

Working with your bank in a harsh economic climate

A Guest Article by David Leigh
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How to get a good reaction when applying for funding

Everyone is aware of the increased difficulties being faced by SMEs in securing bank funding and facilities, in the light of the current economic problems.

The banks have come under tremendous pressure and severe criticism for failing to support small business and cutting off the supply of funding arrangements. However, the criticism is not always well founded.

I do hear from many of the relationship managers and relationship directors with whom we are dealing on behalf of our clients that they have funds to lend. On the other hand, it is probably fair to say that a much more substantial form of due diligence is now carried out by the banks to consider whether the propositions that are placed before them are suitable; and the banks are invariably taking a much more careful look to establish if they really feel comfortable with the entire proposition.

The golden rules for funding applications

Below are seven golden rules for ensuring the best possible reaction of the bank to any submission for funding or facilities.

1. Clarify the bank's requirements

If you are making an application to a new bank, it is very important to ensure that you fully understand what information the bank requires. You should obtain written confirmation of everything that the manager will want to see. If there is any doubt or uncertainty, ask for clarification at the outset before spending any time on preparing something that may not be required, helpful or relevant.

If you are an existing customer of the bank, you will probably have a better idea of what is required from having prepared the information in prior years. However, it is still always worth confirming precisely the information that the manager is expecting – particularly in the current climate, where the detailed reviews undertaken by the bank manager are increasing, even for the renewal of facilities at a previous agreed level.

2. Keep your records up to date

Try to ensure that the records of the company are kept up to date and that the historic information provided is the most recent. For example, do not allow the financial record-keeping to fall into arrears such that the annual

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financial statements are late in submission to the Registrar of Companies (and HM Revenue & Customs). This hardly creates the impression of a diligent and well organised company.

3. Use realistic assumptions

Where you are providing budgets, projections and forecasts, make sure that these are reasonable and realistic. Do not incorporate over-ambitious targets (or, for that matter, overly pessimistic ones). Always provide an accompanying explanatory note giving details of the assumptions you have used.

4. Ensure consistency across the board

You should ensure that the cash flow forecast correlates with the budget and that there is consistency with regard to the assumptions that are applied across all of the forecasts.

5. Take account of past performance

Consider the budgets, projections and forecasts in the context of the actual performance in past periods. Where significant changes are envisaged – for example, a substantial increase in turnover, a significant improvement in margins, or an expectation of a rise or fall in costs – make sure that the notes accompanying the budgets, projections and forecasts explain all these factors.

6. Communicate changes promptly

If, during the process of applying for the funding but before the decision is communicated to you, there are any fundamental changes in the information that is being submitted, advise the bank manager at the earliest opportunity.

No one likes surprises, least of all a bank manager to whom an application has been made for funding – particularly if the changes represent a deterioration in the trading performance or the financial position that has been previously communicated.

It will do nothing for the long-term working relationship if such matters come to light soon after the funding arrangements have been agreed.

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7. Be patient

Try to remain patient; applications for funding seem to be taking longer these days. In addition, the bank could request further information part way through the process. You need to remain flexible and responsive to any such requests; and you need to factor in the timing of when the facilities will be required. Bear in mind that securing these facilities may take a more extended period than may have previously been envisaged.

In the event that your application is successful, you will undoubtedly have a requirement to submit regular management and financial information. Again, it is important to ensure that there is clarity on both sides of what is expected by the bank and what the company has the capacity to produce.

There is of course always the possibility that the application will be unsuccessful. So, in this climate of uncertainty, it is useful wherever possible to have a "Plan B" in the event that the bank cannot help. The company will still need to find the resources that are required, so try to consider the next best alternative.

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If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.