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Introduction

Using the banking system to your fullest advantage, requires an understanding of how the system and its services work and building a professional relationship with your Bank
Manager.

Banks have a responsibility to give their shareholders a return on their capital by making a profit. This the banks do mainly by borrowing money from one source and lending it out to another; their profit is the difference between the cost of borrowing and the rate at which they lend, less their overhead expenditure.

As a commercial client, you will therefore need to convince your Bank Manager of the viability of your company's business and the feasibility of your plans.

To own a business is a great feeling; to run a profitable business is an even greater achievement!

What your banker needs_

ADDRESSING YOUR BANKER'S CONCERNS

Your Banker's first duty is to protect his shareholders' money and the investments of the bank's depositors by making only good loans. It is you who must persuade him/her that you, and your business, are a good risk. In assessing your company, your Bank Manager will look into the following:

Liquidity

ï Your ability to pay interest and service your debts and creditors on time or, if necessary, dispose of an asset to do so.
ï The quality of your current assets.

Past performance

ï Profits
ï Keeping your promise
ï Being on time
ï Reliability

The business and its stability

ï Retained earnings and book value
ï Paid-up capital
ï Distribution policy (not "milking" the company)
ï Fixed Assets quality

The industry

ï Its recent performance
ï The Future

Your reputation and ability

ï Integrity
ï Experience
ï Commitment
ï Age (and that of your supporting team)
ï Knowledge of business and industry
ï Management skills
ï Use of outside professionals

The opportunity for growth

ï Your industry
ï Your business
ï Rate of growth

Security

ï Collateral
ï Guarantees

The following 15 tips would enable you to develop a sound business relationship with your Bank Manager.

TIPS

ï Have a Business Plan - discuss it with the Bank Manager regularly.

ï Prepare a Cash Flow Budget - analyze it monthly.

ï Prepare a list of aged receivables and payables - monthly, weekly or daily if in trouble.

ï Provide your Bank with regular financial reports, preferably prepared by outside accountants.

ï The Bank Manager can best help you if he/she knows of changes in time, whether planned or sudden. A surprise is the sign that you are not running your business well.

ï Tell your Bank Manager of any major changes you intend to make before they occur:
- New and large orders anticipated
- Plans for expansion
- Additions to premises
- Receivables lengthening
- Inventory turnover slowing down
- Creditors becoming demanding
- Substantial increases in rent
- Loss of contracts or orders

Also any bad news before he hears it from others

ï Have regular meetings with your Bank Manager whether or not you need a loan or an increase in your overdraft.

ï Establish a credit line in anticipation of a need determined from your cash flow. Keep your credibility and do not let him/her forget you.

ï Have your Banker visit your premises.

ï Always meet your debt servicing commitments on time.

ï If you are going to be late with your payments or have a problem, discuss it with your Bank Manager IN ADVANCE ...have a suggested solution.

ï Use your Bank Manager as an introduction to other sources of help/capital.

ï Do use some of the Bank's other services if they meet your requirements, e.g. electronic banking with Direct Link.

ï Keep your own personal finances in order. You do not necessarily have to use the same bank, but it helps.

Why do you need Finance?
FINANCING OPTIONS

Maybe you require short-term money to cover temporary financing of stocks, for example, or to bridge the period between deliveries and receipt of payments. If this is what you need, then the bank can lend on an overdraft basis.

No doubt you are familiar with the workings of an overdraft! It is intended to fluctuate within an agreed limit. You pay interest on the amount outstanding on a daily basis. It is subject to periodical review and you should remember that money advanced on an overdraft is repayable on demand.

However, you may have need for meduim to long-term finance, i.e. you want to extend your existing premises or buy an expensive capital item and cannot support this expenditure out of your current cash resources; the bank will lend on a loan account. There are now many different types of loan accounts available, each designed to suit particular financing requirements. Your Bank Manager will know which one is most suitable for you.

One important rule for good financial management of a business is to be sure that you raise the right sort of finance. You must take care not to try to fit a long-term project into a short-term, as this may create some financial strain.

How much do you want to borrow?
YOUR FINANCING REQUIREMENTS

Your request for financing will be measured in terms of certain basic rules. The Bank Manager will require you to demonstrate your need for finance. You may be asked to draw up a cash-flow forecast (cash budget) usually on a 12-month basis. In this you must show your expected income and expenditure, make an allowance for delays in the receipt of funds, tax payments, personal drawings, etc. Convince the Bank Manager that you are asking for a realistic amount; be sure not to ask for too little!

Take a copy of your cash budget with you to the interview. You will find that it helps you to make your case clearly and logically. If you do not have any experience in drawing up a cash budget, your Bank Manager may put you in touch with an available business advisory service e.g. Small Business Development Co. Ltd., Accounting Firms, Management Consultants, which have the expertise to give that sort of service.

You may be wondering about the Balance Sheet. Where does this fit into the overall picture? You would be right in assuming that the Bank Manager lays great emphasis on his/her reading of your audited accounts, although he/she will want to hear from you what lies behind the figures. The accounts, over a period of years, will enable the Bank Manager to build up a picture of your business. His/her opinion of what he/she sees will influence how much money will be lent to you. He/she will be looking for trends in the changes in the various figures over the years, to see whether the business is growing in strength or whether there are signs of financial strain. You too should review your financial progress along these lines.

We have drawn up a simplified balance sheet for the purpose of illustration:-

XYZ Limited
Balance Sheet as at 31/12/XX

Current Assets	$	$	$
Cash at Bank		150	
Debtors	11,000		
Less Provision for Bad Debts	300		
		10,700	
Stock and Work in progress		5,450	16,300
LESS:			
Current Liabilities			
Trade Creditors	5,000		
Tax	1,250		
Dividend	750		
Bank Overdraft	4,000		11,000
NET CURRENT ASSETS			5,300
Fixed Assets			
Freehold Factory		7,000	
Machinery (at cost)		2,500	
Less Depreciation	500	2,000	9,000
TOTAL NET ASSETS			$14,300
Financed by:-			
Term Liabilities			
Mortgage loan			5,000
Proprietors' Stake/ Shareholders' Funds			
Ordinary Shares	5,000		
Profit & Loss a/c	4,300		9,300
		$14,300	

The Bank Manager will first look at your stake in the business, what is called the "Proprietors' Stake". This is the money owed by the business to its owners and consists of the capital originally invested plus the profits it has retained over the years and any reserves it has built up.

In the case of XYZ Limited the stake is $9,300. This is a cushion against adversity; if the business makes losses, you lose your money before the creditors (including the bank) lose theirs.

The Bank Manager will measure the stake against the assistance he/she grants. There is no fixed relationship, but as a general rule, you should have at least as much stake as you are seeking from the bank. But, as with all rules, there can be exceptions for an otherwise sound proposition. Remember though, the bank is not in business to provide risk capital. The Bank Manager is lending you depositors' money and his/her first priority is the safety of these deposits.

In his/her investigation of the balance sheet, the Bank Manager will pay particular regard to the relationship between current assets and current liabilities. This will indicate whether your business can continue without recourse to its fixed assets. Stock and debtors are the circulating assets of the business. Stock is sold for cash or on credit - when sold on credit, debtors are created. The cash received from cash sales and from debtors when they pay is reinvested in stock to continue the cycle.

Any check on this circulation will affect the ability of the business to meet its commitments. The quality of the business stocks and debtors is therefore, of great importance to the Bank Manager.

Unless there is a large volume of cash transactions in your business, debtors should generally exceed creditors. Are all the debtors well-spread? What is your bad-debt record? Has the length of credit you allow changed over the years? If so, why? Do you keep a tight control on the amounts owing to you?
How quickly does your stock turn over? Are your stock levels sensible? Do you have a good stock control system ?

The Bank Manager will also be concerned with your track record. Have you made good profits in the past? Have you let your profits accumulate in the business? Answers to these questions provide some notion of your management capability.

It is a fact that your business will require more finance than the amount you would normally require to purchase fixed assets such as buildings and machinery. Your sales level is dependent on the finance which is available. When you chat with your Bank Manager you may hear the term "working capital" and "overtrading". We shall illustrate these terms for you now.

Questions that your Banker will ask you
YOUR COMPANY'S OPERATIONS

Working Capital

A business needs working capital to finance its current assets. Funds are provided by creditors and the company. In the case of XYZ Limited, current assets of $16,300 are financed as follows:-

Trade creditors	5,000 }	
Tax	1,250 }	All
Dividend	750 }	"Creditors"
Bank Overdraft	4,000 }	
Working Capital provided by the company	5,300 }	
	$16,300	

These figures balance because the assets can be no greater than the amount of money you and your creditors (including bank overdraft) have in the business. The working capital the company provides towards this need is the amount of Proprietors' Stake and medium/long-term funds which have not been invested in fixed assets. (In the case of XYZ Limited, using the figures on page 9, it will be $14,300 - $9,000, i.e. $5,300). An overdraft therefore can help to finance the working capital requirement. From this we can see that the effect of increasing the overdraft to finance a non-current asset will leave less funds available to finance current assets which the business needs to support its sales. This will put severe strain on the operation of the business as the sales level necessary to make a gross profit sufficient to cover expenses may not be achieved and payments to creditors may also become difficult.

There are two rules of thumb:

1. In general, fixed assets should not be provided for out of short-term funds but rather from shareholders' funds, medium or long-term loans, hire purchase or lease financing.
2. A proportion of long-term funds in a business should be available to finance current trading. The business should not place excessive reliance on short-term funds supplied by creditors (including bank overdrafts) to support current assets.

Overtrading

Let us suppose that the Directors of XYZ Limited are very happy with their progress. They have been making profits and their stake in the business is $9,300. The bank is quite happy with the company and has agreed to increase the overdraft facility to $8,000 and, as a result of their performance the Directors plan, without needing to invest further in fixed assets, to increase sales from $70,000 in the year just ended to $210,000 in the coming year. How will this affect the balance sheet and financing needs? If turnover triples, one can expect debtors and stock to increase to a similar extent. Thus, current assets would be around $50,000. How would this be financed?

XYZ Limited
Balance Sheet as at 31/12/XX

Current Assets		$ 50,000	
Financed by			
Creditors	15,000		(triple)
Tax / Dividend	2,000		
Bank Overdraft	8,000		
Working Capital	5,300		(Rising when profits are earned)
		$ 30,300	
The Company's Working Capital is still short by		($ 19,700)	

How is the working capital shortfall to be financed?

Either there will be a trend to taking longer and longer credit (increasing creditors) and giving shorter and shorter credit (decreasing debtors) which may or may not be possible, or there will be a need for more bank/proprietor finance (which may or may not be available). Putting it quite simply, "over trading" is growing too fast with your available cash resources. A Bank Manager would expect your financial management to ensure that trading plans and any capital investment plans can be supported by the funds available from your stake, trade creditors and bank etc.

How do you intend to repay the bank?

Repayment lies at the head of any proposition that you might put to your Bank Manager. He/she will be inclined to lend to you if you can demonstrate how and when repayment is to be made. If you prepare a cash budget this will help him/her follow your plans for repayment. It is important that you show clearly that you have carefully examined and worked out how new finance will help profitable growth and how the business can cope comfortably with any new arrangements you agree to for reductions.

In assessing your proposals the Bank Manager may refer to your "funds flow" (not to be confused with your cash flow forecast). To him/her this is basically the total of your retained profit plus the amount charged for depreciation for a financial year. Your Bank Manager will however also take into account capital items and externally generated funds. Although depreciation is treated as a business expense it does not result in any immediate cash depletion and may be regarded as an item retained in your business. Any plans you may have to reduce borrowed money must be based upon the amount you retain in the business. In assessing your proposals your Bank Manager will look at your "funds flow" within recent years.

Is your business financially strong enough to ride a "set-back"?

The Bank Manager's considerations on "Proprietors' Stake", "Working Capital" and the other aspects of your balance sheet and the ways in which they have changed over the years help him to answer the question. You should be well prepared for any discussion of this question and ready to outline your financial planning and control systems and how they keep you in close touch with progress.

What security can you offer ?

Your Bank Manager now knows the financial picture of your business. He/she is able to assess what risk the Bank runs in lending you money. It is upon this assessment that a request for security is based. The offer of security does not weaken the need for a thorough examination of your proposals. If security were paramount, the Bank Manager would be no more than a pawnbroker.

Getting Started
GUIDELINES TO PREPARING YOUR FINANCIAL PROPOSAL

Every lender - whether a banker, a term lender or a Government official; every investor - whether a venture capital company or an individual, will ask to see "something in writing". It is called the Financing Proposal and it is built around your Business Plan: simply stated, a Business Plan is a written summary of what your business is, where you intend to take it and how. A Financing Proposal is nothing more than a Business Plan which adds the details of what money you require to achieve your Business Plan objective, with a justification of how the money will be used and what returns can be expected. There is no perfect plan or perfect proposal. Something prepared by your accountant can be very helpful, but make sure it's based on facts supplied by you. You must BELIEVE in it, you the owner are the one who is in control and who will make it happen.

In addition to being the main selling tool in raising money, preparing the Financial Proposal:-

- ï Forces you to face reality by looking at the facts.
- ï Helps you to identify and clearly define products, markets, suppliers.
- ï Provides you with a road map against which to measure results.
- ï Helps you to be a better manager by forcing you to write things down, to be clear and more objective.
- ï Gives you an estimate, along with the Cash Flow Budget, of how much money you will need and when.
- ï By its clarity and presentation it conveys not only a lasting impression of you and your company, but also allows others to assess your chances of success.

The purpose of this section is to help you prepare a Financing Proposal and thus put your "best foot forward" when trying to attract debt or equity capital; as well as to provide you with a fundamental management tool. It is not necessary to stick to the exact order or format, but make sure all the parts are covered.

Keep the Financing Proposal simple and to the point. Emphasise the strengths/upside, but DON'T ignore the risks/downside. Show that you understand them and know how to cope with them.

Inventors tend to talk about nothing but their invention, the hoped-for product; finance managers talk about nothing but Return-On-Investment (ROI) and salesmen about sales. You should be balanced in your presentation, don't just stick to your pet subject, and ALWAYS STATE THE DOWNSIDE.

The Financing Proposal is a synthesis of all your knowledge and experience combined with your estimate of the future. You need every tool available to you including what has been covered in our other booklets, copies of which may be requested from your Bank Manager.

It should contain:

- ï The Company's Name, Address and Telephone Number.
- ï Table of Contents (number all pages for reference).
- ï The Summary

ï Summary

The Summary should be the opening page of the Proposal and should contain the following key information:

- ï What the company is and does
- ï A brief history
- ï Where its future lies
- ï Purpose of loan
- ï Amount of money required.

Convey what you would like to say simply and convincingly; the summary should be no more than one page.

ï Background/History of the Company

Give an overall picture of the company and how it got to where it is:

- when founded and by whom
- how it developed; dates (or years) of key milestones and major events (sales peaks, profits, poor years, etc.)
- how it arrived at the present position

ï Management

Regardless of assets, profits and potential, the company's management will make it happen or not; give a good idea of breadth, depth, experience, age and commitment of the key management.

- Give the names, ages, experience, education, title and if possible, salary of management team.

- State the responsibilities and contribution of each manager. Include an organization chart, if one is available.

ï The Product / Service

- description (put brochures, literature in Appendix)
- applications and uses
- uniqueness/patents
- customers
- pricing

ï The Market

- development and growth
- size and your share - include Government or other statistical data
- the competition
- different channels of distribution

ï Production / Supply

- your facilities : size, location(s), special features
  : ownership; length and terms of leases
  : equipment and their quality
  : present and potential capacity
  : overhead costs and how allocated
- costing : direct costing
  : how controlled (mechanical/computerized, etc.)
  : reporting
- employees : numbers, unionised, part-time/ full-time
  : hourly wage rates
- inventories : levels
  : reordering systems
  : control
- major suppliers and average annual orders
- purchasing : under whose control
  : how checked and followed through

ï Financial Performance - The Past and Future

- This is an outline which gives an overall picture with detailed Cash Flows, P&L accounts and Balance Sheets. This information can be given in the Appendix.

- Sales, costs of goods, gross profit, selling costs, administration, and pre-tax profit should be shown, back 3 years, forward 3 years, if possible.

- Include a percentage on sales, it will help you and the reader. Comment onperformance, including reference to the balance sheet:-
- return on investment (high/low)
- working capital (high/low)
- other elements you consider critical

- Consider showing a "high" and "low" estimate for the future. Your cash requirements should be based on the worst picture.

- Outline Cash Flow - at least Cash In - Cash Out - Closing/Opening Balance for at least 12 months (use monthly for first year)
- Explain and list all your major assumptions (These can be part of the financial details given in the Appendix).

ï Financing Outline

A brief section outlining why the funds are needed e.g.

$65,000 to increase working capital
$85,000 purchase of assets (detailed elsewhere)
$50,000 to increase bank line to allow for bid and performance bonds on government contracts
$200,000 TOTAL

If debt exists, suggest the period over which it will be repaid (as shown in the Financial Projections/Cash Flow).

ï Basic Data

- Bank (name, branch, address, phone number, person dealt with).
- Legal advisors (name of firm, address, phone number, person(s) dealt with).
- Accountants/auditors (name of firm, address, phone number, person(s) dealt with).
- Date, place, nature of incorporation/sole proprietorship/partnership, etc.
- Authorised and issued stock.
- Directors of company, addresses, other affiliations.
- Major shareholders, number of shares.
- Stock options, if any.

ï Appendices

All the bulky, detailed material which would clutter up the main presentation can be included in the appendices, or if necessary in a separate binder.

Such material could include:-
- Detailed management biographies
- Product literature
- Letter of reference or commendation
- Patents, legal descriptions, major

contracts or other legal documents.

- Recent valuations (particularly if you are looking for a term loan or mortgage).
- Detailed description of buildings, equipment etc.
- Market research, engineering or other studies (referred to outline only in the proposal).
- Detailed P&L and Cash Flow Projections.
- Recent accountant's/auditor's financial reports.
- Other material relevant to your presentation.

Appendix A
DOCUMENTS TO BE FORWARDED TO THE BANK

The following is a checklist of documents which you should take with you when you visit your Bank Manager or, if possible, send to him/her beforehand:

Financial proposal supported by:-

1. Balance Sheets (Audited figures for past 3 years if possible. Interim draft figures when available).

2. Interim profit and loss accounts.

3. Details of debtors and creditors.

4. Details of stock.

5. Budgets.

6. Cash flow forecast.

7. Capital expenditure plans - where available.

8. Security (details of any security you have to offer).

Appendix B
QUESTIONS & ANSWERS TO BE ADDRESSES BY YOU

Below is a summary of questions you should consider before meeting your Bank Manager:-

1. Why do you want bank financing?

   (a) Where it is not already known to thebank manager, what is the company's history and product?
   (b) What are your present resources in terms of plant, premises, staff, etc ?
   (c) Do your requirements necessitate a loan or overdraft?
   (d) In cases of expansion or purchase of capital equipment, an outline of your longer term plans.
   (e) Have you considered alternative sources of finance, e.g. leasing, hire purchase, mortgage finance?
   (f) Have you considered the long-term prospects for the industry in which you trade?

(g) If you propose to change the nature of your product, have you fully considered the possible changes in the distribution of your sales etc ?

2. How much do you need?

(a) Have you prepared a cash flow forecast ?
(b) Might savings be made elsewhere to reduce the level of borrowing required and therefore unnecessary interest charges?
(c) Are you sure that you are asking for enough? It is better to overstate than underestimate.
(d) Where overdraft finance is required, have you considered the possibility of a high mid-month peak requirement not necessarily reflected in the cash-flow forecast? For example, settlement of creditors by the 10th monthly will almost certainly result in end-month figures being below peak.

3. How do you intend to repay the bank?

(a) From what source will repayment come?
(b) Over what period do you wish to repay the loan?
(c) What will the implications be of any increased repayment to the bank?

4. Is your business financially strong enough to withstand a set back?

(a) Are there any unusual items in your balance sheet that require explanation?
(b) Are your debtors well spread?
(c) What is your bad debt record?
(d) Are your stock levels well controlled?
(e) Are you holding excess levels of stock, raw materials, work in progress, finished goods? Why?
(f) Are you aware of the dangers of over-trading?
(g) Do you have a long-term strategy for your business?
(h) Is your management structure strong enough to withstand changes and has future succession been considered?

5. Security?

What security do you have to offer?

Appendix C
FINANCIAL SERVICES FOR COMMERCIAL CLIENTS

The following are the financial services that we have designed to suit your company's needs. Feel free to enquire about any of them:-

Overdrafts - Credit facilities to accommodate the daily operations of the company, while awaiting receivables.

Revolving Loans - A line of credit for a specific purpose e.g. raw material purchases, with repayment from sale of the finished product.

Term Loans - A loan repayable over an agreed term with fixed monthly instalments, usually granted to purchase fixed assets, e.g. land, equipment.

Bills Discounted - Assists the cashflow by providing an immediate availability of funds from export proceeds.

Letters of Credit - Provides an access to funds which otherwise may not have been available.

Foreign Currency Accounts - A means of accumulating funds in order to have a source of readily available foreign currency.

Credit Cards (Local/Foreign) - A revolving line of Credit which assists companies to monitor travel expenses and entertainment accounts.

Republic Cover - An insurance plan which provides personal life coverage and serves as security for advances made to your business.

Republic Mutual Funds - Offers a simple, convenient and efficient avenue of investing in a portfolio of securities, thereby reducing investment risks.

Invoice Financing - Offers a financial package which provides the maximum cash flow benefits from trade debtors.

"Account Master" and "Direct Link" - Computer-based electronic banking systems that provide direct access to account information via a personal computer/fax or touch-tone telephone.