How your bank calculates a business risk

Just like you, banks are in business –they don't succeed by making bad deals. When they consider your loan application, they're calculating the financial risk of entering into an arrangement with you. Let's break it down.

What the bank considers

For the bank, financial risk comes down to whether you can repay your loan and the interest in the agreed time.

To protect itself, the bank looks for evidence that your business won't fall among the overwhelming number of business which fail and are therefore unable to repay a loan.

When assessing financial risk, one of the main factors the bank looks at is you, the business owner. What skills and experience do you have? Do you understand your business and have a clear and realistic plan for developing it? Importantly, they'll also be looking at your credit history any existing debt you have and even how long you have remaining in the work force.

Banks also consider:

· **Security:** The bank will evaluate what you're offering as security against your loan – this might be a family home or other assets such as apartments or factories.

· **Industry:** Lenders view some industries as riskier than others, because of conditions such as competition, profitability and the economic climate. The building industry is perceived as risky due to the huge peaks and troughs of income, low focus on profit and the lack of business experience by many in the trade.

· **Cash flow:** Inadequate cash flow is among the top reasons why companies become unable to repay debt. The bank will want to see what revenue you have coming in, and be assured you can pay wages, keep the business ticking and make your loan payments on time, even if something unexpected happens.

· **Income:** Lenders would like to know that your business is making enough money to pay you a sufficient income to pay for your lifestyle and any existing debts as well as your proposed new debt. Tax minimisation strategies may work contrary to a bank's requirement to assess your serviceability or ability to repay loans.

Show the bank you're managing risk

Having higher risk doesn't mean you won't get a loan. But you need to show the bank you're aware of the risks and are taking the necessary steps to manage them.
You need to have a risk management plan that documents your business's specific (financial and other) risks and identifies the steps needed to reduce or manage them.

For these and many other reasons, it's very risky to take a punt and approach a bank directly for a business loan. An expert Credit Advisor like Master Builders Finance will know which banks have an 'appetite' for the construction industry and which lenders have totally turned off the lending tap for it. The Credit Advisor will also seek to understand your business, ensure there are robust practices in place, current and future risks are mitigated and there are good margins and revenue practices in place.

If you need assistance securing a home loan, accessing equity from your properties, business loans or better managing your business, contact Harry Pontikis on 0411 258 058 or harry@chocolatemoney.com.au

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