When looking to borrow - what do the banks want?

SME Advisory

We've all dealt with the banks personally and likely for business as well and in many cases, the process can seem more challenging than it ought to be ... so ... what is it that banks really want? And how can we set ourselves up for more likely success in our dealings with banks?

Your 'Risk Profile', the '5 C's' and a process that must start here first for the best possible chance of success.

To establish a person or entity's capacity for borrowing, the banks look to give the clients a risk grade, or what we call a 'risk profile'. Specifically they review what's commonly called the '5 Cs' within the industry, outlined below.

Success with the bank is not just about getting a 'yes' it's also about the terms of the loan agreement, the interest rate committed etc., as a result it is important to start with the end in mind. In other words, do the work upfront to make sure you're more likely to succeed at the other end.

The '5 C's' ...

1. Cause

What is the party borrowing the money for? Is it an acceptable purpose? Acceptable purpose for example, could mean legitimate business, personal or for example property related investments.

2. Character

Whilst assessing your character this might sound very personal, it's much more about what experience the proposed or current business owner sourcing the funding actually has – do they have some background that means they are more likely to succeed here, or a well-established track record of successful ventures.

They will also review how well the person or business - generally both - have operated their accounts in the past. For example, if the accounts are reviewed and there is a lot of arrears there that can be a red flag for a bank. or, another example is that if a person has earnt a lot of money over time with say, a high salary, but has little to no savings to show for it – the banks tend to take that as a sign that the person is not good at saving and or potentially not great at paying off debt. Another test is whether that business or person is meeting their ATO commitments on time.

When looking to borrow - what do the banks want?

Whilst any negatives in these areas are not insurmountable, we need to be able to express what experience we have that makes the party a great option for this business purchase or expansion, as well as factoring in our history with our finances and our current financial position.

3. Capacity

This is about answering capacity for borrowings. The banks will ask the question: 'what capacity has the business got to meet the commitment of the loan and the other personal commitments required by the business owners?'

In other words, the bank will assess the ability of the business to repay its debts and provide a reasonable lifestyle whereby the owner or owners can also pay their other known commitments with a level of comfort.

4. Collateral

As Sir Richard Branson says, "always cover your downside" – so it's critically important to carefully review and manage your own risk. What are the likely scenarios if everything went wrong? What impact would that have on your business and therefore your ability to repay the loan? What would the likely consequences be for you and your related entities or even your family?

Likewise the banks are interested in managing their risk too – they will back a good business proposition but not without greatly reducing the risk to them via security. To do that, they want to know what collateral - assets or other sources of income - you have that will sit behind the loan as security. This collateral protects and supports the bank in getting their money back if anything does go wrong and they need to recover the funds loaned.

5. Conditions

Depending on your 'risk profile' from the first four topics discussed here, the banks may provide the loan subject to certain conditions to further mitigate their risk. For example, the bank may require the business to provide certain information throughout the loan, or reduce the loan term to get their money back sooner.

As a result, whenever you are looking at sourcing finance its also about reviewing the conditions the bank might put on them and your ability to meet those potential conditions, as well as meeting all repayments.

Our work with you gets your risk profile from the beginning so that we can match the best and most likely lender for success …

Unlike others, we work to establish your estimated 'risk profile' at the beginning of the finance process, from many years' experience we know that whilst nothing is guaranteed in the arena of sourcing funding, starting with your 'risk profile' we are far more likely to succeed. Each bank has a variety of standards, rules, regulations, policies that make some a better fit than others depending on your unique personal and business circumstances. Once we know your 'risk profile' it is far easier to make sure we apply to banks that are a better 'fit' for you and your situation.

Prime Financial Group Ltd
Accounting & Business Advisory
Level 19, HWT Tower,
40 City Road Southbank
VIC Australia 3006

T 1800 317 005

E enquiry@primefinancial.com.au
W www.primefinancial.com.au