HOW TO INFLUENCE THE 3 S'S OF BANK LENDING

1. SERVICEABILITY

When a bank considers lending, they want to know: **'What is the serviceability of the loan?'**

Servicing relies on **your business's ability to generate surplus cash flow** to provide a buffer in the event of a shock or downturn.

Banks/financiers will apply measurements or covenants to assess your **'servicing buffer'**. Such measures may be termed:

- Interest Cover
- Fixed Cover Charge
- Debt to EDITDA ratio, etc.

Maintaining a healthy cash surplus will positively influence the bank's view of your loan's serviceability.

This may result in less onerous loan conditions and covenants, more flexible financing options and improved cost of borrowing.

2. SECURITY

Banks/financiers will gauge the **value and marketability of your security – or assets** – to assess the degree to which they could realise their funds outstanding to you in the case of default.

These **assets are 'hard' items** such as land, property, buildings, P&E, stock and inventory, and (sometimes) debtors.

A **healthy balance sheet** provides a financier with confidence to support your business.

A healthy balance sheet is one in which:

- the net position on the balance sheet is **strongly positive**
- the strength and quality of the assets versus the liabilities are **verifiable and current**
- the **debtors' collection is repeatable** and within payment terms
- the **creditors are not extended** beyond reasonable payment terms
- **liabilities and obligations are recorded** and accounted for.

3. SURETY

Surety is about how confident your bank, financier or equity investor can be that you are going to:

- **continue** to operate as you are now, and
- **provide them with a return** on the funds they have invested.

Many factors influence surety, including:

- your level of **experience** as a business owner
- your **expertise** in the current industry
- the degree to which you **measure and manage** your business
- the **systems and processes** you have in place to manage business risks, opportunities and operations
- the risk and potential consequence of an **economic or other shock** in your business
- your **succession preparedness** and the depth of expertise within your business
- the **diversity of your customer and client base**.

Opening the lines of communication and keeping your investor up to date on how the business is performing will positively impact their assessment of your surety.