



## Bank on It: How Economic Uncertainty Is Impacting Banking Relationships with Print Companies

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In watching the rise and fall of the Wall Street financial giants, we've all felt the pinch it has created in our own pockets as business owners. This financial fiasco could also impact the relationship you have with your banking institution in ways you might not anticipate. Like your own printing and graphic communications business, your bank is grappling with economic changes and seeking new ways to regain or maintain stability and ensure survival. Priorities are changing, bank policies are changing – and ultimately, your relationship with your bank may change.

In a recent conference call (\*) with Kurt Knutson, Founder and President of Freedom Bank in Kansas City, and eleven participants from printing companies from across the country, we explored the changing nature of printer-bank relationships. As Mr. Knutson pointed out, historically there has been a very positive connection between banks and the printing and graphic communications industry. In the 1980's, the print industry was solid, flourishing, and

financially attractive. It was easy for a printer to purchase whatever equipment was needed, and banks made repayment terms very palatable to encourage borrowing. Now some 25 years later, the unstable economy has forced banks to reassess their client base and lending practices. Banks (and particularly those in financial distress) need **cash and liquidity**. They are now looking towards present customers and previously untapped sources to find those extra dollars.

One of the printers on the call told the story of his bank suddenly "asking" his company to pay off its two term notes. The printer had an ongoing relationship with the bank, had never been delinquent with payments, and was in compliance with all covenants. Puzzled, the owner called his bank to investigate this unexpected turn of events. He was told that printing is not considered a growth industry -- despite the fact that his particular

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company was sufficiently profitable to recently donate substantially to charitable organizations.

Obviously, the bank was looking for an excuse for converting their loans to cash. Mr. Knutsen observed that some banks need cash and are even adopting bonus programs for loan officers who convert outstanding loans, both good and bad, to cash. Other banks are seeking cash sources by advertising unusually high interest rates on Certificates of Deposit. Either scenario may be a red flag that the bank is in financial distress, and should generate caution to users.

Despite all the “doomsday” reports on the evening news, it should be noted that the percentage of banks in real distress is relatively small. There are both “good” and “bad” banks out there. The financially sound banks far outweigh those in trouble. Indeed, Mr. Knutsen estimates that well over 90% of all U.S. banks are in good shape. In this economy, however, all banks are tightening their standards for extending credit, as evidenced by increasing interest rates and more invasive covenants.

There are several important steps you can take to improve your banking relationships and protect your printing company in this changing economy:

- **Be proactive and frequently interact with your bank.** This includes meeting often with your banker to review your financials, whether they reveal positive or negative results.
- **Review your credit lines with your banker** to both improve your relationship and avoid surprises from changing bank policies.
- **Conserve cash in your business.** Follow the lead of the banking industry and build up your cash reserves to make your company less vulnerable to economic swings. This includes:
  - **Rethinking plans to pay off loans ahead of schedule.**
  - **Working with your vendors** to pay for purchases in a reasonable time frame – but probably a longer time frame than they have accepted in the past.
- **Consider delaying unnecessary equipment purchases.**
- **Keep a tight watch on your receivables** by monitoring your receivables daily; invoicing within 2 days of shipping; and contacting your customers for collection.
- **Stay current in your monitoring of your company’s profit margin** by producing monthly financial statements no later than the 10<sup>th</sup> of the following month.
- **Communicate with your staff, vendors, and customers** your concern about cash so everyone can work together with the one goal in mind.
- **Communicate with your bank about your short and long term goals.** Your bank doesn’t appreciate financial “surprises” any more than you do. Be honest in sharing your information, and flexible in working with your bank on solutions that meet your mutual needs.

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We are undoubtedly in challenging economic times. There may be new and different banking practices out there, but there is no cause for panic. Stay informed, stay flexible, and communicate with your bank. This could prove to be your opportunity to build a better and stronger relationship with your bank for having “walked through the fire” together.

(\*) MargolisBecker sponsors a monthly conference call discussion series for printers on timely topics with host Joe Becker, CPA. Call 888.577.1717 for more information on upcoming “A Cup O’ Joe” sessions.

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