

## A better outlook

What we look for when we lend





Getting the right funding is essential for taking a business forward, yet acquiring that funding may be a little more challenging in today's climate.

At Santander Business Banking, we are fully committed to supporting our customers over the long term, which is why we want to make it easier to secure the right funds, fast. This guide explains what we look for when a business applies for a loan. It also gives you simple tips on how you can boost your creditworthiness and improve your chances of getting the funding you need.

### **What we're looking for in your business**

We use the following structure to analyse your credit:

Character of the business

Ability to repay

Margin

Purpose of loan

Amount of loan

Repayment terms

Insurance



## Character of the business

The better we understand your business, the better we're able to provide the funding you require. That's why we'll take a close look at how your business works, from your own experience to the ability of your management team.

### Here's a quick look at some of the questions we will ask:

- **How strong is the management team?** Are they experienced in trading in a recession, do they understand how the current climate affects their business?
- **How strong are your people?** Are they highly skilled in their field, well qualified, do they have a sound reputation and are they experienced?
- **What is your production/earning capacity?** Does your business outsource, does it rely on other companies? If so, what are the risks associated with those companies, are they faring well in the current climate?
- **What is your power structure?** Is power shared across departments or is it centralised?
- **What is your people culture?** Are your employees happy and motivated, do they feel empowered?
- **How is your industry faring?** Is it affected by the downturn, by any new legislation or regulation, or by any relevant technological advances? How is your company faring compared with the industry in all of these aspects?
- **How is your market?** Has the slowdown in consumer spending shrunk your market? How are your products or services beating off the competition?
- **What is your track record?** We will undertake credit searches on you and your company to establish your ability to manage your finances, the results of which will have a strong bearing on the decisions we reach.

We may ask you to give us management accounts, budgets and projections, and we'll also look at your published accounts, ratings and broker reports. This gives us a picture of both the sustainability and reputation of your business, and whether it can weather a volatile economic climate.

### What you can do...

- Take a look at your business' management and see if there is anything you can do to minimise the risks associated with the current climate. Positive action will be viewed positively.
- Supply detailed financial records. Budgets, forecasts, and sensitivity analyses that go back three years or more will give us the information we need to ensure your business is creditworthy.



## Ability to repay

With more businesses defaulting on their loan payments these days, making sure a business can repay their loan is more important than ever.

### Here's what we'll look at:

- **How will you repay the loan?**  
We need to be able to confirm your existing and projected cashflow and that this can be sustained.
- **What is your borrowing risk?**  
We work this out using the Gearing Ratio, which calculates what proportion of your total business' capital the loan will be as follows:

$$\text{Gearing Ratio} = \frac{\text{Bank Borrowing}}{\text{Owner's Equity}}$$

- **Can you cover the interest?**  
We will use the Interest Cover Ratio to work out how many times your business can cover its interest costs from its operating profit and we will stress the calculation to make sure that you are able to meet your commitments in the event of an increase in base rate, as follows:

$$\text{Interest Cover} = \frac{\text{Operating profit}}{\text{Interest payable}}$$

- **Can you cover the payments overall?** We'll use the Debt Service Ratio to work out whether your available cash flow would meet both your interest and principal payments as follows:

$$\text{Debt Service Cover} = \frac{\text{Net Operating Income}}{\text{Total Debt Service}}$$

We may also require external due diligence if the transaction is highly leveraged or specialised.

### What you can do...

- Reduce your existing debt. This will lower your gearing ratio and make you a lower risk business
- Increase your cash buffer. In a recession cash is key, so the more you have, the better chance you'll get the lending you're looking for.

## Your risk margin

Aside from the base rate, your interest payments will vary according to your risk profile. We work this out by looking at your business' capital and its ability to repay. The lower your risk margin, the lower your interest rate.

## What you can do...

Reducing debt, strengthening your management, even changing suppliers are just three possible ways you could lower your risk profile. Your local Relationship Manager can help you identify some of the steps your own business could take.

## Purpose of loan

We'll need to be sure the purpose of your loan is not illegal, and not to fund a loss as this makes payment defaults more likely. We'll also want to make sure it is going to benefit your business rather than burden it.

## What you can do...

Be honest and open about why your business needs the loan. The better informed we are, the greater your chances of getting the funding you need quickly.

## Loan amount

We want to make sure you get the right amount for what your business needs. As well as making sure your business can repay the loan and cover the interest payment, we'll also want to know what your personal stake is.

## What you can do...

Increase your stake. A lender will be more likely to stake their own money if they know you're personally invested as well.

## Repayment terms

We'll look at the loan term and repayment structure. Longer term loans are altogether riskier, so we'll work with you to achieve the right balance between keeping your repayments manageable and limiting overall risk.

## What you can do...

Try to keep your loan term to a minimum. The shorter the term, the lower the cost of borrowing.

## Insurance

Circumstances can change, so the quality and amount of security we are offered is an important factor within the decision making process. When lending against property security, the Loan-to-Value (LTV) is an important consideration:

$$LTV = \frac{\text{Amount of Advance}}{\text{Value of Security}}$$

Where we have concerns, we may ask for a personal directors' guarantee as insurance against the possibility your business cannot repay the loan. We'll also want to make sure your business has adequate insurance against any other events that could hinder repayments.

## What you can do...

Make sure your business has adequate insurance and that you can supply good quality security. The better the quality of the security, the more confident we'll be that you won't default on payments.

## **Be prepared**

When it comes to securing funding, a comprehensive business plan can make all the difference. Use your plan to tell us about your business' goals, why you want the loan and what the benefits will be for both your business.

Try to supply as much information about your business as possible. The better prepared you are, the quicker you'll get a decision.

## **Delivering the right solution**

Both bank borrowing costs and default rates have increased in the last 18 months, so it's important to be realistic about how much a bank is prepared to lend you. We're here to support you, so if we can't meet your initial request, we'll look closely at how we can restructure it in a way that both meets our risk/reward requirements and benefits your business.

## **Get in touch**

To find out more, please talk to your local Relationship Manager.