

# 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 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 advice – 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...

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