



### EXPERT BANKING ADVICE FOR YOUR SMALL BUSINESS

#### ISSUE NO. 1 OF 11

# How to Pick the Right Bank for Your Small Business

By **Bob DeAlmeida**

*President / CEO, Hamilton Bank*

There was a time when selecting a bank for your small business was as easy as walking down to your local bank on the corner and opening a checking account. Today, with technology and more options for funding, it isn't so cut and dry.

Standard account fees can slowly (and sometimes not so slowly) eat away at the bottom line. Ask for a schedule of fees up front from each bank so you can compare apples to apples. Think about the fees that are most likely to affect your business most often. For example, if you do most of your banking after hours at ATMs, ask about the number of no-fee ATMs in your region.

When selecting a bank for your business, ask about the time-saving technologies they have to offer, like electronic employee payments, business-to-personal account transfer, and remote deposit capture. Remote deposit capture allows you to deposit checks electronically to your business checking account using a desktop scanner connected to your PC and the Internet. Scan the checks and then transmit the data and check images directly to us for deposit. Time is money, and your bank should respect that.

A common mistake is shopping around for the least expensive accounts or the cheapest interest rate, rather than seeking out the best service. I find people will often settle for less, but then a year later when their business expands and they need funding, the bank they chose can't provide what they need. They have to start from scratch with a new bank that doesn't know them and doesn't already understand their business, which can ultimately slowdown the lending process.

Hidden fees can also be an issue for small businesses. For instance, when seeking a bank for a fixed-term loan, the rates may initially

sound competitive but then suddenly there are restrictions and fees (previously undisclosed) once the tedious process is already underway. Ask your banker to review your loan proposal from another bank to be sure you're getting the best deal. A good banker will do that for you and will provide an honest recommendation.

Ask your colleagues where they bank and to share their experiences. Do they have an advocate at their bank? Someone who cares more about the growth of their business than meeting a monthly quota? Do they have someone who knows their history? You want someone who can connect you with the right person when your banking needs become more sophisticated—or complicated.

#### ABOUT BOB DEALMEIDA



Bob DeAlmeida is president and CEO of Hamilton Bank, which operates five Maryland locations and meets the complete banking needs of small businesses, retailers, consumers, and homeowners across Greater Baltimore.

#### MORE INFORMATION

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## Maximize the Structure of Your Accounts

By **Bob DeAlmeida**  
*President / CEO, Hamilton Bank*

Over the past 20 years, I've seen it all. I've seen everything from extremely successful business owners with a single checking account to mom-and-pop storeowners with a separate account for every expense category so that they would never have to reconcile their books (if any books even existed). In either case, these owners were hindered by the structure of their accounts.

I'll admit, sometimes a checking account is all you need, however if you have a good banker, they will get to know your business before he or she makes any recommendations on how to structure your accounts. For example, if you have a large sum of cash sitting in a checking account that isn't part of your regular outgoing expenses, it's time to look into interest-bearing accounts or what we bankers call a "sweep" account. With a sweep account, any amount over the target account balance you choose is swept into a money market fund each night. Your cash remains fully available to you during business hours, and the excess starts working for you right away with minimal effort on your part.

However, managing your excess cash is not the only way to maximize the structure of your accounts. Protecting them against fraud can reduce your overall account liability risk. For instance, are you in an industry subject to a lot of employee turnover? Do you have a large number of payroll checks floating around with your account number on them? If so, you might consider a zero-balance account. This is an account that holds no funds, and is funded by the operating account only when a check is presented. Still, another option is to hire a company to handle the payroll, and then the risk transfers to them altogether. This is accomplished by sending them your bulk payroll electronically from an account that holds only payroll funds, and then they issue the paychecks

to your employees with an account number issued by them. Risk is reduced and the chance for fraud is almost eliminated.

Nevertheless, the most important way to maximize the structure of your accounts is to develop a relationship with your banker. It is important to meet with them not only at the beginning of the relationship but also quarterly or annually as your business grows. This way they will be able to learn about your business, make recommendations and truly be an advisor to your team. Because what may have worked for your business a year ago may not make the most sense today.

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## The Advantages of Business & Personal Banking at the Same Bank

**By Bob DeAlmeida**  
*President / CEO, Hamilton Bank*

We encourage business owners to have both their personal and business accounts at the same bank for several reasons, but most notably convenience. When you're running your own business, time is always limited, so the convenience can really pay off.

Look for a bank that allows you to keep your business and personal accounts separate for tax purposes, yet enables you to link those two accounts electronically for easy online transfers from one account to another. It may surprise you that many banks don't have this ability. Being able to link your accounts in this way makes a lot more sense than writing out a check to yourself from your business account and then having to physically deposit it into your personal account.

In most instances you wouldn't want your employees accessing your personal accounts, so ask your bank if you are able to set security levels for certain individuals. For example, your CFO, office manager or accountant can handle funds within your business accounts but they won't be able to see the personal accounts that you have set as off limits.

Along with the convenience created by having business and personal accounts at the same bank, it can also create leverage when it comes time for a mortgage or a loan. When you need a mortgage, you will have already built a relationship with your bank. You will have your business banker on your side, connecting you with a top mortgage banker available to provide the best service, the best rates, and possibly even discounts on some of the standard fees.

When you're seeking a loan for your business, you again have the benefit of a relationship that

already exists. In both instances, because your banking history is already on file, the process will be streamlined—less paperwork and less time spent. You'll have your own inside advocate working for you, helping the process to go as smoothly as possible.

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### EXPERT BANKING ADVICE FOR YOUR SMALL BUSINESS

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# The Best Ways to Reduce Your Banking Fees

By **Bob DeAlmeida**

*President / CEO, Hamilton Bank*

The first step in reducing your small business banking fees is to know what your fees are. That may mean taking out (or logging onto) your most recent statements from the past six months. Write down each type of fee and the amount. Make two columns next to your list and label them "Avoidable" and "Unavoidable." Put a checkmark in one column or the other for each fee.

Next, take a look at how those "avoidable" fees were incurred? If they were from transactions at an out-of-network ATM, consider a bank with more no-cost ATMs in the areas where your business is located. Or if you visit the bank frequently to make deposits, ask your bank about remote deposit capture, which allows you to scan your checks and deposit them to your account through the Internet, thereby allowing you to avoid ATMs altogether.

However, if your charges were mostly overdraft fees was it a one-time occurrence? If so, talk to your banker about waiving the fee. But, if you find that overdraft fees are common for your business, consider applying for a line of credit that will give you the cash flow you need from month to month. Many of our customers are surprised that a line of credit can actually be less expensive than the overdraft fees they typically incur.

Still, are you racking up fees on accounts you no longer or seldom use? Dormant or inactive accounts can incur fees. Are your accounts linked? With linked accounts you may be able to maintain a higher balance that allows your bank to waive your fees. Both of these fees are avoidable with just a little attention to the account setup.

Now let's look at those fees in the column "unavoidable," and then change the name of the column to "negotiable." As the president of a bank, I can tell you that banks, and even credit unions, do indeed need to charge fees because there are certain costs to providing a service. As interest rates have become so competitive and low, banks are looking for other ways to be able to generate revenue while providing a service. Some banks will charge the going rate, often set by large national banks. As a community bank, Hamilton can take a hard look at the real cost to provide a service and lower our rates accordingly.

To negotiate the fees you are charged, ask your bank and a competing bank for a schedule of fees. Finding these fees listed online can be a challenge, so an in-person request, call or e-mail may be quickest. If you find your bank is charging you a good deal more than a competitor, ask for a reduction. It never hurts to keep the lines of communication open. In fact, it usually helps.

However, if they aren't willing to make a change, then maybe it's time to change your bank.

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# How a Line of Credit Can Help Your Business

By **Bob DeAlmeida**

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When companies fail it is most likely because they don't have ready access to capital. Maybe you start out by pulling money from your personal savings account, or you accept a loan from a family member. But then as time goes by, you start putting expenses on personal credit cards, and that is where self-funding starts to get really risky. At this point, a business line of credit may be the more prudent choice.

For example, with personal credit card debt you're paying an average of 11 to 24 percent with little flexibility in making advances. So, when you have one account receivable that comes in late, thereby delaying your repayment to the credit card, not only does your rate get hiked up, but now you've earned a black mark on your credit that will make a loan in the future more difficult to secure. Compare that to a business line of credit, where you're paying between 5 to 7 percent on the credit you use, and nothing on the credit you don't. In addition, the capability to borrow against it when needed is less costly and fairly simple.

A line of credit works best for business owners when it is used towards growing pains for the business, such as hiring more people and having to meet payroll, increasing inventory to take advantage of a large order discount, or purchasing supplies to take on a new contract. A line of credit can also be used when bidding on a big project, like with government contract work. Typically the vendor will want to see that you are credit worthy and have the resources to ramp up quickly should you win the deal. A line of credit helps you get the deal done.

When applying for the line of credit, your banker will want to know that the investment of funds will come back to you in 12 months or less. (For money needed longer than 12 months, as with

buying major equipment or a building, a term loan is the better option.) Your banker will want to see a business plan as part of your application.

At Hamilton, we can direct you to free resources for developing a business plan if you don't already have one. Then, you will want to meet with your banker so that they can review the line amount for which you're eligible, evaluate the collateral you are offering, and determine the best rate and terms to meet your need. All of this will be structured based on your individual business needs. Most banks will want to see that your business has been in existence for at least two years before you are eligible to apply.

The need for additional capital is the reason you want to begin building a relationship with your bank from the moment you start your business. If you plan for success, you need to plan on securing supplementary funding at some point. Think of having a line of credit as a resource for your business – because although it may not be needed today, it may be in the future.

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## EXPERT BANKING ADVICE FOR YOUR SMALL BUSINESS

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# How to Increase Your Chances of Getting a Small Business Loan

**By Bob DeAlmeida**  
*President / CEO, Hamilton Bank*

In the loan businesses, we look at a number of factors when determining if a business is a good candidate for a loan: character (integrity), capacity (sufficient cash flow), capital (net worth), collateral assets to secure the debt (and conditions overall of the borrower and economy). Call it the five C's if you'd like.

All are important, but at the top of the list is cash flow. Banks want to be sure that you can make the monthly payment. Typically we can loan up to 75% of your monthly accounts receivable. We want to know that even after paying your monthly expenses that you still have money left over. You may hear lenders talk about "debt service coverage" of 1.25%, which put simply means that if you are bringing in \$1.25 you are putting out only \$1.00 to run operations and \$.25 remains in your funds.

The same concept applies to your balance sheet. It isn't unusual for small business owners to pay themselves whatever is left over at the end of the year, but banks want to see that you're leaving capital in the business. Don't start out the year at zero. You need to leave something in the business. Call it your "rainy day fund," if you will.

One of the best ways to increase your chances of getting a loan is to ask for a reasonable amount. Again, that comes back to cash flow and capital as described above. One exception might be if the loan is for an expansion or opportunity that you can prove will increase cash flow and available capital. A bank will want to see any supporting documentation, such as a contract outlining the upcoming opportunity, and most certainly a business plan. We can tell quickly from your business plan and your balance sheet if a loan is affordable or not.

Conditions play a part in the bank's decision-making process as well. Where does your company fit into the economy overall and within your particular industry? Are there ups and downs in revenue that occur seasonally or cyclically? How are you prepared to deal with those shifts? Other aspects to consider are the demand for your service or product, and the competition.

At Hamilton, we also look closely at character. Your credit history (both business and personal) is part of that. Are you trustworthy? Do you have integrity? We also want to see your office, meet your employees, and understand your plan for the future. We want to get to know you and your business. We also consider how you present your loan package: Is it complete? Organized? Returned on time? Are you responsive to our inquiries?

In today's challenging economic climate, banks have increased their requirements for collateral. They will need to cover the loan amount with adequate collateral. This can take on many forms from accounts receivable to your personal residence. The bank will start with your business but may have to rely on personal assets to shore up the request.

That's why it's best to keep personal debt down to a minimum so that collateral will be available when needed. A good banker will help you maintain a balance of collateral that is acceptable for all parties involved.

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## EXPERT BANKING ADVICE FOR YOUR SMALL BUSINESS

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# When Money Keeps You Up at Night, Call Your Banker to Put Your Mind at Ease

**By Bob DeAlmeida**  
*President / CEO, Hamilton Bank*

Many businesses are cyclical and experience peaks and valleys with cash flow throughout the year. Maybe your business slows in the winter months and expenses are tough to meet, or maybe it speeds up when your clients' fiscal year begins so you're suddenly short on employees or inventory. Whether it's a challenge or an opportunity, small businesses generally need to secure funding before the gap becomes a problem.

We often see businesses owners wait too long to determine if business will improve or to see if they can squeeze the budget to allow for more spending. Waiting usually only causes bigger problems down the road. We always suggest keeping an open line of communication with your banker to avoid the big problems. Do this by touching base with your banker quarterly, or at minimum annually. This way, your banker will become very familiar with your business' unique situation, which can greatly increase the likelihood of the bank being able to connect you with the cash you need. Your banker can also put you in touch with business professionals / consultants to help you through special business challenges related to your specific situation.

#### **Cyclical Business, Example**

John's landscaping business slows down each year as the weather cools, and every year he tightens his belt, charges more to the credit cards, and digs deeper into the financial hole. Tired of the stress and strain, John came to Hamilton Bank for a business-banking line of credit. Along with the right loan, John was connected with a strategic planner and an accountant who helped him maintain consistent cash flow throughout the year.

Remember to have your banker and your accountant work together to benefit your business. By working together, your accountant

and banker can advise you on making the best strategic financial decisions as well as developing strategies to propel your business forward. Specifically, your banker can provide a line of credit, facilitate a small business administration loan, or provide merchant services for accepting credit cards. Your banker can also make a recommendation for a payroll company, technology adviser, sales coach, or other trusted vendors / advisors.

Don't wait until your company's profit and loss statement has tipped beyond repair. Reach out to your banker when all the options are still on the table. Whether it is opportunity knocking, or the hard-knocks have hit, your small business banker can help.

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### EXPERT BANKING ADVICE FOR YOUR SMALL BUSINESS

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# How Online Banking Can Save You Hours Every Week

By **Bob DeAlmeida**

*President / CEO, Hamilton Bank*

It's simple. The more banking you do online, the more time you save. That's time to spend growing your business, serving your customers or making it home in time for dinner with your family.

Worried about security? Over the years, the banking industry has spent billions of dollars to create multiple layers of security within online banking. These days, online banking is even more secure than traditional banking. Be sure to keep your accounts safe by keeping IDs and passwords private and changing passwords regularly.

Start small. Sign up when you open your accounts to access your accounts online. Day-to-day you can easily check your balance and make transfers between accounts. You can see checks as they are deposited and funds as they are withdrawn, in real time. There's no longer a need to manually reconcile accounts. Instead, you can access several months to several years of transactions wherever you are. You can even link your accounts to accounting software, like QuickBooks.

As you get more comfortable with online banking, begin to pay your regular monthly bills online. It takes just minutes, with no writing checks, buying stamps or trips to the post office. At Hamilton our business customers can even designate certain individuals to administer particular aspects of their online accounts. For example, you can allow your bookkeeper to pay the bills from an online checking account, but she wouldn't be able to access the business savings account.

What may be the biggest time saver of all is Remote Deposit Capture (RDC). RDC lets you deposit checks into your business checking account while sitting at your computer. Imagine

the time you'll save by not having to physically go to the bank, wait in line, and wait for the checks to be processed. If you're a customer at Hamilton Bank that isn't using RDC, contact any one of our locations to see how easy it is.

Online banking will change the way you bank, in a very good way. All your transactions are available to you and your designated staff, 24/7. You're no longer constrained by bankers' hours, which are typically the most important hours for your business. As a business owner, you have full control and absolute convenience. Don't give those precious hours away.

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### EXPERT BANKING ADVICE FOR YOUR SMALL BUSINESS

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# It's Never Too Soon for a Succession Plan

By **Bob DeAlmeida**

President / CEO, Hamilton Bank

Whether business owners are just getting started or are heading closer to retirement, many haven't given much thought to a succession plan. Maybe it's because they're too busy growing their business to plan for the future and they think the sale of their business will come easy. Or, perhaps they just don't like to think about retiring. Most often though, the business owner believes a family member or trusted employee will want to take over the running of the business in the event of illness, disability or death.

Often times, the first thought or discussion of a succession plan will come up when applying for a business loan. Here's why:

- *Businesses in the United States are typically in the service industry, and therefore, the business owner IS the business. It is only natural that a succession plan would be desired so that your business may continue to function in any situation.*
- *When a bank provides your business with a substantial loan, it needs assurance that it will be repaid under any possible circumstance.*

If there is no clear succession plan in place, a bank's underwriters will typically require the business owner to acquire life insurance in the amount of the loan where the bank receives assignment of the proceeds should the business owner pass.

Ask your banker to offer recommendations for lawyers, accountants and business planners who specialize in succession planning. They can be sure you, your loved ones and your employees are covered legally and financially.

Your banker can help in other ways, too. Talk to your banker to see if you are doing everything possible to get your accounts in order. Are

there accounts that can be consolidated or accounts that should be separate but aren't? Are there banking services that can help keep your accounting in order (like online banking, remote deposit capture, payroll services and merchant services)? How can you structure your loans or speed their payoff to appeal to potential buyers? Can you add an heir, spouse or business partner to your accounts to smooth a potential transition?

There's a lot to consider, and it can be overwhelming. Take it one step at a time, and begin by talking to your banker today.

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### EXPERT BANKING ADVICE FOR YOUR SMALL BUSINESS

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# How to Position Your Small Business for Acquisition

By **Bob DeAlmeida**  
*President / CEO, Hamilton Bank*

There probably isn't a business owner alive who hasn't dreamed of the day that his or her business is purchased for a handsome sum, providing the financial freedom to fund retirement, pursue a passion, or even start another business.

#### **A Solid Balance Sheet**

From a banking perspective, positioning your business for an acquisition starts with a solid balance sheet and the records to back it up. This is just one reason we encourage our business customers to use online banking, which helps keep transactions recorded automatically, centrally, and in an easy-to-access manner. By clicking just a few screens on your computer, online banking gives you quick access to electronic data that helps back up your balance sheet.

#### **Consistency in Asset Management and Growth**

A potential buyer wants to see solid management of major assets. A buyer will also be looking for consistency from month to month, and growth year over year. The buyer needs to be able to see clearly that the business has value. So, if you're taking key cash accounts down to zero balance at the end of each year (like many businesses do), tread cautiously. It's not always a good idea to start the year at zero if you're positioning for acquisition. Potential buyers and their lenders want to see a consistently managed surplus.

#### **A Good, Hard Look at Internal Trends**

Grab your accounting records for the past year and take an objective look at what you see. Are there seasonal gaps in income? Are there monthly gaps in your ability to cover payroll? Have there been opportunities for growth that you had to turn down because you didn't have the capital for equipment or employees? All of

these are challenges you can discuss with your banker, who may have lending options for you to consider.

#### **Know Your Industry**

There's a courtship that happens with an acquisition, and it can begin years beforehand. Know your industry, attend its events and read related news and articles. Then get to know your competitors. You do have a lot in common, after all. Let them get to know your business, while you get to know theirs. Look for opportunities to partner... to test the waters, so to speak. This is especially important if you see your employees joining their team if an acquisition occurs.

#### **Document, Document, Document**

Finally, if you don't have a documented process for what you do, create one. If you don't have a multiyear business plan, write one, even if you are planning to sell. Then take the time to pull together any other paperwork a potential buyer would need to see, such as nondisclosure agreements, investment documents, intellectual property filings, a list of assets and liabilities, and anything else related to the value of the business. Your banker can help you determine which documents you will need and may be able to offer insights into making your business look the best it can to a buyer.

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ISSUE NO. 11 OF 11

# How to Make a Smart Business Acquisition

By **Bob DeAlmeida**  
*President / CEO, Hamilton Bank*

In last month's "Bank On It" I shared some useful tips on how to position your business for acquisition. This month, I'm addressing the flip side: how to make a smart business acquisition.

#### Know Your Banker

The acquisition of another company can be a quick path to growth. But it can also be a slippery slope. As you prepare for acquisition make sure you have a solid relationship in place with your banker. Why? Because there's a good chance you will need additional capital, like a bank loan, to make the purchase. Knowing your banker ahead of time will help expedite the process of securing funding.

#### Get a Value on the Seller

You'll need an independent source to value the company you want to buy. That way, you and your lender will be sure you aren't overpaying for a company. Most banks will require a valuation anyway so it's best to engage a valuation company during the due diligence period of the purchase process. Valuation companies will have the models in place to accurately value the potential business and can efficiently and affordably offer you a more detailed second opinion on the value of the investment you are looking to make. It is also important to note that an outside company is required to value the business, not your current CPA.

#### Look for an Honest, Forthcoming Seller

A sincere seller will be willing to put together a complete financial history packet that includes at least three years of business tax returns or financial statements, including what the owner is paying him or herself. You will want to see three years or more of these documents to identify trends in the business. For example, maybe last year was especially profitable but the prior two years were not. Or maybe last year

had larger net income than normal because they began to sell off major items, such as equipment or real estate.

Your banker will also want to see the seller's intellectual property filings, nondisclosure agreements, a list of liabilities and assets, and any other documents that would help to create a full financial picture. Your banker can help you identify red flags as they review and analyze the seller's records.

#### Develop a Business Acquisition Plan

A banker will also want documentation from you. For example, the contract for purchase along with a business plan that includes the incorporation of the new business. You may be focused on the fact that your business is doubling in size, but your bank is focused on the size of your new debt and the overall profit you will gain from purchasing this other business. The plan will most likely encompass at least three years and need to cover any other enhancements or efficiencies you foresee in the near future.

#### Make Time for a Thorough Examination

Allow yourself a due diligence period of at least 45 days to six months to have the seller's documents and your documents reviewed by your bank, your lawyer and your accountant. If this core group of advisors is comprised of true professionals who are experts in their fields, the investigations they perform will help ensure a successful acquisition. Remember, at the first thought of buying another company, talk to your banker. Your bank can help ease the process and offer you additional protection through the advice they can provide. For you, this may be a once in a lifetime opportunity, but for a bank this is what they help businesses do every day.

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