

When the bank calls its loan

How to negotiate with your bank when they don't want you anymore

It's something every business owner fears — the phone rings or you get a letter or email from your bank. They don't want you as a customer/borrower anymore. What do you do from that point?

The most important thing is not to panic, says Charles W. Ormsby, Jr., managing member at Semanoff Ormsby Greenberg & Torchia, LLC. The situation is often not as bad or bleak as the bank originally presents it.

"They make it seem awful, but it can actually turn out pretty well when it's all done," Ormsby says.

Smart Business spoke with Ormsby about how to handle this type of problem with your lender.

When might a business owner hear from the bank about a problem?

In many cases, the business owner has defaulted on his or her loan. Perhaps they haven't made a payment or are in violation of financial covenants. But it could also be due to the internal machinations of the bank. Maybe they want to get out of lending to your particular industry. Let's say a bank is skittish about chemical manufacturing. It might call you up and say, 'Look, we have the right to discontinue this relationship and that's what we're doing.'

Other times, a bank may want to clean up its balance sheet. If the bank is trying to sell or merge, it could need to get certain loans off its books. In addition, a loan can be classified as troubled without a business owner's knowledge. If you're getting more attention than normal — more communication and requests for information — that's a red flag they are concerned about something.

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What is the first step after that initial phone call, email or letter?

Take a deep breath, and then immediately contact your attorney and your accountant, who are hopefully experienced in this area. Having advisers who are experienced in dealing with, and standing up to, banks will end up paying big dividends — but only if you follow their advice.

Where do business owners make mistakes when negotiating with the bank about a troubled loan?

Never sign or promise anything without your attorney and accountant being involved. The bank is going to demand things, and in the absence of somebody who is experienced at advising a borrower, the borrower or business owner may feel compelled to comply. They might try to get you to waive rights, contribute cash, provide additional collateral or give personal guarantees.

You need to evaluate where the bank stands, in terms of the collateral they already have, including personal guarantees. Don't just accept what the bank is dictating to you. You may have considerably more leverage than you originally thought. As the saying goes, 'Whoever has the money has the power,' and you, as the borrower, have the

money. Keep in mind banks ultimately don't want your business, they want their money.

For example, I recently had a client whose bank called his loan and told him he had to put \$1 million cash into his business. However, by the end of the negotiations the bank ended up loaning a multiple of that million dollars to my client. One of the things people find remarkable in these situations is how often banks will advance more money to keep you afloat.

One of the great fears for the bank is that you're going to sit at the negotiating table — and I've done this on occasion — and slide the keys across the table and say, 'Why don't you run the business now.' That's the last thing they want. More often than not, their best chance of recovering as much money as possible is for the business owner, who has the relationship with his or her customers, employees and vendors, to stay involved.

Banks very rarely will precipitously shut you down. They will shut you down, however, if they start to feel you're being deceitful. It's not a great strategy to play hide the ball with your bank. You want to be very clear and upfront with them. Banks don't like surprises. If you are forthright with them, and get strong, you'll get a better result. ●