

Santander Business Banking

Dedicated to businesses



How to make borrowing cost less

It is a question many businesses are asking: if the Bank of England base rate is at a historic low, why are bank lending rates still so high? We appreciate it is confusing, so here is a simple explanation along with ways to help you keep your borrowing costs down.

Although it costs less for a business to borrow than it did three years ago, it now costs banks much more to lend. Here's why:

- **Banks' costs of funds are higher.** Banks are getting less of their funding from short-term money markets and more from customer deposits and longer-term markets. These are more stable but their interest rates are often much higher, so funding costs banks more.
- **Lending is now riskier.** The economic downturn has made it riskier to lend all-round, and banks have to price this in to their lending costs.
- **Costs of capital are higher.** In order to lend, banks are required to hold a certain amount of capital linked to customers' credit profile and the value of assets pledged as security. Now that asset values have decreased and risks have increased, banks have to hold much more capital before they can lend, and that in turn costs more.

The higher cost of lending has increased banks' rates and fees overall, but we can still help you keep your borrowing costs down. Here's how:

Keep a low risk profile

The lower your risk profile, the lower the amount of capital we have to allocate against your borrowing, which in turn keeps borrowing costs down. You can keep a low risk profile if you:

- Demonstrate a strong balance sheet with a consistently high level of net assets and retained profit.
- Provide a good level of quality security against your borrowing.
- Demonstrate a good borrowing and deposits record through always making loan payments on time, staying within your agreed overdraft limits and keeping a high level of turnover through your accounts.

Keep capital and funding costs down

You can also help us keep our capital costs down – and in turn your borrowing costs – if you:

- Keep your overdraft facility to an appropriate level. We are required to hold capital against your overdraft limit, even if you don't use it. This costs more for us, and that cost is reflected in the fees we charge.
- The bigger your cash stake, the lower the exposure will be to the bank, providing a lower overall Risk and a lower cost to you.

At Santander Business Banking, we understand our success depends on yours. That is why we are deeply committed to helping your business face its challenges and meet its goals. We've continued to lend to UK businesses in the economic downturn, supplying great value lending when our customers need it most. Talk to your Relationship Manager about how we can do the same for your business, both now and in the future.



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