Useful Tips For Approaching Local Banks For Financing

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Introduction

- Potential financier consider various criteria in assessing potential borrower. Borrower should be aware of these criteria to enhance their success in accessing financing.
- Banks and other lenders normally to set their internal rules (Risk Acceptance Criteria), and this can change from time to time.
- However, all financial institutions are bound by general regulations and guidelines established by regulator i.e. Central Bank of Nigeria
- Banks may restrict lending due to a number of reason i.e. due to single obligor limit, sectoral limit ,low risk appetite etc..
- Generally, the five C's of credit (character, capacity, capital, collateral and condition) guide the bank decision process.

Lending Criteria That Can Enhance Your Application

- ❑ **Market potential**

Financier should be convinced of the market potential of project or transaction to be financed.

- ❑ **Good cash flow**

Borrowers must show a profitable and operationally positive revenue cash flow that covers their commitment.

- ❑ **Adequate shareholders fund**

Borrower should ideally have enough shareholders fund and not be over committed in excess of their over all capital .

- ❑ **Adequate security**

Borrower's asset must not ideally be over encumbered

- ❑ **Experience in business**

Demonstrate a good understanding and experience in the line of business

- ❑ **Reputation of business / owners**

Management and ownership must have good market reputation including perception of the public must be positive

- ❑ **Specific purpose**

The purpose of the loan must be definite and clear to the lenders

What to know Before Presenting Your request for Financing

Borrower should always approach a bank or potential financier with courtesy and openness. Also, borrowers must keep to the following rules :

- Try to know whom you are dealing with and understand the culture of the lender
- Give prior notice. It is will be proper to carry your financier along at an early stage and inform them on a regular basis of new development.
- Be well prepared with all necessary information and document
- Always seek advise – discuss financing structures and pros/cons of different structures.
- Be cautious – Resist borrowing when you do not need it
- Avoid shopping around

What Bankers Need to Know

- Well written and detailed corporate profile .
- Updated financial situation of your business possibly an audited financial account should be included. Most recent quarterly account with P&L and cash flows should be provided.
- Projected financial position for the next coming years or covering the period of the finance.
- Detailed market survey on the commercial viability of your business
- Detailed business plan showing plan capital investment, revenue forecast and expenditure for a period of 3 – 5years will assist in discussion with your financier.
- Structure of existing loans and collateral especially for new borrowing from a different lender.
- Well written feasibility report especially with regards to request for finance for large medium to long term projects will be required.

Types of Services offered by banks

- **Overdraft Facility**

Short term facility where a line of credit is extended to enable borrower draw more than the balance on their account subject to agreed limit . It is normally revolving in nature.

- **Term Loan**

It is a form of financing where specific amount is credited to the borrower for a fixed period with repayment to be made instalmentally over an agreed period i.e. equipment leasing, mortgage loan, syndicated loan etc..

- **Project Finance/ Structured Finance**

This is structured like a term loan but mostly specialized kind of financing and can be short term or long term.

- **Import Finance**

Import Finance facilities are transaction based especially and credit is normally by way of overdraft facility.

Types of Services offered by banks

- **Export Finance**

This could be direct i.e financing is provided exclusively by the bank or indirect when lending is refinance by an export credit agencies.

- **Letters of credit** advising, confirmation, bills for collection etc.

- **Direct Credit Substitutes**

  These are under takings by the bank to be liable for the default of its customers

  i.e 1. Bank Guarantees,

  2. Advance Payment Guarantee

  3. Performance Bond

  4. Bid Bond

Typical Collateral Requirement By Financiers

- Mortgage of immovable properties i.e. land and buildings
- Debenture charges on other fixed assets like machinery, equipment, vehicles etc..
- Guarantees from banks, other institutions, export credit guarantee and insurance scheme, third parties
- Receivables: invoices, bills and promissory notes
- Inventory of finished goods, commodities, warehouse receipts
- Negative pledge
- Investment and marketable securities

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Thank you…