

# Negotiating With Banks

21<sup>st</sup> October 2009

Belinda Smith

Senior Manager Commercial



What are we looking for?

# Character

- Open, honest, “upfront”
- Willing to provide the information needed to support the lending decision
- Provide details of personal finances
  - Assets, Liabilities, Expenditure, Income & Source (including anticipated drawings from the business)
- If you have a track record in Business: The latest financial accounts/management information plus 6 months Bank statements;
- If you have had any financial “hiccups”, tell us about them at the start. What have you learned from your experiences?

# Capability

- Are you capable of “doing the job”?
- What level of skills/knowledge is needed?
- What relevant industry experience do you have?
- What relevant qualifications do you have?
- A CV will help us to assess this

# Capacity

- How do you demonstrate good business acumen?
- What do you know about your market?
  - What research have you done?
  - Who are your competitors?
  - Who will be your customers?
  - How do you know?
  - Who do you know who can help you with your business?
  - How will you market your business?
  - Who will be your key suppliers?
  - Why have you chosen them?
  - What will be your unique selling point?
  - How will you know if you are making a profit?
  - What skills have you got to help you manager the finances of the business?
  - Who else will be involved in the business?
  - What experience do you have in recruiting, motivating, managing people?
- A Business Plan will help us to assess your strengths and weaknesses and to provide relevant support and guidance where needed

# Purpose

- What will the money be used for?
  - Working capital
  - Fixed assets
  - Plant, machinery, equipment
  - Goodwill
- The purpose will help us to decide on the most appropriate finance vehicle:
  - Asset Finance
  - Invoice Finance
  - Overdraft
  - Commercial Mortgage
  - Business Loan/ Enterprise Finance Guarantee Scheme Loan
  - Credit Card

# Amount

- How much do you need?
- How have you arrived at this figure?
  - A Cashflow Forecast will help support requests for Working Capital;
  - Quotations will help with requests for fixed asset purchases etc;
- How much are you putting in yourself?
- Where are these funds now?
  - We will usually want to see evidence of your contribution
- Have you remembered to include the VAT?

# Repayment

- How much can you afford to pay back monthly?
  - Again a Cashflow Forecast will help to demonstrate this
- What is your “breakeven” point?
- How profitable is your Business?
  - Latest Financial Accounts/ Management Information/ Profit and Loss projections will help
- What’s your track record in paying back finance?



# Security

- Are you able/willing to offer any assets as security?
  - Stocks & Shares
  - Endowment policies
  - Cash deposits
  - Your home
  - Investment properties
  - Business Premises
  - Debentures
  - Personal guarantees (often backed by one or more of the above)

# Terms

- Terms are linked to the Banks perception of “Risk vs Reward”:
  - Risk
    - The lower the perceived level of risk at the outset, the better the terms we can offer
    - The sector in which you operate can impact upon our perception of the risk attached to your business e.g. property development is currently considered higher risk than “healthcare sectors”
  - Reward
    - The amount you wish to borrow will affect the rate you are offered. Generally, lower rates are available on larger loans
    - In exceptional circumstances, cross-sales may be taken into account. This will be for one of two reasons – large income generation from commission (we may offer a reduction in the terms as a gesture of goodwill); or a significant reduction in the risk to the Bank as a result of the sale e.g. all key parties covered by life/critical illness and income protection policies – charged to the Bank.
- Fixed Rate or Base Rate Linked?
  - This is for you to decide. Base rate linked facilities are generally cheaper in the current climate but offer more risk for the future. If you wish to take a base rate linked product, Banks will generally, assess affordability based on a base rate of 4-5%. Today’s base rate of 0.5% is considered to be unsustainable in the medium term.

# Terms continued

- Be reasonable in your expectations. Margins over base have increased! The cost of providing the funding is not Base Rate. Margins of 1% over Base Rate are now a rarity! Arrangement fees and security/valuation fees also need to be covered.
- Rates of 2.5% to 5% over Base are more the norm in the current climate. Your actual rate will depend on everything we have talked about. The better the case you present and the more evidence you provide to back it, the better the terms you will be offered. The negotiation is in your presentation!!!

# Things that can help

- Your CV
- Personal Bank Statements
- Mortgage/loan statements
- Evidence of savings and investments
- Business Bank Statements
- Financial Accounts/Management Information
- Cashflow Forecast/Profit & Loss Forecast
- **Business Plan**
- Marketing Plan

## And finally.....

- Do make an appointment – we need at least an hour with you to run through your request
- Please give as much information as possible when making the appointment – to ensure you are seeing someone who can give you a decision as soon as possible
- Let the Manager have as much information as possible prior to the meeting – so that they can prepare! You will get a faster decision if you take the trouble to do this.
- Look for SERVICE, as well as price. A good relationship with your Business Manager will depend on his Experience, Customer Understanding, Expertise, Accessibility & Delivery of promises. A good manager can add real value to your business!

# Questions

Belinda Smith

Senior Manager Commercial

Derby, Burton, Coalville, Ashby

