

A better outlook

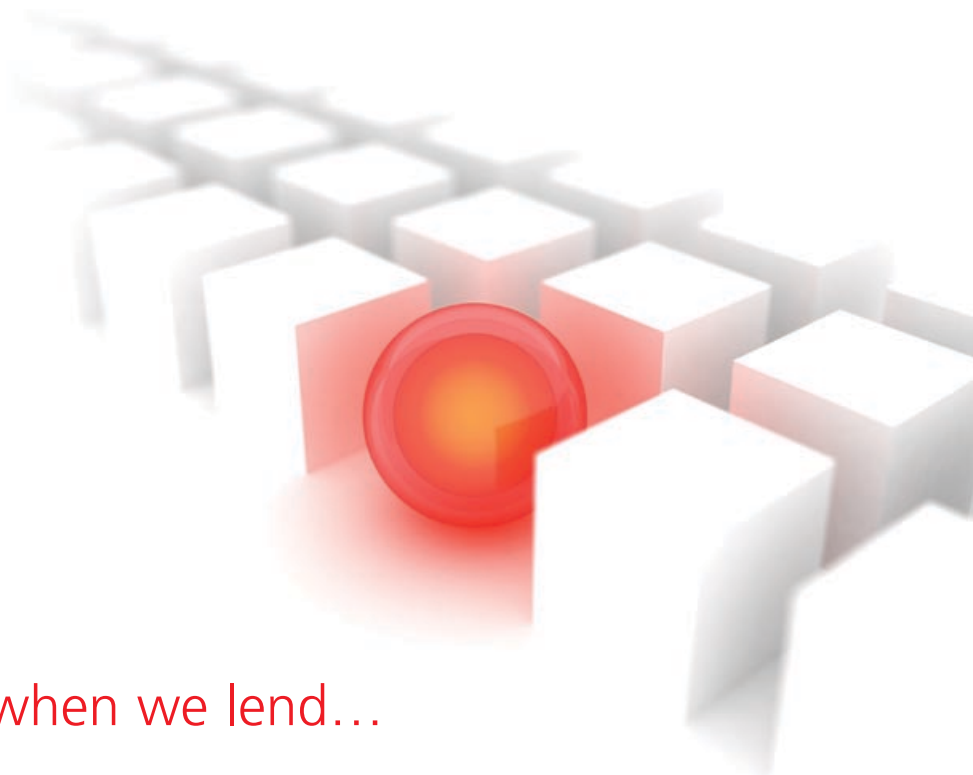
What we look for when we lend



Santander

CORPORATE BANKING

VALUE
FROM IDEAS



What we look for when we lend...

Getting the right funding is essential for taking a business forward, yet access to that funding may be a little more challenging in today's climate.

At Santander Corporate Banking, we're fully committed to supporting our customers over the long term, which is why we work so hard to understand what you need to make your business a success. This guide explains what we – like most other banks – look for when a business applies for a loan. It also gives you simple tips on how you can boost your creditworthiness and improve your chances of getting the funding you need.

What we're looking for in your business

Like most banks, we use the following structure to analyse your credit:

Character of the business

Ability to repay

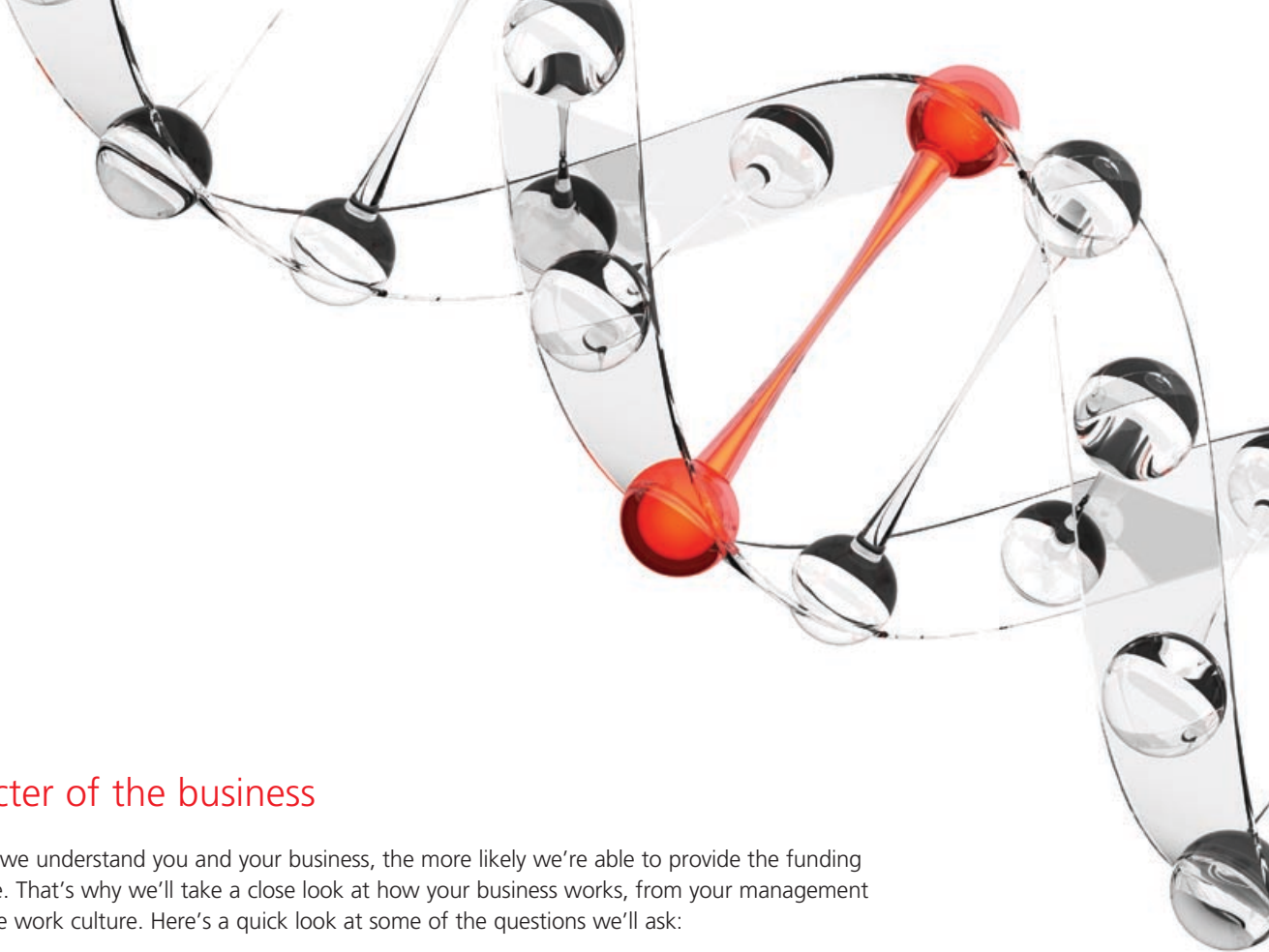
Margin

Purpose of loan

Amount of loan

Repayment terms

Insurance



Character of the business

The better we understand you and your business, the more likely we're able to provide the funding you require. That's why we'll take a close look at how your business works, from your management team to the work culture. Here's a quick look at some of the questions we'll ask:

- **How strong is your management team?**
Are they experienced in trading throughout the economic cycle, do they understand how the current climate affects their business?
- **How strong are your people?**
Are they highly skilled in their field, well qualified, do they have a sound reputation and are they experienced?
- **What is your production capacity?**
Does your business outsource, does it rely on other companies? If so, what are the risks associated with those companies, are they faring well in the current climate?
- **What is your power structure?**
Is power shared across departments or is it centralised?
- **What is your people culture?**
Are your employees happy and motivated, do they feel empowered?
- **How is your industry faring?**
Is it affected by the downturn, by any new legislation or regulation, or by any relevant technological advances? How is your company faring compared with the industry in all of these aspects?
- **How is your market?**
Has slowed consumer spending shrunk your market? How are your products or services beating off the competition?

We may ask you to give us management accounts, budgets and projections, and we'll also look at your published accounts, ratings and broker reports. This gives us a picture of both the sustainability and reputation of your business, and how well it can deal with any economic climate.

What you can do...

- Take a look at your business' management and see if there's anything you can do to minimise the risks associated with the current climate. Positive action will be viewed positively.
- Supply detailed financial records. Budgets, forecasts, and sensitivity analyses that go back three years or more will give us the information we need to ensure your business is creditworthy.



Ability to repay

With more businesses defaulting on their loan payments these days, making sure a business can repay their loan is crucial to both the business and the bank. Here are the main things we'll look at:

- **How will you repay the loan?**

If you plan to repay it through trade debtors rather than cash revenue, we'll want to be sure your debtors will pay.

- **Can you cover all your payments?**

We'll use the Debt Service Ratio to work out whether your available cash flow would meet all of your interest and principal payments as follows:

$$\text{Debt Service Cover} = \frac{\text{Net Operating Income}}{\text{Total Debt Service}}$$

- **What is your borrowing risk?**

We work this out using the Gearing Ratio, which calculates what proportion of your total business' capital the loan will be as follows:

$$\text{Gearing Ratio} = \frac{\text{Bank Borrowing}}{\text{Owner's Equity}}$$

- **Can you cover the interest?**

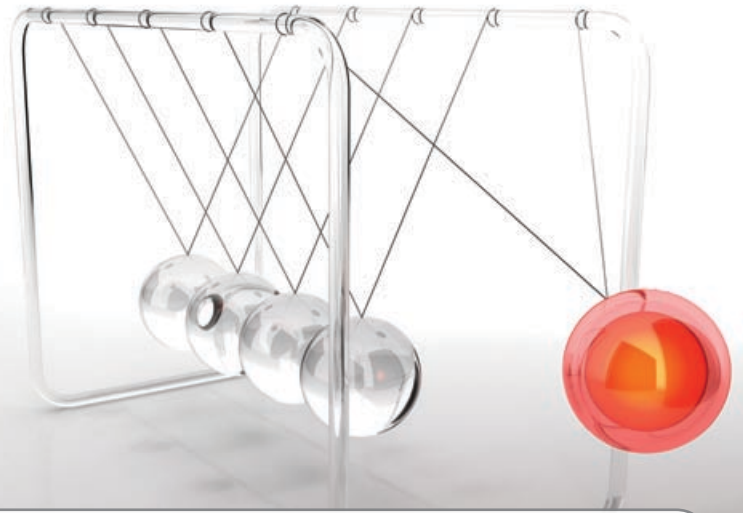
We'll use the Interest Cover Ratio to work out how many times your business can cover its interest costs from its operating profit as follows:

$$\text{Interest Cover} = \frac{\text{Operating profit}}{\text{Interest payable}}$$

We may also require external due diligence if the transaction is highly leveraged or specialised.

What you can do...

- Reduce your existing debt. This will lower your gearing ratio and make you a lower risk business.
- Increase your cash buffer. In a recession cash is key, so the more you have, the better chance you'll get the lending you're looking for.



Your risk margin

Aside from the base rate, your interest payments will vary according to your risk profile. We work this out by looking at your business' capital and its ability to repay. The lower your risk margin, the lower your interest rate.

What you can do...

Reducing debt, strengthening your management, even changing suppliers are just three possible ways you could lower your risk profile. Your Relationship Director can help you identify the steps your own business could take.

Purpose of loan

We'll need to be sure the purpose of your loan is not illegal, and not to fund a loss as this makes payment defaults more likely. We'll also want to make sure the loan is going to benefit your business rather than burden it.

What you can do...

Be honest and open about why your business needs the loan. The better informed we are, the greater your chances of getting the funding you need quickly.

Loan amount

We want to make sure you get the right amount for what your business needs. As well as making sure your business can repay the loan and cover the interest payment, we'll also want to know what your personal stake is.

What you can do...

Increase your stake. A lender will be more likely to stake their own money if they know you've personally invested as well.

Repayment terms

We'll look at the loan term and repayment structure. Longer term loans are altogether riskier, so we'll work with you to achieve the right balance between keeping your repayments manageable and limiting overall risk.

What you can do...

Try to keep your loan term to a minimum. The shorter the term, the lower the cost of borrowing.

Insurance/Security

Circumstances can change, so we may ask for security or a personal directors' guarantee as insurance against the possibility your business cannot repay the loan. We'll also want to make sure your business has adequate insurance against any other events that could hinder repayments.

What you can do...

Make sure your business has adequate insurance and that you can supply some kind of security. The higher your security, the more confident we'll be that you won't default on payments.

Be prepared

When it comes to securing funding, a comprehensive business plan can make all the difference. Use your plan to tell us about your business' goals, why you want the loan and what the benefits will be for both your business and your bank. Try to supply as much information about your business as possible. The better prepared you are, the quicker you'll get a decision.

Delivering the right solution

Both bank borrowing costs and default rates have soared in the last 18 months, so it's important to be realistic about how much a bank is prepared to lend you. We're here to support you, and we'll work hard to understand how we can help you make your business a success. If we can't meet your initial request, we'll look closely at how we can restructure it in a way that both meets our risk/reward requirements and benefits your business.

Get in touch

To find out more, please talk to your local Relationship Director or visit www.santandercb.co.uk

