



HOW TO ESTABLISH  
**AN EXCELLENT**  
**BANK RATING**  
**FOR A BUSINESS**



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# How to establish an excellent bank rating for a business



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### Introduction

Financing is a critical part of growing and running a business. It is often a concern for business owners. Often, owners will first finance their business with personal financial resources, but that should change over time. Whether business needs are large or small, bank credit allows access to cash when a business needs it. A business can use bank credit for a variety of business purposes. These include short-term credit needs, purchasing inventory, etc.

As a businessperson, you never know when you will need to turn to a bank for funding for your company. It is always worthwhile it to develop a good relationship with your bank and establish an excellent bank rating. This is so even if you have no plan to apply for bank credit or for any funding. It will also ensure that your bank understands your business and what you are looking to achieve. When approaching banks for credit, your company's bank rating, and the bank's understanding of your business are key to getting business funding.

Establishing an excellent bank rating for your business boils down to creating and presenting evidence of the ability of your company to pay current and future obligations. It also means building a history of timely payments, to establish the company's intention to pay its future obligations.

### Bank Credit

Bank credit is the total amount of borrowing capacity a business can get from the banking system. It is not the same as business credit. Business credit covers a much broader category of lenders. These include suppliers, credit card issuers, or leasing companies. Every bank offers various types of financial business products, each serving a specific business need. But one thing remains the same in all offers: bank credit.



Bank credit is a vital source of finance available to a business. An excellent bank rating is the key to getting access to bank loans for businesses. Bank ratings also determine the amount of bank credit available to a business as based on creditworthiness. A strong bank



rating is necessary to ensure more bank credit for better funding.

### Bank Ratings

A bank rating of a business is a formal evaluation. It covers a company's ability to pay and its history of repaying its business debts. This evaluation measures a company's intention to pay its future business obligations. It is often an alphanumeric key showing the associated credit risk e.g. Low-5. It shows the creditworthiness of a business.



The progressive increase in business diversity and complexity has made internal bank ratings an essential element of credit risk management at banks. Banks face pressures to change traditional methods of controlling and managing credit risk. In response, they now have more structured and formal systems for approving bank credit. Internal bank ratings are crucial parts of all such systems, vital data for any quantitative assessment model of credit risk.

Banks design rating systems to manage credit risk associated with businesses. They do so in a clear, systematic, and consistent way, combining facts with professional judgment.

Like a public credit rating assigned to a business by agencies such as Moody's or Standard & Poor's, the bank rating summarizes risk of loss due to a given company's default. Unlike public credit rating systems, banks assign ratings which are usually not revealed to outsiders.

For banks, assigning bank ratings to companies is an essential part of the process of approving bank credit. They use bank ratings and credit references to make prudent lending decisions. In determining whether to lend, bank rating is one of the determining factors to approve bank credit and its amount.

Understanding the bank rating system will help you manage your business and banking transactions to increase business creditworthiness.



## Techniques of Risk Assessment

At a broader level, banks use two different risk assessment techniques:

- Application Scoring, and
- Behavioral Scoring

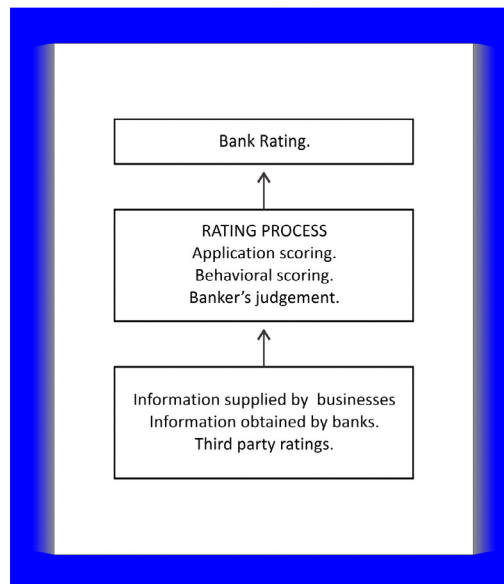
## Application Scoring

Banks use application scoring to make informed decisions on lending to businesses and the opening of new business bank accounts. Application scoring takes into account information banks may hold about a business. It also considers information a business supplies. It also considers information from credit reference agencies or fraud prevention agencies, etc.

## Behavior Scoring

Banks use a second technique, behavioral scoring, to rate a business on how it operates its financial affairs. The rating is based on the patterns of activity banks observe in an existing business bank account.

Bank Rating System





Banks use behavioral scoring for existing customers with a history of banking. Customers or businesses must have been with a bank for a period of time to generate a history of mutual transactions and other data. This information, historical transactions and other data, is used to rate the business. Thus, ongoing management of a business bank account is vital for establishing creditworthiness and an excellent bank rating. The management of a business bank account draws a picture of how a business manages its money. The underlying principle is that previous performance trends of a business bank account may reflect future patterns, particularly with business credit facilities.

Statistically, banks find behavioral scoring more consistent for rating and identifying acceptable credit risks. They score businesses on a practical, workable risk scale.

Banks use behavioral scoring with application scoring to better understand business creditworthiness. A combination of behavioral and application scoring techniques is at the base of any bank rating system.

Bank ratings are internal measures and are not comparable between banks. Banks have different lending policies and rating systems. As a result, a business may get different ratings from different banks.

Banks design credit rating systems to be fair and impartial. The rating systems do not single out a specific piece of information as the reason to decline an application. Rather, they use objective criteria to make a decision. Banks test credit rating methods often, to make sure they continue to be fair and unbiased.

## Factors Influencing Bank Ratings

Banks consider nine factors while assigning bank ratings. A business can influence some of the factors, but not all of them. The factors considered in bank rating process are:

1. Financial analysis of businesses
2. Industry analysis
3. Quality of financial data
4. External credit ratings e.g. ratings by credit reporting agencies



## How to establish an excellent bank rating for a business

5. Analytical tools and models
6. Size and value of businesses
7. Management of businesses
8. Terms of credit facility, and
9. Other considerations



A business can exercise reasonable control over some variables and thereby affect bank ratings. For example, it has reasonable control over the quality and consistency of financial information it supplies to banks and other credit reporting agencies.

Banks consider financial analysis in assigning a bank rating to a business. This evaluates business financial viability, stability, and profitability with a view to determine creditworthiness. In contrast, a business owner uses financial analysis to manage and maintain a set of key financial ratios showing the company's ability to service current and future debts.

Banks consider industry analysis to provide a context when assigning a bank rating to a business. These are benchmarks to judge financial performance of a business. Industry standards even provide an opportunity to set target values for key financial ratios and indicators to achieve better bank ratings.

### **A Strategy to Get an Excellent Bank Rating**

A conceptual and strategic framework can help you stay on track. Use two questions and answers to guide you through establishing an excellent bank rating for your business. These questions are always in a banker's mind while assessing business creditworthiness.

- Can your business pay?
- Will your business pay?

As you work to establish a stellar bank rating, respond to the questions with a set of actions which:

- Create evidence of your company's ability to pay



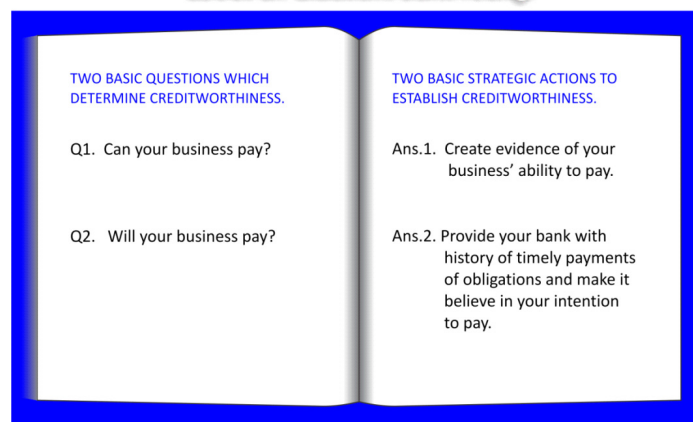
## How to establish an excellent bank rating for a business



- Give your bank a history of timely payments of obligations. You want your bank to believe in your intention to pay current and future obligations.

Bank ratings come from a company's current condition and its historical trends. Thus, events can affect bank ratings. This includes at a point such as issuing an NSF check. It also includes the cycle financial performance, like a pattern of cash deposits. Focus on cyclic financial patterns. These include average collection period, average payment period, and operational cycles. Make sure to focus on how much they resemble your industry's standard cyclic trends.

A strategic frame work to go  
about an excellent bank rating.



## Bank Ratings at Different Banks

Banks often have internally consistent lending policies, but different banks have their own lending policies and bank rating systems. As a result, applications for bank credit may get different assessments from various banks. Thus, choosing a bank for your business matters. A business could get a loan from one bank and a rejection from another, with the exact same financial history.

## Rating by Banks and Credit Reporting Agencies

Credit ratings by CRAs are a source of information for banking ratings by banks. There are three major companies that collect business information and publish it. These are: Dun & Bradstreet, Experian, and



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Business Equifax, Dun & Bradstreet, or D&B, is by far the largest, but the other two are catching up fast. Some banks even map the architecture of CRA's risk rating models to design their bank rating models.



Still, ratings by credit reporting agencies substantially differ from those assigned by banks, as CRAs are not a party to transactions between companies and banks. Many varied parties use ratings by credit reporting agencies for many different purposes. CRAs strive to be deliberate and accurate to ensure a wider use of their credit ratings product. CRA rating processes are relatively open. Their openness and clarity help investors use their credit ratings product.

In contrast, banks keep bank ratings private. The costs and benefits of bank rating systems are internal matters. Pressures for accuracy, consistency, and fine distinctions of risk are more a function of how banks will use ratings. Banks tailor rating systems to fit their requirements per specialized lines of business. Hence, your choice of bank has strategic importance. Better mutual understanding and better financial relationship will lead to better bank ratings.

Credit reporting agencies and banks consider similar risk factors. They both rely on judgmental and statistical models to design rating systems. CRAs publish descriptions of rating criteria with much more detail than internal guidance for banks. Another difference is the CRAs do not have a working unit comparable to a bank's loan review unit.

CRAs' ratings of your business are likely sources of information for your bank. Both banks and CRAs assign ratings based on criteria predicting business creditworthiness. Hence establishing and maintaining CRA credit ratings of your business is one way to generate an excellent bank rating.

## Structure Your Business as an Entity Separate From You, the Owner

Separate business structuring protects your personal finance. To establish an outstanding bank rating for your business (not for you), set up a separate business entity under the law.



With proper structuring, a business is a legal person with its own legal and financial identity. For example, a limited liability company reduces its owners' legal and financial liability. This way, you can also make your business financially separate from you. Structured the right way, it protects you from the financial risks of doing business. The business will also have its own financing power. This frees you from personal responsibility for business debts and other financial obligations.

Since your business is a legal entity, it can have its own tax identification number. It can also establish its business credit and bank rating for bank credit. Having its own credit rating is a major benefit for your business. It can thereby grow fast with its own financial capacity apart from your personal financial capacity. You can have a credit profile, business loans, and lines of credit for your business. And you can have another credit profile, business loans, and lines of credit for you as an individual.

If your business is not a separate legal entity, you run the risk of losing financial protection. Besides, you may mix up personal and business finances. A business failure could put financial burdens on your personal financial resources.

### Obtaining Bank Credit

Unlike personal credit, getting bank credit for business is a more complicated process. Your business, not you, must have established creditworthiness to get an excellent bank rating for your business. Such creditworthiness is critical to get bank credit for your business without your personal guarantee.



Business size and value are among the factors banks consider while assigning a bank rating. See factor #6 under the heading “Factors Influencing Bank Ratings” on page 9.

### First Step Toward an Excellent Bank Rating

Your first step to an excellent bank rating is opening your business bank account. A bank rating is of your business, not of you, the business



## How to establish an excellent bank rating for a business

owner. It is the single most important and powerful tool to establish an excellent business bank rating. Since your business is a separate legal entity, establish its separate financial identity by taking this step.

Opening a separate business bank account creates a unique financial identity for your business. It is also a tool to record your company's ability to pay and its history of timely payments.

A separate business bank account helps create a positive, strong, and impressive financial picture of your business. Your bank can see this right away, from the patterns of business transactions in the business bank account.

A separate business bank account is also critical to running a successful business. It helps maintain accurate business records and prepare reports. You can make deposits, withdrawals, wire transfers, issue checks, and do even more for your business. This business record becomes high quality financial data for credit rating and bank rating purposes.

The bank's most reliable information on your business comes from your business bank account. Businesses are financially and operationally cyclic. Your bank will extract your average collection period, average payment period, and cash to cash cycle. This comes from the history of transactions in your business bank account and financial statements. By perusing a pattern of transactions in your business bank account for a few years, a bank will have a good idea of your profit and profit projections. Business bank account transactions create a financial record of your business. They open a window into the operations of your business. By managing your business bank account with care, you can present your business in its best light to your bank.

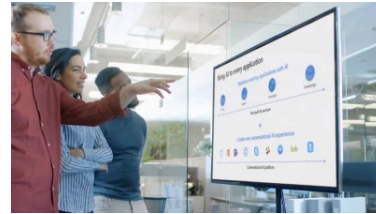


Your goal is to create a consistent financial picture of company creditworthiness. Based on many variables, this statistical picture becomes an alphanumeric rating. You can exercise a reasonable control over the record of data in your business bank account. Such control makes it an indispensable tool when establishing bank ratings.



## Bank Selection

Businesses are becoming more diversified and complex. Banks with a specialized line of business often better comprehend your business operations. They will also know the industry forming the context of your business, and its bank credit needs.



You may decide to open a business bank account at a national, regional, or local bank, a credit union, or a community bank. No matter what, choose a bank that can best cater to the needs of your business.

Banks have different lending policies affecting their internal rating systems and business rating. A bank doing business in your industry may assign a better rating to your business. Yet another may not. This is due to a difference in rating systems resulting from lending policies.

Choose a bank doing specialized banking in your company's industry. Such a bank already knows how to judge your ability to pay current and future obligations. It best interprets your history of timely payments of obligations.

Often, working with a bank that already knows your business makes it easier to get better ratings. It is much easier for a bank to assign a financial risk rating to your business when it understands and specializes in providing bank credit to businesses in your industry.

A specialized bank can expect the financial behavior of your business bank account even before account opening. Such a bank understands your business's collection cycle, payment cycle, cash to cash cycle, and operational cycle. Interpreting collection and payment cycles through transaction patterns in your business bank account is easier for the bank operating in the industry.

By choosing the right bank for your business, you can make the rating process easier. You will get better results in the bank rating process. This comes from a more specialized use of application scoring, behavioral scoring, and professional judgment.



### Bank Ratings Based on Average Daily Balance

Average daily balance is a vital criterion when assigning bank ratings to a business. Some ratings have a basis in average daily balance in a bank account. For example, an average daily balance of \$1,000 over a period of three months gets a Low-4 rating from banks.

Your business can get bank credit fast. You need at least one bank reference and an average daily account balance of at least \$10,000 for three months. Maintaining such an average balance results in a bank rating of Low-5. Your business can leverage bank credit even if it has a lower rating, e.g. a High-4. But the approval process will be slow, due to the lower bank rating. At a bank rating below Low-5, most banks assume your business has little ability to repay on a loan or a line of credit.

Hence, do whatever you can to keep at least \$10,000 in your business account over a 90 day period. The sole purpose of keeping \$ 10,000 in business bank account is to keep your bank rating high enough for future financing approvals.

Bank Rating	Average Daily Balance (Past three months)
Low-4	\$1,000 – \$3,999
Mid-4	\$4,000 – \$6,999
High-4	\$7,000 – \$9,999
Low-5	\$10,000 – \$39,999
Mid-5	\$40,000 – \$69,999
High-5	\$70,000 – \$99,999
Low-6	\$100,000 – \$399,999

The Average Daily Balance of business bank account come from from the average in a 90-day cycle.

## How to establish an excellent bank rating for a business



The first essential step to maintaining an average daily balance is access to your business bank account information. Do this in the easiest way for you, which means virtual banking. You can better manage an average daily balance if you know how much is in your business bank account.

Get business sales direct-deposited into your business bank account. It harms your finances to not deposit checks. They could be earning interest and helping build a better bank rating for your business.

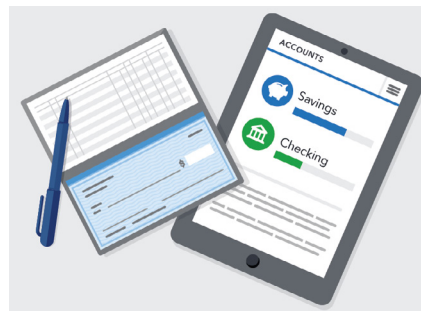
Do not withdraw money from your business bank account until it is absolutely needed. Be sure to make payments with checks.

Use automatic money transfers between accounts. If you pay for business expenses on the second of every month, transfer the amounts on the first of every month. Until then, let the money earn interest and a better bank rating.

Use budgets and set aside some extra money if you spot problems in collection and payment amounts. Pay attention to the timing of payment and collection.

## Bank Account Presentation

Your business is a separate legal entity with its own unique name and address. Always report your company's identifiers the same way. These are the company name, physical addresses, phone numbers, and other identifiers. Never weaken your company's financial personality by reporting in different ways. Be consistent. In turn, this consistency makes identifying your business faster and easier for banks. In any statistical and automated process for bank rating, a unique name ensures correct electronic identification of your business.



Consistency makes it easier for the bank to identify your company's unique history of timely payments. The information is correct, irrespective of the sources of data describing the history.



### Do not use P.O. Box addresses.

Every credit agency and trade credit vendor, every recordkeeper must list the business name and address the same way. This means financial records, income taxes, web and email addresses, and directory assistance. This is a source of data for bank rating from third parties. If you report your business differently, vital information might not be associated with your business during the bank rating process.

No officer at bank is going to stop to consider all the ways your business might have a listing. Banks appreciate consistency in presentation and statistical trends when checking creditworthiness. Do not make it harder for them to find information. If they cannot easily find what they need, they will exclude the information, or decline the application.

During electronic information processing, some vital data on business transactions may not be under consideration for the bank rating if business details are inconsistent. A single set of identifying information is critical for any credit rating and bank rating.

### Business Bank Account Management

Most banks want companies to have an open business bank account to qualify for bank credit. They use status and history of a business bank account while rating a business. For a good rating, a business account must be in good standing.

Banks negatively rate overdrawn and poorly-managed business accounts. This is because they give weight to average daily balance when it comes to rating a business. An adequate average daily balance is a sign of the company's financial health and loan repayment capacity. For bank ratings, average daily balance helps banks decide if the business keeps enough cash to pay obligations over a certain period. If an account shows a positive monthly cash flow, a bank is more likely to assume the business is profitable.



Active management of your business bank account helps you build





an excellent bank rating by showing your company's ability to pay its debts. Your history of transactions can help banks believe in your future intention and ability to pay.

This means actively transacting business through the account, in a pattern which creates a sense of stability, consistency, and predictability.

Make sure your business turnover through your business bank account is as regular as your business will allow.

Irregular payment credits into your business bank account will harm your bank rating. Periods with no credits at all are a damaging to any bank rating. Banks will only see what you pay in, and generally will assign the bank rating from that.

### **Avoid Issuing NSF Checks and Payment Instructions**

You cannot issue insufficient fund (NSF) checks and stay on track to establishing an excellent bank rating. A bank interprets an NSF check as an inability to pay. You may have funds in other bank accounts. But an NSF check means you failed to pay despite issuing a check to someone, for reasons best known to you.

Not issuing NSF checks can help you establish an excellent bank rating for your business. An NSF check proves your company's inability to pay its obligations. It adds a negative point in an otherwise smooth history of transactions that make banks believe in your intention to pay.

Insufficient funds checks are something no business can afford to let happen. Every business needs to show an ability to pay and a history of timely payments. Avoid writing nonsufficient funds (NSF) checks at all costs, as they counter both.

Issuing checks or other payment instructions with insufficient funds harms your bank rating. At some point, it will also affect your company's ability to borrow.

Manage payments from your business bank account in an active and responsible way. Paying fairly, sensibly, and on time is good for your



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business and its creditworthiness.

Underpay, and your vendors will seek other customers. Overpay, and your profitability will suffer. Overpayments will drop the fund level in your business. They also undermine bank ratings and creditworthiness.

A tool to manage your business bank account is budgeting. Draw up a budget to be able to spot problems like insufficient funds before they happen. Know how much cash you need to support your business bank account and the timing of the amount needed. Then you will be in a good position to face the problem. Two direct solutions to this problem are getting cash from alternative sources and changing the timing of payments. Both keep the pattern of cash flowing through your business bank account.

Another technique to avoid NSF checks is using bank overdraft. Add overdraft protection to your bank account as soon as possible.

But depending on overdraft may lead to other issues, which banks rate negatively. Going overdrawn without a limit or over your agreed limit harms your company's bank rating.

### **Avoid Dependence on Overdraft Facility**

Securing overdraft facility from a bank does not guarantee you can meet your monetary obligations properly and on a daily basis. You still need careful planning and management of cash inflow and outflow. It is possible to run out of cash while reliant on an overdraft facility. If your business always depends on overdraft facility for its funding needs, then you are using overdraft facility as a loan.

Such dependence will never help you establish an excellent bank rating for your business. Depending on overdraft facility shows your business is unable to pay its obligations. It also marks a negative period of financial dependence. This will stand out in an otherwise smooth history of transactions.

For good bank ratings for your business, always keep the balance of your business bank account in credit. Your business must develop a history of successful repayment of what it borrows. Otherwise, relying on





overdraft will prove devastating when establishing your bank rating.

One possible solution is replacing a bank overdraft with a bank loan. It works well for your business and its bank rating because a bank loan is a fixed amount. Furthermore, it is for a fixed term with regular fixed repayments. Generally, interest on bank loans is lower than the interest on overdrafts.

The tool to spot and solve the problem of reliance on overdraft is a budget. Draw up a budget to point out where the problem is and then fix the diagnosed problem. One possible problem may be mismatching collection and payment cycles in your business. One solution includes introducing funds from alternative sources. This can help fill any time gaps created by a mismatched collection and payment cycle.

### Maintain a Positive Cash Flow

Cash flowing through your business bank account is at the base of its bank rating. It is critical to show a positive cash flow. Positive free cash flow is the amount of revenue leftover after paying all business expenses. An account with a positive cash flow proves the business generates more revenues than needed to run the business.

Keeping a positive cash flow in your business bank account helps you establish an exemplary bank rating. Cash is the most liquid asset. It is the strongest tool to help your bank believe in your future intention and ability to pay. It marks a positive period of financial strength in your history of transactions.

Constant overdrafts hurt your bank rating. In fact, they may show you do not manage business cash flow well. Consistent deposits counteract this. Banks have a motivation to lend to a business with consistent deposits.

For banks, cash flowing through your business bank account shows how your business manages:

- inventory
- receivables
- payables



## How to establish an excellent bank rating for a business

Patterned conversion is the basis of rating a business. It predicts the future financial behavior of your business bank account. It shows how fast a business converts inventory into sales, sales into cash, and cash into deposits. Banks want this to be as fast as possible.

In behavioral scoring, negative pattern behaviors may show you do not manage cash flow well. This includes running a continual overdraft. Banks may interpret it as a need for loan to clear the underlying borrowing.

### make Regular and Consistent Deposits

You must make regular deposits to maintain a positive bank rating. While rating a business, banks prefer consistent deposits into the business bank account. This also shows a sense of financial strength and stability of your business.



Regular deposits in a consistent pattern help you establish an excellent bank rating for your business. They prove your company's ability to pay its obligations. They also provide positive points in your history of transactions. This helps banks believe in your intent to maintain the power to pay. Such periodic patterns of cash deposits lead to better creditworthiness and bank ratings.

It is vital to make a lot of consistent deposits, more than the number of withdrawals.

Bank deposits must be in a pattern matching the pattern of the cash collection cycle. This ensures continuity of deposits. It creates a financial picture of the business collection cycle.

The pattern of deposits becomes predictive in nature after several cycles of collection. When analyzed, this deposit pattern adds the sense of stability in a rating system used by your bank. Then this deposit pattern, based on the company's natural collection cycle, improves a bank rating.

Improving your cash to cash cycle can help raise bank ratings. The cash to cash cycle is the time cash is out of reach for use by your business. The shorter the cash to cash cycle, the fewer days your cash is not



in your business bank account and unavailable for use in business. Business cash is out of reach when uncollected from customers, or in the form of unsold inventory.

### **Avoid Frequent and Unnecessarily Small Withdrawals**

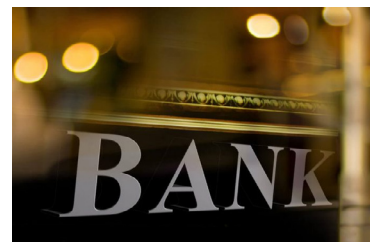
Financial data quality from all sources is a factor considered by any bank rating system. Avoid withdrawals harming the quality of financial data from your business bank account. Use checks for major business payments. These include payroll, payment to vendors, and other expenses. Avoid frequent smaller withdrawals from your business bank account.

Based on a monthly minor expenses estimate, withdraw cash in a pattern consistent with monthly business expenses. The pattern of withdrawals or payments should mirror your company's payment cycle.

Frequent and small withdrawals will not help to establish an excellent bank rating. They may lead to degraded transactional data in an automated rating system. Poor quality financial data may disturb an otherwise attractive history of transactions.

### **Avoid a Fluctuating Balance in Your Business Bank Account**

Random balance fluctuations in your business bank account are an issue. This is particularly so when such fluctuations are between negative and positive extremes. For a better bank rating, balance fluctuations in your business bank account must correspond with industry standards.



Standard deviation is a statistical measure of risk and variability. Transactional data with a higher standard deviation confuses a bank. It affects a bank judging your company's ability to pay its obligations. It also worsens the history of transactions, leading to difficulties in behavioral scoring.



## How to establish an excellent bank rating for a business

The only variance in the balances of your business bank account should be typical from patterns of doing business. Otherwise, maintain consistency in amount, frequency, and pattern of deposits. Huge withdrawals can distort the otherwise attractive picture of your business bank account. Look at the five day balance of two accounts, A and B. Both accounts have an average balance of \$ 500. Yet, the pattern of deposit in account A is more consistent and more predictive for rating purposes.

Day	Account A Balance	Account B Balance
1	\$500	\$100
2	\$450	\$1000
3	\$500	\$100
4	\$550	\$1000
5	\$500	\$300
Total	\$2500	\$2500
Average	\$500	\$500
Standard Deviation	35.36	463.68

Out of pattern fluctuating balances in your account harm bank ratings. Fluctuations must represent industry standards. If they do not, then any statistical method will report the balances for account B riskier. It will report the set of balances for account A as less risky.

### Keep Old Business Bank Accounts Open

Pick a bank and stay there. Loyalty and longevity count in the credit markets. Besides, you cannot create the age and history of transactions in a business bank account in a day.

Closing an old business bank account with no cogent reason does not help you build an excellent bank rating. It closes a history showing your company's ability to pay its obligations. It also shortens your history of transactions. This in turn makes banks stop believing in your intention to pay. Rebuilding the history of your ability and intention to

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pay will always take time.

Bank credit is not only based on monthly deposits, balance rating, and check history. It also includes the bank products the business uses, and any savings account or investments the business has. In particular, it includes the age of the account.

A seasoned bank account shows stability and longevity in the eyes of banks. Maintaining a healthy and longstanding relationship with a bank is crucial. When considering lending a business money, lenders appreciate a good, stable relationship with a bank. Such a relationship reflects longevity.

To qualify for a business equity line of credit, you must have been in business for more than two years.

### Manage the Pattern and Number of Transactions

For bank ratings, banks use events (transactions) and financial performance over a period. The number and pattern of transactions matter. This includes transactions like deposits, withdrawals, and vendor payments. A consistent pattern of several cash deposits may predict future trends. This will improve bank ratings.



Consistent and predictive transactions in your business bank account help you establish an exceptional bank rating. This predictive history of transactions makes banks believe in your intention to pay.

### Avoid Negative Floating

Accelerating cash collection and controlling payment is essential. It will give you a better balance position in your business bank account. Float is the difference between the cash balance in the bank records and that in your company's books. It may be either negative or positive. Negative float is when the business receives payments from a customer, but the amount is yet credited to your business bank account.

There are different kinds of delays when crediting your business bank



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account. Causes of negative float may be delays in mailing, processing, and clearing. Negative float is the sum of these delays. The cost of float is interest and better ratings foregone on the uncredited amount of cash.

### Manage Your Relationship with Your Bank

Keeping a healthy and long standing relationship with a bank is also crucial. Banks appreciate a good, stable relationship with companies that reflects longevity. Banks see such seasoned relations as a positive when it comes to lending a business money. A business will get better bank ratings under behavioral scoring and professional judgment.

Managing the relationship improves the flow of information. It helps the bank better understand the business. Every bank rating system needs data to generate bank ratings.

If a bank has a good financial relationship with a company, it acts as a trusted adviser. This goes beyond assigning excellent bank ratings. It also assists in growing your business. It helps to work with a financial institution specializing in your industry.

### Manage Financial Statements

To check if future cash flow is likely to be adequate, banks use financial statement analysis. The focus is on the company's ability to pay obligations and service debt. Bank take into account several factors when analyzing financial statement. These include free cash flow and balance sheet liquidity. This also includes a company's access to other financing sources. Banks base this on historical operations and their financial outcomes. They check the difference between current and projected ability to pay obligations and service debt. The larger the difference or cushion, the better the bank rating will be.

During financial analysis, banks use a set of criteria to assign ratings. For example, a company might get a grade Low-5 if its leverage ratio must be less than some value. Besides a value for leverage ratio, banks may have accompanying risk factors. These can include financial condition, size, industry and





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position within the industry. They can also include the quality and reliability of financial statements.

Financial statements are a summarized source of information on business performance. They are a vital data source for bank ratings when it comes to larger businesses. Here, a bank rating is more likely to come from a check of financial accounts. It can also come from the operation of customer accounts, and nonfinancial factors. These include the experience and track record of management. Other transactional factors have weight combined with financial statements in the rating process. These include length and amount of credit facility, among others.

Manage your company's financial statements . Keep an eye on key financial ratios and trends. Both will help you to establish an excellent bank rating for your business. Financial statements, key financial ratios, and trends all show if a business can pay current and future obligations. They show a history of your business. They help make banks believe in your future intention and ability to service more debt.



Financial statements complement information from all other sources. They give banks data to analyze to assign a bank rating.

For a better bank rating, financial information must have internal consistency. Banks want to see a financial picture of your business. It comes from a set of financial statements and a pattern of transactions in your business bank account.

Financial statement information must correspond to information already in the business bank account. This internal consistency of information is critical to better ratings. Any conflicting information may cast doubts on the information's accuracy and reliability. This can lead to a lowered level of confidence in the financial data supplied by the business. Quality of financial data is one of the factors considered when rating. Lower quality may lead to lower ratings on a risk scale.

For a better bank rating, financial information must have external consistency. A set of financial ratios make financial analysis easier. This is by labeling movements of the cash balance in your company's bank



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account over time. For example, a period of transactions marked by negative cash balances may show a period of building up inventory for the industry.

But timing matters. Banks will compare any negative balances to the typical pattern for your industry. Anything out of the ordinary may spell piled-up inventory. Such labeling has its place in behavioral scoring. It also helps in using statistical tools and models. It helps when making professional judgments for bank rating purposes. External consistency with industry-wide patterns of cash balances in a business bank account leads to a better rating.

### Industry Ratios and Trends

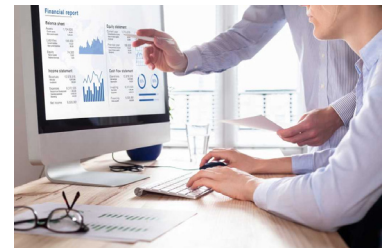
Financial ratios and the trends of industry are your guiding set of ratios and trends. Check Standard & Poor's; Dun & Bradstreet; and Robert Morris Associates (a national association of bankers) for them.

Part of your strategy should be to use industry ratios as guides while managing financial ratios for your business. This can help you to establish a sterling bank rating for your business. Industry norms give banks benchmarks to check your company's ability to pay and to place your history of timely payments in context.

Generally, industry ratios are not under the influence of a business, unless the business has a monopoly in the industry.

### Manage and Maintain the Value of Key Financial Ratios

Your bank wants to learn about your company's financial performance and creditworthiness. They learn this from relationships among financial statement accounts. Your bank's tool for assessing these relationships is financial ratios. These ratios are also used in the calculations made by a bank rating system.



When rating a business, banks pay close attention to financial ratios relating to debt and debt service. For example, banks use debt service

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ratios in a rating model. This is to determine if the ratio of available cash is enough to make the total debt payments for a proposed loan. This ratio estimates the capacity of your business to take on new loans. As a result, it has an impact on bank rating for approval of bank credit. Your business must have a good debt service ratio to have excellent ratings.

A debt service ratio shows the extent to which a business is willing to fund operations with debt rather than equity. Banks care about this ratio, since a high ratio of debt to equity will put bank credit and loans at risk.

Banks use liquidity ratios to measure your company's ability to meet short-term obligations as they come due. They use long-term solvency ratios to measure your company's ability to meet its long-term obligations.

These ratios measure and report your short-term ability to pay. They are valuable to the bank when calculating your company's bank rating. Manage and maintain values of these ratios ahead of industry standards to have first-rate bank ratings for your business.

Profitability ratios measure the efficiency of operations of a business. For example, a strong gross margin indicates efficient production management. While a strong operating margin indicates efficient management of sales and administration. These margins and other profitability ratios show you can pay your obligations and service debt. This results in excellent bank ratings.

When you find ratios below par, look for patterns. Whenever possible, compare your company's ratios to industry norms. The process will guide you in how to improve the value of a ratio to improve bank ratings.