



## Managing Your Banking Relationship

A banker who understands your business, takes an active interest in it and is kept well informed can be a great asset. Recognising and meeting your banker's needs can help in developing a sound working relationship and ensure you get the best out of your bank.

A clear understanding of exactly what your facilities are, how they work and what they cost is vital. Then you can keep your part of the deal and also spot mistakes, oversights and unannounced changes by the bank. They do happen and can cost a lot of money and grief.



### Introduction

The banker-customer relationship, like any other, is based on mutual understanding, trust and benefit. Some of the key elements are:

- A written agreement clearly setting out the terms and conditions of any borrowing;
- Understanding the basis of interest and other charges;
- Keeping the bank informed of the business's performance;

- Finance structured to meet the business's needs;
- Being aware of other services the bank can provide.

Read the bank's code of practice.

Bear in mind the increasing availability of choice in banking. To keep your loyalty a bank should provide the right support and services for your needs.

### The Facility Letter

There are three main types of facility:

- An overdraft, repayable on demand from the bank and usually subject to annual review;

- A term loan, which can only be called in by the bank if the customer breaches specifically agreed covenants;
- A multi-option facility, which is a wide-ranging facility giving the right to borrow up to an aggregate amount during a fixed term for a variety of specified purposes.

The term loan and multi-option facility are likely to be lengthy legal documents, whereas the overdraft is usually relatively straightforward:

- Take the time to read and understand the contents of the facility letter;
- Check that the facility letter reflects the arrangements discussed with the bank, including the interest rate, facility fee and security given.



## Interest and Other Charges

The rate of interest charged by the bank will generally be determined by its assessment of lending risk. In determining risk the bank will have regard to:

- The nature and size of the business and its track record;
- The calibre of management;
- The quality of systems of financial control;
- The frequency and reliability of management information;
- The strength of the balance sheet, including retained profits;
- The security given;
- The overall ability of the business to meet interest charges and generate cash flow to cover repayments.

In addition to interest, other charges include:

- Facility fees;
- Fees for taking security, including legal and valuation costs;
- Charges for management time;
- Account transaction charges to cover items such as paying in cash and cheques, drawing cheques, standing orders and direct debits.

When appraising the bank's charges, consider the overall cost of servicing the account, not just the interest on lending:

- Ask your bank manager to advise what changes in your business's banking practice can reduce the bank's handling costs;
- Compare the different charging structures offered by the bank, such as charges per item, percentage fees on turnover or annual fixed fees. The annual fixed fee may be of particular benefit to a growing business.

Electronic Banking can lead to significant savings.



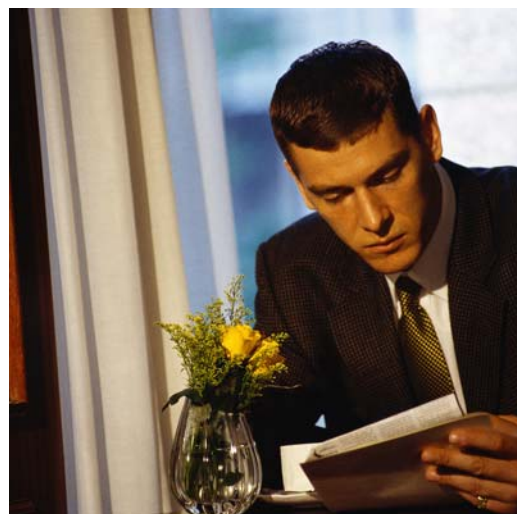
## Keeping the Bank Informed

If bank pricing of facilities is an expression of perceived risk then by definition the better the analysis of the risk you provide them with, the more likely the offer of a better rate. Absence of information may have the opposite effect. It is a question of trust.

Agree with your bank manager the level and timing of management information to enable the bank to monitor the account. This is likely to include:

- An annual trading and cash flow budget;
- Monthly management accounts, comprising a trading account, balance sheet and cash flow;
- Some commentary on the monthly performance;
- An aged profile of debtors and creditors.

Monahans can help you produce this information and, where necessary, help with appropriate record-keeping.



## Structuring the Funding

Banks can provide a comprehensive range of finance to meet the differing needs of each customer. It is in your interests to explore with the bank manager what is right for your business. Consider the following points:

- The overdraft should be used primarily to fund working capital. If the overdraft contains a core of permanent capital, consider replacing that part with a term loan;
- Manage your interest rate exposure. Consider not only fixed and variable rate lending, but also what forms of hedging are available to limit exposure to fluctuating interest rates;
- For security purposes banks evaluate assets on a conservative basis. If you need to increase your borrowing capacity, explore specialist finance to fund plant, machinery and vehicles and consider invoice discounting or factoring;

Monahans can advise on the impact different forms of finance may have on the balance sheet and on the taxation treatment. Any request for an increased facility, unless relatively small, should be supported by profit and cash flow projections together with a projected Balance Sheet.

For a major project incurring capital expenditure, Monahans can help you with a business plan.

We can also assist you in all aspects of raising and structuring of finance, assist in the preparation of business plans and help improve management information systems.

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## Banking Facilities Review

We can provide a free, no obligation, bank facilities review.

This will give you an independent check that you have the best possible banking package and that you are using the best provider for your particular circumstances.



For further advice and assistance

Our specialist Corporate Finance Department will be pleased to help.

Please contact **Alison Lees** on **01793 818300** or e-mail [alison.lees@monahans.co.uk](mailto:alison.lees@monahans.co.uk)