THE BUSINESS CREDIT BUILDERS

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 usually a concern for owners of the business. Mostly, owners initially finance their business by personal financial resources, but the business rapidly reaches a stage of growth where they need bank credit to fund operations and growth. Whether business needs are large or small, bank credit allows access to cash when the business needs it. Bank credit can be used for a variety of business purposes including short-term credit needs, purchasing inventory, etc.

As a businessperson, you never know when you will need to turn to a bank in times of credit need for your business. Therefore, even if you have no plan to apply for bank credit or for any funding, it is always worth developing a good relationship with your bank and establishing an excellent bank rating. This will ensure that your bank understands your business and what you are looking to achieve. When you intend to approach banks for credit, bank's rating of your business and bank's understanding of your business will be the key to get your business funded.

Essentially, establishing an excellent bank rating for your business is creating and presenting evidences of ability of your business to pay its current and future obligations and constructing history of timely payments to establish its intention to pay future obligations.

Bank credit

Bank credit is the total amount of borrowing capacity a business can obtain from the banking system. This is not the same as business credit, which is a much broader category of lenders such as suppliers, credit card issuers, or leasing companies. While every bank offers various types of financial business products, each serving a specific business need, one thing remains the same in all offers: bank credit.
Bank credit is an important and vital source of finance available with a business, and an excellent bank rating is the key to have access to the bank credit for businesses. Bank ratings also determine the amount of bank credit which can be made available with a business based on its creditworthiness. For many businesses, establishing and maintaining a strong bank rating becomes critical to have availability of larger bank

credit for greater operational efficiency and improved decision-making leading to sure financial success.

Bank ratings

A bank rating of a business is formal evaluation of a business' ability to pay and history of repaying its business obligations to establish ability and intention to pay its future business obligations. It is often an alphanumeric key showing the associated credit risk e.g. Low 5. In a very simple sense, bank rating is a number showing creditworthiness of a business.

Progressively increasing diversity and complexity of businesses have made internal bank ratings an increasingly important element of credit risk management at banks. The banks are facing pressures on traditional methods of controlling and managing credit risk. In response, they have introduced more structured and formal systems for approving bank credits. Internal bank ratings are crucial inputs to all such systems as well as to any quantitative assessment model of credit risk.

In principle, the rating system of banks separates borrower risk from facility risk and supports good banking practices while making a lending decision. The risk associated with a credit facility offered by banks is not a part of bank rating of business. The banks design rating systems to manage credit risk associated with businesses in a clear, systematic, and consistent way, which combines facts with professional judgment. This eBook is about bank rating of business-borrowers and deals with the ways to establish an excellent bank rating for a business.

Like a public credit rating assigned to a business by agencies such as Moody's or Standard & Poor's, the bank rating summarizes the risk of loss due default by a given business when bank credit facility is provided with it. Unlike public credit rating systems, a bank rating system differs from the system of credit rating agencies; the bank ratings are assigned by a bank and are usually not revealed to outsiders.

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

This section of the eBook briefly explains the internal bank rating system and underlying techniques in the process of assigning bank ratings to business. An understanding of bank rating system and of the way it rates businesses is useful for you - an owner of a business. This understanding of bank rating will help you to manage your business and banking transactions in a way that increases creditworthiness of your business.

Techniques of risk assessment

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

- Application scoring, and
- Behavioral scoring.

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

Banks use second technique, behavioral scoring, to rate the financial behavior of a business. In this scoring technique, they rate businesses on the way the businesses operate their financial affairs. Essentially, the rating is based on the patterns of activity observed by banks on an existing business bank account.

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

Bank Rating System

Statistically, banks find behavioral scoring technique more consistent in rating and identifying acceptable credit risks and scoring businesses on a practically workable risk scale.

For better decision making, the banks use behavioral scoring in conjunction with application scoring to have better understanding of creditworthiness of businesses. Therefore, a combination of behavioral and application scoring techniques is at the base of any bank rating system.

Another very important point to note is that bank ratings are internal measures used by banks and as such are not comparable between banks. In addition, banks normally have different lending policies and rating systems. As a result, bank ratings may be assigned differently by banks. This means that a business may get different ratings assigned by different banks because of a difference in rating systems. However, banks design credit rating systems as fair and impartial systems. The rating systems do not single out a specific piece of information as the reason for declining an application and is based on the use of objective criteria to make a decision. Banks test credit rating methods regularly 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:

- Financial analysis of businesses,
- Industry analysis,
- Quality of financial data,
- External credit ratings e.g. ratings by credit rating agencies,
- Analytical tools and models,
- Size and value of businesses,
- Management of businesses,
- Terms of credit facility, and
- Other considerations.

The variables underlying these factors on which a business can exercise reasonable control provide the business with ways to affect its bank ratings. For example, a business exercises reasonable control over quality and consistency of financial information it supplies to banks and other credit rating agencies.

Banks consider financial analysis in assigning bank rating to a business because it is an evaluation of its financial viability, stability and profitability with a view to ascertain its creditworthiness. Whereas a business owner uses financial analysis to establish excellent bank ratings by managing and maintaining a set of key financial ratios showing business' ability to service current and future debts.

Banks consider industry analysis in assigning bank rating to a business because it provides a context and benchmarks to evaluate financial performance of a business. Whereas a business owner uses industry analysis to establish excellent bank ratings by setting them as guides to follow. The industry standards even provide a business with an opportunity to set target values for key financial ratios and indicators to achieve batter bank ratings.

A strategy to go about an excellent bank rating

As a conceptual and strategic framework to remain on track, you may use two questions and answers to guide you through the process of establishing an excellent bank rating for your business. The questions are always in a banker's mind while assessing creditworthiness of your business.

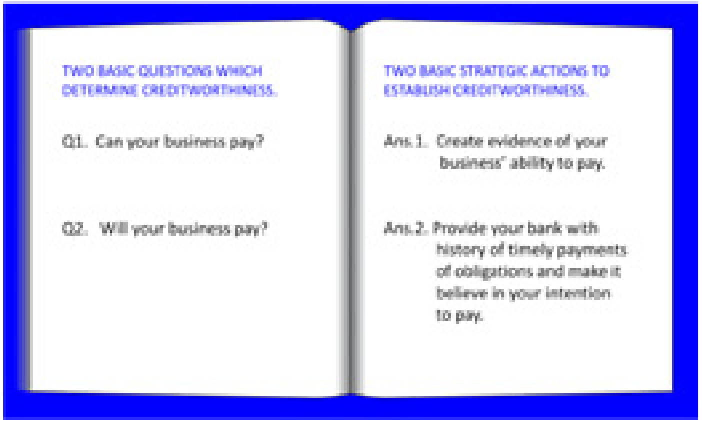
- Can your business pay?
- Will your business pay?

In your efforts towards establishing an excellent bank rating for your business, you respond to the questions with a set of actions which:

- Creates evidence of your business' ability to pay;
- Provides your bank with history of timely payments of obligations and makes it believe in your intention to pay current and future obligations.

Bank ratings are assigned using a business' current condition and its historical trends. Therefore, events at a point-in-time like issuance of NSF check and through-the-cycle financial performance like pattern of cash deposits improves bank ratings. While establishing an excellent bank rating, you need to focus on cyclic financial patterns like average collection period, average payment period, and operational cycles and on the fact how much they resemble industry's standard cyclic trends.

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



Bank ratings at different banks

Though, lending policies are usually internally consistent in a bank, it is important to note that different banks have different lending policies and bank rating systems. As a result, applications of a business for bank credit may be assessed differently by banks. Therefore, selection of bank for your business is an important factor that affects bank rating of your business.

Rating by banks and credit rating agencies

Credit rating by credit rating agencies are a source of input information for banking ratings by banks. There are three major companies that collect business information and publish it. These are: Dun & Bradstreet, Experian, and Business Equifax. Dun & Bradstreet, or D&B is by far the largest, but the other two are catching up quickly. Most banks use the information for bank rating. Some banks even map architecture of risk rating models of credit rating agencies for designing their bank rating models. However, it is also important to note that the ratings by credit rating agencies substantially differ from those assigned by banks. It is mainly because of the fact that the credit rating agencies are not a party to transactions between businesses and banks. The rating by the credit rating agencies are used by a large number and variety of parties for many different purposes. The credit rating agencies strive to be deliberate and accurate to ensure a wider use of their credit ratings product. Credit ratings processes of the credit rating agencies are relatively open; their openness and clarity help investors use their credit ratings product.

Banks keep bank ratings private. The costs and benefits of bank rating systems are internal matters of banks. Therefore, pressures for accuracy, consistency, and fine distinctions of risk are mainly a function of the ways in which ratings are to be used by them. Moreover, banks tailor their rating system to fit their requirements in accordance with specialized lines of business. Hence, your selection of bank has strategic importance for better mutual understanding and better financial relationship leading to better bank ratings.

Credit rating agencies and banks both consider similar risk factors, and both rely on judgmental and statistical models in designing their rating systems. However, the credit rating agencies publish descriptions of rating criteria that are much more detailed than banks' internal guidance. Another differing point is that the credit rating agencies do not have a working unit comparable to a bank's loan review unit. Credit rating of your business by the credit rating agencies is likely to be a source of information for your bank. Some banks even map systems of credit rating agencies for designing their own bank rating systems because of similarity in architecture. The mapping is also possible because both banks and credit rating agencies assign ratings based on criteria that are predictive of a business' creditworthiness. Therefore, establishing and maintaining credit ratings of your business by the credit rating agencies are one of the inputs to generate an excellent bank rating.

An extended scope of finance

A business structured separately from its owner offers an extended scope of finance for it. Separate structuring of your business also provides protection to your personal finance. To establish an excellent bank rating for your business (not for you), it is essential to understand legal forms of setting up business as a separate entity.

If properly structured, a business is a legal person with its own legal and financial identity. For example, a limited liability company, or LLC, is a business structure designed to have its own legal and financial identity. A limited liability company reduces the legal and financial liability of its owners. Thus, you can also make your business financially sole and separate from you. If you have structured it the right way, it will provide you with protection from financial risks of doing business. It will also absorb risk, and will have its own financing power leaving you free from the personal responsibility of business debts and other financial obligations.

Since, your business is a legal entity; it can have its tax identification number. It can also establish its business credit and bank rating for bank credit. Having its own credit rating is one of the major benefits for your business to grow fast with its own financial capacity other than your personal financial capacity. Practically, you can have one set of credit profile, business loans, and lines of credit for your business and another for you in person.

If you have not structured your business as a separate legal entity, you are running the risk of losing financial protection offered by a separate business structure. In addition, you may mix up personal and business finances, and a business failure may leave you with all financial burdens on your personal financial resources.

Obtaining bank credit

Unlike obtaining personal credit, obtaining bank credit for business is a much more complicated process. It needs an established creditworthiness or bank rating for your business, not for you – the owner. The creditworthiness of your business becomes critically important if you want to have bank credit for your business without your personal guarantee.

In a simple and easy way, this eBook describes how to build an excellent bank rating for your business. With an excellent bank rating, you start developing a new vitally important source of financing for your business without placing your personal wealth at risk. An excellent bank rating gives your access to bank credit which can grow with the growth in size of your business. Note that size and value of businesses is among the factors which banks consider while assigning a bank rating. See factor #6 under the heading "Factors influencing bank ratings" on page 9.

First step towards an excellent bank rating

Your First step towards an excellent bank rating is opening of your business bank account. It is critical to note that bank rating is of your business, not of you – the owner of the business. Since, your business is legally structured as a separate legal entity; you can establish its separate financial identity by taking the first step: opening a separate business bank account.

Opening a separate business bank account is in your strategic set of actions for establishing an excellent bank rating for your business. This is because it creates a unique financial identity of your business. It is also a tool to record your business' ability to pay and its history of timely payments.

A separate business bank account is a single most important and powerful tool available with you in establishing an excellent bank rating for your business. The separate business bank account helps you to create a positive, strong, and impressive financial picture of your business. In addition, this impressive financial picture of your business is available with your bank right away in form of patterns of business transaction through the business bank account.

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

The most reliable information of your business available with your bank is your business bank account. Since, businesses are financially and operationally cyclic in nature; your bank will be in a position to extract your average collection period, average payment period, and cash-to-cash cycle from history of transactions in your business bank account and financial statements. On perusal of pattern of transactions in your business bank account over a period of a few years, a bank can have a good idea of your business's profit and profit projections. In fact, the financial transactions carried out through your business bank account create a financial track of your business. The track of financial transaction opens up a window to look at the operations of your business. By carefully managing your business bank account you can present an excellent look of your business to your bank.

Your goal for establishing an excellent bank rating is, in fact, a goal to create a statistically consistent financial picture of your business's creditworthiness. Based on many variables, this statistical picture becomes an alphanumeric rating denoting the creditworthiness of your business. One of the vital sources of information for financial analysis of your business for bank rating purposes is transactional data in your business bank account. Moreover, you can exercise a reasonable control over recoding of data in your business bank account. This control over transactional data in your business bank account makes it an indispensable tool while establishing bank ratings.

Selection of bank

Since, businesses are becoming increasingly diversified and complex, only banks with specialized line of business can better understand your business operations, industry forming context of your business, and bank credit needs of your business.

Whether you decide to open a business bank account at a national, regional, or local bank, credit union, or community bank, they should select a bank that can best cater to the needs of your business. Since, bank ratings and systems to assess creditworthiness are internal measures used by banks and as such are not comparable between banks, your choice of bank is critically important in establishing an excellent bank rating for your business. In addition, banks normally have different lending policies that affect their internal rating systems and the rating of businesses. This means that a bank doing banking business in your industry may assign better rating to your business while another may not because of a difference in rating systems resulting from lending policies.

Selection of a bank doing specialized banking in the industry of your business is in your strategic set of actions for establishing an excellent bank rating for your business. This is because the bank already understands how to assess your ability to pay current and future obligations. It also interprets history of timely payments of obligations in a more professional way.

Generally, working with a bank that already understands your business makes it much easier to get better ratings. This is because the majority of banks have difficulty assessing the credit risk of most businesses, or some specific industries they know little about. While bank rating is a common requirement in the lending process, it is much easier for a bank to assign rating to your business' financial risk when it truly understands and specializes in providing bank credit facilities with businesses in the industry in which your business operates. In fact, the bank finds the rating process familiar and comfortable while assigning rating to your business. It knows and understands prospective financial behavior of your business bank account even before opening of the account. It, being a specialized bank in a specific industry, understands the collection cycle, the payment cycle, cash-to-cash cycle, and operational cycle of your business. The interpretation of the collection and payment cycles through patterns of transactions in your business bank account is professional and easier for the bank operating in the industry.

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

Bank ratings based on average daily balance

Average daily balance is an important criterion in the process of assigning bank ratings to a business. Even some ratings are solely based on average daily balance in a bank account. For example, an average daily balance of $1000 over a period of three months is rate as low 4 by banks.

Your business can secure bank credit quickly as long as it has a minimum of one bank reference and an average daily account balance of at least $10,000 over a period of three months. Maintaining an average balance of $10,000 over a period of three months means a bank rating of Low-5. Your business can have bank credit even if it has a lower rating e.g. High-4, but the process of approval will be slow in this case because of lower bank rating. At a bank rating of Low 5, most banks will assume your business has little ability to repay on a loan or a line of credit.

Hence, you should 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 ensure the bank rating is high enough to increase 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

Average Daily Balance of business bank account is the average amount that exists in 90-day-cycle.

First of the essential steps to maintain an average daily balance is having facility that enable you to access your business bank account information in the easiest way for you e.g. virtual banking. You can manage average daily balance if you know how much balance is there in your business bank account.

Get business sales direct-deposited into your business bank account. It is financially harmful to keep checks when they can gain interest and better bank rating for your business.

Do not withdraw money from business bank account until it is absolutely needed, and make payments through checks.
Use automatic money transfers between accounts. If you are to make payment for business expenses on 2nd of every month, transfer the amounts automatically on the 1st of every month and till then let the money earn interest and better bank rating.

Use budgets and set aside some extra money if you spot problems in collection and payment amounts or of timing of payment and collection.

Presentation of bank account

Your business is a separate legal entity with a unique name and address to recognize it. If you are going to establish an excellent bank rating for your business, never weaken the financial personality of your business by reporting its name, addresses, phone numbers, and other identification numbers in different ways. Create consistency in use of identifying information; In turn, this consistency will make identification of your business prompt and easier for banks. Moreover, in any statistical and automated process for bank rating, a unique name will ensure correct electronic identification of your business.

Presenting your business bank account and other identifying information in a unique way is in your strategic set of actions for establishing an excellent bank rating for your business. This is because the unique identity of your business makes its history of timely payments unique irrespective of the sources of data which describe the history.

You, the owner of your business, must insure that your business bank accounts are reported exactly the way all their business records are, with the exact same physical address and phone number. Do not use P.O. Box addresses.

It is vitally important that every credit agency and trade credit vendor, every record-keeper (financial records, income tax, web addresses and e-mail addresses, directory assistance), also lists the business name and address the same way. This information is source of data for bank rating from third parties. If you have reported your business differently, there are chances that some vital information about your business will not be associated with your business during bank rating process.

During a human interaction, no officer at bank is going to stop to consider all the ways your business might be listed. While looking into your business's "creditworthiness", banks appreciate consistency in presentation and statistical trends. Do not make it harder for them to find information; if they cannot easily find what they need, they will simply exclude the information, or decline the application.

During an electronic processing of information, some vital information on business transactions may remain outside the statistical analysis for bank rating because your business have been report in two different ways. Hence, enduring a single set of identifying information is critical for smoother and easier flow of information for any credit rating and bank rating.

Management of business bank account

Most banks require businesses to possess an open business bank account to qualify for a bank credit. They use status and history of a business bank account while rating a business. For a good rating, a business needs its account in good standing. Banks negatively rate overdrawn and poorly managed business accounts because they give weightage to average daily balance in a business account for rating a business. Sufficient average daily balance is an indication of financial health and loan repayment capacity of a business. For bank ratings, average daily balance allows banks to assess whether the business maintains enough cash to pay obligations over a sufficient period. If an account indicates a positive monthly cash flow, a bank can better assume that the business is profitable.

Active management of your business bank account is in your strategic set of actions for establishing an excellent bank rating for your business. This is because your bank business account creates evidence of your business' ability to pay its obligations; it also provides a history of transactions to make banks believe in your future intention and ability to pay. Active management of your business bank account, thus, leads to better creditworthiness and bank ratings.

Active management of your business bank account means actively transacting your business through your business bank account in a pattern that creates sense of stability, consistency, and predictability. Ensure that your business turnover through your business bank account is as regular as your business will allow.

Paying credits into your business bank account irregularly is harmful to your bank rating. In addition, having periods with no credits at all is disastrously damaging to any bank rating. You must keep in mind that banks will only see what you pay in. Generally, banks assign bank rating according to what you pay in.

Avoid issuing NSF checks and payment instructions

You cannot issue Non-Sufficient Fund check, or NSF checks, while remaining on track of establishing an excellent bank rating. A bank interprets a NSF check as an inability to pay. You may have funds in other bank accounts, but you fail to pay despite issuing a check to someone for the reasons best known to you.

Not issuing NSF checks is in your strategic set of actions for establishing an excellent bank rating for your business. This is because a NSF check indicates your business' inability to pay its obligations and place a negative point in otherwise smooth history of transactions that makes banks believe in your intention to pay.

Issuing checks or other payment instructions, while your business bank account has insufficient funds, will harm bank rating of your business. Ultimately, it will also affect its ability to borrow.

Non-sufficient-funds checks are something no business can let happen because it is against two criteria which establish creditworthiness: ability to pay and history of timely payments. Avoid writing non-sufficient funds (NSF) checks at all costs; it puts a break in otherwise established history of timely payments and strikingly indicates your business' inability to pay. Finally, it badly destroys bank ratings.

You need to manage your payments from business bank account in an active and responsible way. Paying fairly, sensibly, and in a timely manner is good for your business and its creditworthiness. Underpay, your vendors will actively seek other customers. Overpay, and profitability will suffer. Surely, overpayments quickly drop fund level in your business and undermine bank ratings and creditworthiness.

A tool to manage your business bank account is budgeting. Draw up a budget to enable you to spot problems like insufficient fund before they happen. After spotting the amount of cash needed to support your business bank account and the timing of the amount needed, you will find yourself in a good position to face the problem. Two direct solutions to this problem are cash from alternative source and change in timing of payments to avoid disturbances in pattern of cash flows through your business bank account.

Another technique to avoid NSF checks is using bank overdraft. Therefore, you may add overdraft protection to your bank account as soon as possible to avoid problems caused by NSF checks.

However, overdraft facility may lead to other issues, which banks rate negatively e.g. dependence on overdraft. In addition, going overdrawn without a limit or going over your agreed limit is harmful to bank rating of your business.

Avoid dependence on overdraft facility

Securing overdraft facility from bank does not guarantee that you can meet your monetary obligations on daily basis and in a proper way. You still need careful planning and management cash inflow and outflows. There are possibilities of running out of cash reliant on overdraft facility. If your business has an overdraft facility available with it, it may constantly depend on it for its funding needs. The constant dependence means your business is using the overdraft facility as a loan.

Allowing your business to depend on overdraft facility is not in your strategic set of actions for establishing an excellent bank rating for your business. This is because dependence on overdraft facility indicates your business' inability to pay its obligations and mark a negative period of financial dependence in otherwise smooth history of transactions that make banks believe in your future intention and ability to pay.

To ensure good bank ratings for your business, ensuring that the balance of your business bank account is periodically in credit. Your business must develop a history of successfully repaying borrowing. Otherwise, becoming reliant on your overdraft will prove seriously harmful in the process of establishing an excellent 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 for a fixed term with regular fixed repayments. Generally, the interest on bank loans is lower than the interest on overdrafts.

The tool to spot and solve the problem of reliance on overdraft is budget. Draw up a budget to point out where the problem is and then fix the diagnosed problem. One possible problem may be a mismatching collection and payment cycles of your business. One of solutions to the problem includes introducing funds from alternative sources to fill time gap created by the mismatching 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 very important that a business shows a positive cash flow. The cash coming in and going out of your business bank account should reflect a positive free cash flow. Positive free cash flow is the amount of revenue left over after you have paid all business expenses. When the account shows a positive cash flow, it indicates that the business is generating more revenues than is used to run the business.

Maintaining a positive cash flow in your business bank account is in your strategic set of actions for establishing an excellent bank rating for your business. This is because cash is the most liquid asset and is the strongest tool to tell your bank your business' ability to pay its obligations and mark a positive period of financial strength in history of transactions to make banks believe in your future intention and ability to pay.

Continual overdraft negatively affect you bank rating. In fact, it may indicate that you are not managing business cash flow effectively. Consistent deposits can solve this problem effectively. It is important to recognize that banks are motivated to lend to a business that has consistent deposits.

For the banks, the cash flow transacting through your business bank account is an indication of

- How does your business manage inventory?
- How does your business manage receivables?
- How does your business manage payables?

Banks appreciate a quicker and patterned conversion of inventory into sales, sales into cash, and cash into deposit. The patterned conversion is basis of rating a business because it statistically predicts future financial behavior of your business bank account.

In behavioral scoring, negatively patterned behaviors like running a continual overdraft may indicate that you are not managing cash flow effectively. 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 very favorably look upon consistent deposits coming into the business bank account. It also shows a sense of financial strength and stability of your business.

Making regular deposits and creating consistent pattern of deposits are in your strategic set of actions for establishing an excellent bank rating for your business. This is because cash deposits and consistent pattern of cash deposits create evidence of your business' ability to pay its obligations; it also periodically provides positive points in history of transactions to make banks believe in your intention to maintain power to pay. Such periodic patterns of cash deposits in your business bank account lead to better creditworthiness and bank ratings.

So, it is vital that a business owner is making a lot of consistent deposits, more than the withdrawals they are making.

The consistent bank deposit must have a pattern matched with the pattern of cash collection cycle of your business. The matching of deposit pattern with the collection pattern ensures continuity of deposit and creates a financial picture of business collection cycle. Over a reasonable period of time, the pattern of deposits becomes predictive in nature after several cycles of collection. When statistically analyzed, this deposit pattern adds the sense of stability in a rating system used by your bank. Virtually, this deposit pattern which is based of natural collection cycle of a business improves bank rating.

A way to improve cash deposits is to improve your cash-to-cash cycle of the cash transacting through business bank account. The cash-to-cash cycle is the time cash is out of reach for use by your business. The shorter your cash-to-cash cycle, the fewer days your cash is absent from your business bank account and is unavailable for use in business. Your business's cash is out of reach when it is uncollected from customers, and when it in form of inventory to be sold.

Avoid frequent and unnecessarily small withdrawals

Quality of financial data from all sources of information is a factor taken into account by any bank rating system. Avoid withdrawals causing harm to the quality of financial data supplied by your business bank account. Use checks for major business payments e.g. payroll, payment to vendors, and other expenses and avoid frequent smaller withdrawals from your business bank account. Based on monthly minor expenses estimate, withdraw cash from business bank account in a designed pattern which is indicative of your monthly business expenses. The resulting pattern of withdrawals or payments from your business bank account should be indicative of your business' payment cycle.

Frequent and unnecessarily small withdrawals are not in your strategic set of actions for establishing an excellent bank rating for your business. This is because frequent and small withdrawals from your business bank account may lead to undesirable effects on bank ratings while transactional data pass through an automated rating system. A reducing quality of financial data may disturb an otherwise financially attractive history of transactions leading to better creditworthiness and bank ratings.

Avoid fluctuating balance in business bank account

Making the balance in your business bank account randomly fluctuate between two extreme values, particularly between negative and positive extreme values, is not in your strategic set of actions for establishing an excellent bank rating for your business. The fluctuation of balance in your business bank account must denote patterns of fluctuation that are standards in your industry. This is because statistical measure of risk and variability is standard deviation. Transactional data with higher standard deviation confuses a decision on your business' ability to pay its obligations. It also removes smoothness of behavior in history of transactions leading to difficulties in behavioral scoring.

The only variability in balances of your business bank account over time should be typical variability representing pattern of doing business. Otherwise, maintain consistency in amount, frequency, and pattern of deposits. Alarmingly large withdrawals can distort the otherwise statistically attractive picture of your business bank account. Look at the five day balance of two accounts, A and B. On average, both accounts have an average balance of $ 500. But the pattern of deposit in account A is statistically more consistent and financially 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 balance in your account is harmful for bank rating because statistical measure of variability or risk is standard deviation. If these fluctuations do not represent industry standards, any statistical method will report the set of balances for account B riskier relative to the set of balances for account A.

Keep old business bank account open

Pick a bank and stay there; loyalty and longevity count in the credit markets. In addition, the age and history of transactions in a business bank account cannot be created in a day.

Closing an old business bank account without any cogent reason is not in your strategic set of actions for establishing an excellent bank rating for your business. This is because it closes a history showing your business' ability to pay its obligations. It also shortens history of transactions that makes banks believe in your intention to pay. Moreover, rebuilding history of ability to pay and intention to pay always takes time.

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

A seasoned bank account shows stability and longevity in the eyes of banks. Keeping a healthy and long standing relationship with a bank is also crucial for all companies. A good, stable, relationship with a bank that reflect longevity will be highly appreciated by lenders considering lending that business money.

To qualify for a Business Equity Line of Credit, you need to have been in business for more than two years.

Manage pattern and number of transactions

You must manage number of transactions and pattern of transactions in your business bank account. Banks use event (transactions) at a point-in-time and financial performance over a period for bank rating purposes. Therefore, number of transactions and pattern of transaction become important for a given nature of transactions e.g. deposits, withdrawals, and payment to vendors, etc. For example, a large number of cash deposits in a consistent pattern to predict future trends make bank ratings better.

Carrying out a large number of transactions through your business banks account in a consistent predictive pattern is in your strategic set of actions for establishing an excellent bank rating for your business. This is because it predicts your business' ability to pay its obligations. It also creates a predictive history of transactions that makes banks believe in your intention to pay.

Avoid negative floating

The process of accelerating cash collection and controlling payment is essentially needed to have better balance position in your business bank account. Float represents the difference between the cash balance appearing in the bank records and that appearing in your business' books. It may be either negative or positive. A negative float occurs when the business receives payments; it means that a negative float exists when the customer has made payments, but the amount does not stand credited to your business bank account. This is because there are different kinds of delays with respect to the crediting of the amount to your business bank account. The causes of negative float may be mailing-delay, processing-delay, and clearing-delay. The negative float is sum of mailing-delay, processing-delay, and clearing-delay. The cost of float is interest and better ratings foregone on the uncredited amount of cash.

Manage relationship with bank

Keeping a healthy and long standing relationship with a bank is also crucial for businesses. Banks appreciate a good, stable, relationship with businesses that reflect longevity. Banks considers such seasoned relations as good business for lending business money. A seasoned bank account shows stability and longevity in the eyes of banks that get better bank ratings in various scoring techniques e.g. behavioral scoring and professional judgment.

In addition, management of relationship with banks is vitally important for better bank ratings because it improves flow of information and understanding of a business by banks. Every bank rating system needs input information for generating bank ratings through application scoring, behavioral scoring, and banker's judgment.

If a bank is in good financial relationship with a business, it acts as a trusted advisor beyond just assigning excellent bank ratings. It assists in growing your business. It helps your business to consider working with a financial institution that specializes in providing banking services tailored to its specific industry.

Manage financial statements

While assigning a rating to a business, financial statement analysis is central to evaluate likely adequacy of future cash flow. The focus of analysis is on the business's ability to pay obligations and service debt. Free cash flow, the liquidity of balance sheet, and business's access to sources of finance other than the bank, etc. are some of the factors banks take into account while analyzing financial statements. Based on historical operations and financial outcomes thereof, banks assess the difference between current and projected ability to pay obligations and service debt. The larger the difference or cushion, the better is the bank rating.

During financial analysis, banks use a set of criteria to assign ratings. For example, a criterion for assignment of a grade "Low 5" might be that the business' leverage ratio must be smaller than some value. In addition to a value for leverage ratio, banks may have accompanying risk factors like the business' financial condition, size, industry, and position within the industry and the quality and reliability of financial statements.

Financial statements being summarized source of information on business performance, is an important input information source for bank ratings in cases of relatively larger businesses. In such cases, bank rating is more likely to be based on an assessment of financial accounts, the operation of customer accounts and non-financial factors such as the experience and track record of management. Some other transactional factors still have their weight in combination with financial statements in the rating process. The traditional factors used in combination with financial statements include: the length of credit facility and the amount of credit facility among the others.

Managing financial statements of your business and keeping an eye on key financial ratios and trends are in your strategic set of actions for establishing an excellent bank rating for your business. This is because the financial statements, key financial ratios, and trend indicate your business' ability to pay its current and future obligations. In a summarized form, they provide history of your business to make banks believe in your future intention and ability services additional debt.

Financial statement complements information supplied through all other sources and provides bank with input information for analysis to assign bank rating.

For better bank rating, financial information must be internally consistent. A set of financial statements and pattern of transactions through business bank account present a financial picture of your business. When a bank uses information contained in the set of financial statements, it must be supported by the transactional information already available with the bank in the business bank account. The support to the information and internal consistency of the information is critical to have better ratings. Any conflicting information may cast doubts on the accuracy and reliability of the information leading to lowered level of quality of the financial data supplied by the business. Quality of financial data is one of the factors considered while rating process and a lack of quality may lead to undesirably lowered ratings on risk scale.

For batter bank rating, financial information must be externally consistent. A set of financial ratios make financial analysis easier by placing labels movements of cash balance in your business banks account over a period e.g. a period of transactions marked by negative cash balance may be recognized as a period of building up inventory for the industry. However, timing is important; out of typical-industry-pattern negative balance may be an indicator of piling up of inventory. Such labeling has its place in behavioral scoring using statistical tools and models and professional judgments for bank rating purposes. An external consistency with industry wide patterns of cash balance in business bank account leads to better rating.

Industry ratios and trends

Financial ratios and trends of industry are your guiding set of ratios and trends. Understand industry norms because industry norms place financial ratios in context. Industry norms are published by Standard & Poor's; Dun & Bradstreet, Inc.; and Robert Morris Associates, a national association of bankers.

Use of industry ratios as guides while managing financial ratios of to your business is in your strategic set of actions for establishing an excellent bank rating for your business. This is because industry ratios provide banks with benchmarks to evaluate your business' ability to pay and history of timely payments in a context.

Generally, industry ratios are not under the influence of a business if the business has no monopolistic power in the industry.

Manage and maintain value of key financial ratios

The relationships among various financial statement accounts tell your bank about your business' financial performance and creditworthiness. Your bank's tool for assessing these relationships is financial ratios. These ratios are also input to bank rating system.

Banks give close attention to financial ratios relating to debt and debt service while rating a business. For example, banks use debt service ratios in a rating model to determine whether the ratio of available cash is sufficient to pay the total debt payments required on the proposed loan. This ratio primarily estimates the capacity of your business to take on new loans. Therefore, it has impact on bank rating for approval of bank credit and your business must have a good standing at debt service front to have excellent ratings.

Banks closely watch debts service ratio because it reveals the extent to a business is willing to fund its operations with debt rather than equity. Banks are concerned about this ratio, since an excessively high ratio of debt to equity will put bank credit and loans at risk.

Banks use the liquidity ratios to measure your business' capability to meet its short-term obligations as they come due. Since, these ratios measure and report short term ability to pay; they are good input in process of bank rating. Therefore, you need to manage and maintain values of these ratios ahead of industry standard to have excellent bank ratings for your business.

Banks use long-term solvency ratios to measure your business' capability to meet its long-term obligations. Since, these ratios measure and report long term ability to pay; they are good input in process of bank rating. Therefore, you need to manage and maintain values of these ratios ahead of industry standard to have excellent bank ratings for your business.

In bank rating system, the profitability ratios are input to 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. A strong gross margin, strong operating margin, and other profitability ratios indicate your ability to pay your obligations and service debt, and hence results in excellent bank ratings.

When you find ratios below par, look for patterns; and whenever possible, compare your business' ratios to industry norms. The process will give you direction of action for improving value of a ratio to improve bank ratings.