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Being a Smart Lender

OVER THE LAST FEW YEARS, banks have made many changes in their lending practices – and so have smart small and mid-sized businesses. You may not realize that when you extend credit to your customers, you're operating as a lender. What do you need to know about how the landscape of lending has changed to be effective with your customers?

In the banking industry, we've seen a lot of very big companies who didn't seem vulnerable suddenly fall into credit crises that impacted all of the companies who counted them as a customer. You can no longer assume that just because a company is big, or a known brand name, or has been reliable for years that they're going to be immune to credit issues.

How can you become a smart lender to your customers?

Know What You Can Risk: Your bank can be a sounding board for how much credit you give clients and can help you monitor your exposure. A bank can also help you understand which of your receivables are of good quality and help you continue to have high quality receivables.

Use Credit Reporting Tools: There are many resources in the marketplace today that will help you be confident about your lending practices with your client base, including software such as Argos Risk and tools like Dun & Bradstreet. These tools track how businesses are paying their vendors, if they have judgments against them, how much credit others are giving them and other data. Credit-reporting tools also show how your own business is being reported. If you see something unusual, you can quickly correct it.

Understand The Downside: In the last few years, I've seen some companies become so hungry for business that they'll take any business that comes in the door. But the damage from accepting that risk can be greater than not taking that business

at all. When someone is not paying well, it can be very damaging when they want to extend their credit or take more inventory and you get stuck with a bad deal. If you only make 10 percent on your average deal, then for every \$1 you lose on this bad deal, you'll have to make \$10 in new sales to make up for it.

Protect Your Business Without Losing Business: What if one of your long-term customers does show up as a credit risk? This doesn't mean you walk away from them. Now you can employ tactics to protect yourself while doing business with them. You might ask for money up front, use letters of credit or negotiate a way to hold a shipment until money comes in. There are ways of structuring deals and protecting your business.

Go Ahead, Blame Your Bank: Hopefully I have you interested in implementing a system that monitors the credit information of your customers. Let me tell you some other good news that goes along with that: you can always blame your bank. If you have long-term customers and you're reticent to ask for letters of credit or other information, you can always tell them you're eager for their business but your bank has questions.

You can spend a lot of time and money developing strong relationships with your clients, but if for any reason they have a loss or difficulties, you can end up not making money on that relationship. When you have trouble collecting what you're owed or dealing with the performance of a key vendor, that can absorb a lot of time and take away from your ability to find new and profitable relationships. We're always happy to help our client with credit-reporting tools, asking key questions and running credit checks. We want our clients to use great credit practices and be around for a long time.