



BE WELL- PREPARED TO MEET YOUR BANK

WHAT DO BANKS WANT TO KNOW?

The bank may ask to meet with you before they can decide whether to issue your loan. This is a common practice for larger loans, with longer maturities (the 'time horizon' of the loan). Prepare yourself for your meeting with the bank, to maximize your chances of having your loan approved. Banks will have different questions, depending on your particular situation. But based on our survey of banks, we found that

banks often had questions about the following aspects of companies' financial statements. If you can't answer these questions on your own, talk to your accountant. Ask them to explain to you how these numbers were calculated and ask them for supplementary information, as needed. If possible, bring your accountant with you to the meeting with the bank.

CAN YOU ANSWER THESE COMMON QUESTIONS FROM BANKS?

RECEIVABLES

The financials you give the bank are probably at least a few months old. The bank will want to know how many of the receivables in your balance sheet have been recovered (that is, already paid by your clients). Before meeting the bank, have a list of what was paid and what is still outstanding. The bank might also ask about the receivables that are past due, and how these were accounted for. Ask your accountant about how these have been accounted for.

PAYABLES

The bank will want a realistic picture of how much you owe to others. This is not always straightforward. For example, say you are disputing an invoice for a service you did not receive fully, or was not at the level of quality you had agreed. You might think you do not need to enter this payable in your books. But, the other company might contest you in court and you could end up paying the amount with interest. So, if you have such contested payables, make sure they are noted and explain these to the bank.

FIXED ASSETS (MACHINES, VEHICLES) AND INVENTORY

Fixed assets lose value over time, and your accountant should reflect this in your financial statements (this is called depreciation). Inventories also lose value over time, and banks may want to see your inventory to make sure their value in your books is really the value for which they can be sold. For example, if you have computers in inventory, and a new model comes out, the old model will automatically lose value since it will be out of date. This loss in value should be reflected in your books. If your accountant doesn't ask you about your inventory, that is an indication that they might not be accounting for it properly.

DEBT AND DEBT SERVICING

It is important to be transparent about your indebtedness and liquidity. Disclose the debts you owe, and the costs of servicing these debts. Banks noted that SMEs' payments that are due in the short term to service long term loan are not well accounted for, which distorts companies' financial picture and makes them seem more liquid than they really are. Banks will ask about this, however, and will calculate this on their own. If their calculations diverge from yours, they are less likely to trust you as a customer.

RELATED PARTY TRANSACTIONS

When you have a "family of companies", your company might enter into related party transactions, which basically means business between companies within the family. It can be difficult for banks to understand the family of companies' total indebtedness and dependencies. This knowledge of relationships and transactions with related parties is crucial to understanding where control lies. And control impacts a company's strategy and its financial and operating policies. Related parties may enter transactions that unrelated parties would not consider, in particular because related parties may benefit from preferential treatment.

Why should you give banks so much information?



Missing information or information that is of poor quality means that banks will need to do more research on you, your company, and your family of companies. This research is called due diligence. Due diligence is a costly and time-consuming exercise that banks will only conduct if it is worth their while. So, if a company requires a lot of due diligence, banks might find it's not worth giving them a loan at all.

Even if banks think it's worth going through the effort, there are still negative consequences for the company. Due diligence slows down the loan application process (since it takes time to conduct research). It can also increase the cost for companies (time is money), and the cost for this extra research and time will be passed along to you, through higher fees and interest rates. It may also mean the bank might perceive you as a riskier customer, which might result in shorter terms of loans (maturities) and higher demands for collateral. In the end, giving the banks less information, or information that is not reliable or transparent, will wind up costing you in one way or another.

