How your bank calculates a business risk

Just like you, banks are in business – and 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 commercial loan and the interest in the agreed time.

To protect itself, the bank is looking for evidence that your business won't fall among the overwhelming statistics of business which fail and therefore unable to repay the 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, and any debt you may have.

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 stocks and shares.

- **Industry:** Lenders view some industries as riskier than others, because of conditions such as competition, profitability and the economic climate. If your industry is seasonal, such as tourism or agriculture, they'll want to know how you'll manage repayments in the off season.

- **Cash flow:** ASIC reports inadequate cash flow 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.

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 Chocolate Money (1300 137 539) will know which banks have an 'appetite' for your industry and which lenders have totally turned off the lending tap for that industry. 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 with your income, costs, staff or other essential areas of your business, please contact Harry Pontikis from Finding Money on 0411 258 058.