FOCUS LENDING

How to help businesses through signs of distress

Community banks support customers in not just the good times but the bad ones, too. By fostering open communication and being proactive about addressing financial distress, banks can help businesses navigate these challenges and come out stronger. By Mindy Charski

During a routine annual financial review of a borrower's business, Kathryn Perry—SVP, chief lending officer and chief financial officer at $160 million-asset Park State Bank & Trust in Woodland Park, Colorado—noticed something alarming. While the customer had never had a late payment, she says she saw "extreme distress" in the cash flow of his equipment restoration company. He had taken high-interest loans from other lenders to keep his payments current, and she would later learn he was considering bankruptcy.

Her bank was able to help its customer of more than 15 years get back on track through solutions that included extending the loan's maturity, providing interest relief and arranging a new appraisal on his building, providing equity as a source of cash.

"It was surprising to me that, even at this stage in the relationship, he had not gotten the message: 'Trust your community bank. We want to see you succeed as much as you want to succeed,'" says Perry.

Relationship banking isn't just about helping customers in the good times. Community banks that put in the work to help borrowers facing difficulties can both stave off defaults and deepen customer loyalty.

Early warning signs

Maintaining good communication with customers can help banks stay in the loop about the status of a customer's business.

"I think it's all about being in touch with your customer, being in tune with your customer and not being transactional," says Joe Vereline, first vice president and director of business banking at

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$3.2 billion-asset Union Savings Bank in Danbury, Connecticut.

Perry works to build trust with new customers even before the first loan closes. She says Park State Bank & Trust encourages clients to call the bank first, not last, when trouble arises. But there are reasons customers at any bank might not be upfront about challenges they're facing. They might be too embarrassed, for instance, or scared the bank will add to their stress.

"For a small business customer, especially in a rural area, they often think of the bank as on the opposite side of the table, as in, 'The minute I start to have any trouble, I have to fear the bank rather than rely on the bank,'" Perry says.

Financial data can illuminate issues that go unmentioned. Data analytics tools are enabling bankers to get "better access to information, more timely information and information that's organized in a way that you can make decisions more quickly," says Gill Hundley, chief operating and risk officer at KlariVis, a performance intelligence platform for community banks and ICBA preferred service provider. "If you can get ahead of problems, then you can plan for them."

KlariVis' software extracts data from core banking systems each night, providing up-to-date information such as past dues, for both individual loans or aggregated loans in a specific industry. However, traditional methods are still effective at spotting potential turbulence before borrowers miss a loan payment.

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>
> —JOE VERELINE, UNION SAVINGS BANK

Vereline says Union Savings Bank looks out for indicators in borrowers' annual financial reports such as shrinking profit margins, weakening cash flow, and declining top-line revenue, liquidity or collateral values. If an otherwise prompt customer delays submitting financial information, that can be a red flag.

Union Savings Bank also monitors borrowers' operating accounts for significant drops in average balances and deposits. The mutual bank also keeps up with trends in the industries of its loan customers to see if they're in decline or facing headwinds.

QUICK STAT

96%

of small businesses say they faced at least one financial challenge in 2025.

Source: Federal Reserve Banks' 2026 Main Street Metrics survey

Mitigating issues

Community banks can take different approaches to help businesses showing signs of distress. Institutions can make an impact by acting as business advisors, what Perry describes as "analyzing their business and using our experience and expertise to help guide them." That could entail helping customers address overhead concerns, slumping sales or delays in receivables, for example.

If necessary, banks can address problem loans with options like deferring payment, refinancing or restructuring. Further down the road, they could require more collateral or obtain additional guarantors, Vereline says.

"We want to do what's right for the bank ... but we also want to do what's right for the customer," he says. "So, where do we meet in the middle and find that common ground that works for both of us?"

A solid solution can be worth pursuing. Vereline says being the bank that restructures a loan or defers payments can be advantageous when the borrower's business is booming again.

"They're going to come to us when they need that next loan," he says. "They're going to hopefully remember that we were the ones that were there to help them out when times were tough."

Perry puts a finer point on it. "A $1 million or $2 million relationship with a small business for me, when I've only got $160 million in assets, is a huge relationship," she says. "I am far more motivated [than larger banks] to [help the business get stabilized] rather than to simply charge it off and move on."

Mindy Charski is a writer in Texas.