

How To Get The Bank To Say Yes

By TEC speaker Alan Miltz, Inmatrix

More and more there is becoming a right way to deal with banks, and a wrong way. In the current environment even the best businesses are having applications for new funds declined and calls by banks for existing facilities to either be reduced or refinanced. TEC Speaker, Alan Miltz, a leading authority on bank assessment processes, shares some pointers to assist CEOs avoid the pitfalls and enhance the way they communicate with banks.

Banks don't need your business. They have more clients and prospective clients than they have capital available to lend. This means two things:

- 1) They can put their price up
- 2) They don't have to keep or write marginal lending business

To prevent being seen by the banks as marginal, businesses leaders need to be able to clearly and convincingly articulate why their lending proposition (new or existing) must be supported by the bank. This needs to occur with every communication with the bank, not just for new applications.

The Corporate bankers all still have KPIs to retain customers and find new ones. Each year their clients in their portfolio pay off around 25% of the principal loan amount. Hence the banker needs to replace this just to keep making the same profit that they did the year before. This is before they achieve growth targets that their bonuses are generally linked to. From this we can assume that banks want to write new business and retain existing customers. However pressure from credit departments is such that without a convincing story that your bank manage can share with credit, they will be powerless to help you. You need to take control of the information that is being sent to credit.

To what are they looking for? Put simply they want businesses that:

- 1) Can pay the bank back
- 2) Will pay the bank back
- 3) If something unexpected occurs that the bank get its money (principle and interest) back

Hence knowing this, business leaders need to present factual information that reiterates that the business ticks these boxes. Fail to do this and you will very quickly find that your business is moved to a high risk set, with the bank presenting you with a plan to have you exit, either through refinance or foreclosure.

To assist CEOs in preparing for a bank presentation, the following questions are provided that should be considered in your preparation

Can you pay the bank back – Serviceability Test

- Does the business generate sufficient operating cash (Note - this is not profit) to cover interest and principal reduction with room for an interest rate increase?
- Do you know the quality of your cash flow - ie is your finance required to fund growth or is it covering cash shortage due to changes in financial performance?
- Do you have fast growth indicators that signal that volume is detrimental to cash?
- Do you have the right mix of short and long term funding?
- Does the business have liabilities that might jeopardise the banks position ie Taxation, key suppliers with significant outstanding dues? If so why shouldn't a bank be concerned that control of your business is no longer in your hands?
- Have you stress tested your budgets and have you articulated the assumptions simply but realistically to provide comfort of their validity?
- Are there external environmental factors that might adversely or positively impact on your profitability, ie competitors, regulation, substitutes?
- Are there trends emerging in recent years of declining markets, increasing costs, poor debt collection, disgruntled suppliers? How have these impacted your business and what are you doing to mitigate the risks to your business?
- Are your inventory levels appropriate and trending reasonably so as not to indicate obsolescence?
- Can the business demonstrate future viability and growth in its approach to markets?
- Does the business recognise and manage its blind spots regarding customers it deals with and markets that it supports?
- Does the business have an edge in the way it competes in the market it participates in?
- Does the business produce a return on investment for its shareholders currently and is it planned for the future?

Will you pay the bank back - Management Integrity

- Do directors have a clean credit history? If not, why should the bank not be concerned by this?
- Does the business have a clean trade credit history?
- Do directors have sufficient equity in the business (ie skin in the game), relative to other creditors including banks?
- Can you clearly articulate what the debt is for and how you will pay it back?
- Have you identified negative aspects to your proposition and provided satisfactory strategies to mitigate those risks to a bank that these might cause?
- Were business owners and senior management around in the last recession?

Can the business get its money back if the business should falter for any reason - Security

- Does the bank have sufficient security, taking into account their extension policy against valuation?
- Does the bank have too much security? If so is there an agreed plan as to how and when this might be released?
- If the bank has insufficient security, what other things are available to it that it might not be aware of - ie assets with a book value of zero but actual market value if sold?
- In a distress situation is there a market for stock and equipment and what are the realistic values that a bank might expect to receive?
- Is there an active market for your business globally should it need to be sold as a going concern or liquidated?

Remember: Businesses speak Spanish and Banks speak Portuguese. They sound the same but are completely different. If you don't speak to them in their own language it is likely that they won't understand you, and given that banks are only likely to get tougher to deal with over the next year, be ahead of your competition.

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