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Raising finance the easy way

THE days of easy finance are long gone. The present emphasis for bank managers appears to be to rein in their lending portfolio's. Lenders need to be convinced more than ever to maintain the present lending level, let alone provide any further cash. At a time when they are reeling from their bad debt write-offs, they need to be reassured that they are making a sound decision at a limited level of risk.

Haphazardly phoning for an appointment and requesting a rapid decision are bound to lead to failure. Successfully maintaining or even increasing the present level of lending needs planning and foresight. Any proprietor will greatly increase his probability of success, if he is able to take a step back and consider his own lending proposal from the lending managers perspective; namely what elements of the proposal they will consider to be of paramount importance.

The most important element will be the strengths of the proprietors/managers. The bank manager will consider their enthusiasm, experience and age. It is important that the management/ proprietors are aware of all the strengths and weaknesses in their business and in themselves. The onus will be on them, to convince the lender that weaknesses can be overcome and are not necessarily fatal.

The second element to consider is the type of finance that is required. The business plan will have to state clearly whether the finance required is an overdraft, a long term loan or equity. Short-term finance such as an overdraft should only be used for short-term working capital needs. Longer-term requirements, such as the purchase of a vehicle, will require longer-term forms of finance, such as a lease purchase agreement or a loan.

It is important that independent professional advice should not only be able to ensure that the business plan is presentable and coherent, but also act as a sounding board for the proposal itself, provide advice on the most appropriate method of finance, and if necessary, to assist in negotiations to obtain that finance. The experienced adviser will ensure that the information presented is accurate, relevant and realistic, ensuring acceptance of the proposal.

The business plan is more likely to be accepted if it is in a format that is geared towards the lender. Hence any plan should clearly state the purpose of the lending or continued borrowings, the relative strengths of the proprietors/management, and the type of finance required and the level of securities which will be offered.
Once the lender is convinced of the proposal and is aware the proprietary stake in the business is at lest equal to the banks own lending, he/she will next look at securities. The securities offered can be in various forms-property, life policies, stocks and shares, etc. In addition, guarantee's will inevitability be required for limited company borrowings.

Proprietors should be aware that the full value of the security will not be given, as the lender will consider what the forced sale value is likely to be. The lender will therefore take off a margin from the value of security offered. The margin will depend on the type of security involved. Unfortunately, there appears to have been a recent tendency to increase these margins. Business property, land and domestic property are presently likely to be reduced by at least 50 per cent, whilst a life policy may be discounted by 25 per cent.
The final hurdle to negociate is the charges involved. An arrangement fee will be charged as well as the normal monitoring and interest charges have been determined, the proprietor would need to ensure that the bank is adhering to these.

Once the proposal has been accepted, the lender will require regular updates of the financial position. But as any well managed business should be monitoring its own financial position on a daily or weekly basis, the provision of monthly or six-monthly cash flow forecast and management accounts should not be a problem. One final recommendation is to ensure that if any problem is foreseen, the lender should be told in advance. No lender likes to receive shocks such as bounced cheques, particularly if these were foreseeable. The emphasis must be to ensure that trust is built-up based on realistic and complete financial information conveyed on a timely basis, and unfortunately in today's economic climate more than ever, all the moves have to stem from the borrower.