of Washington.