

What do banks look for in a lending submission?



One of the largest challenges for many purchasers seeking to acquire a financial planning practice is sourcing adequate and appropriate finance within the required time frame. Cash flow financing is certainly becoming less unusual as more of the traditional banking houses seek to understand the financial planning industry and the value contained within a well run practice. However do you, as a potential purchaser truly understand what banks look for in lending submissions?

The majority of lenders will place prime importance on the basics – for them that is the 3 C's – Character, cash flow and collateral. Let's look at them in turn.

Character. Financiers will typically look at the individual borrower but this will not be the only character assessment that they will consider. They will almost certainly want to know and assess the incumbent Business owner/s, as well as any key partners or directors.

In 'assessing character' what they are really interested in knowing is what is the background of these individuals with regard to experience in the industry and runs on the board.? Are you / they considered to be people of integrity with a good personal reputation. What is their/ your personal profile – within the industry, in the public generally?


Banks like to make a face to face assessment of the borrower and key individuals to assess their attitude and openness. They are seeking the comfort that will allow them to answer in the positive – Would I lend to this person?

Naturally an assessment of the businesses *cash flow* will be of prime focus in any lending submission. Banks need to understand that you have the ability to service and repay the debt sought. They will be keen to ensure that both you and they understand your cash flow and not just your profit. Naturally a positive or negative cash flow holds different implications in respect of growth.

What are the historical business margins? Net profit margin, expenses as a percentage of revenue will be of interest to them. What are the business forecasts moving forward and are these forecasts linked to a strategic business plan?

With respect to cash flow forecasts, things to avoid or items that Banks will not want to see are:

- Averaged profit and loss versus actual cash flow which takes into account any seasonality etc
- Unsubstantiated blue sky
- Carried forward expenditure forecasts – CPI, rent increases, likely staff growth, superannuation, insurance costs, etc
- No provisions for uncertainty or one offs – especially in mergers or acquisitions
- Forecasts that vary from strategic business plan and industry dynamics



Once the financier is comfortable with your character and sustainability of the businesses cash flow to service the lending requirement they will then assess the collateral (or security) that will support the debt. In assessing the level to which they will lend to the Banks will look at valuations and will almost certainly stress test these to create a buffer for 'uncertainty'. They will be interested in debt to equity ratios, repayment strategies and surprisingly to some borrowers they will make an assessment of any succession plans or estate planning that you have in place. Should anything unforeseen happen to you the borrower they will be seeking comfort that the value of the business won't disappear overnight and they most certainly will not want to be running the practice themselves!

So if character, cash flow and collateral are the fundamentals that the Bank's will assess what else are they interested in?

They will want written information in relation to the critical success factors for the business:


1. A Business Plan covering:
 - a. What stage of the business lifecycle is the business at? Start up, growth, plateau, adverse growth?
 - b. Strategic elements – vision, SWOT analysis;
 - c. Operational detail – staff, systems, compliance
 - d. Financial – equity, debt, cash flow
2. Succession Plan
 - a. Is there any key person risk
 - b. What exit / entry strategy is there
3. Key external parties
 - a. Who are the businesses key external parties in relation to Accountants, solicitors, consultants, mentors?


In assessing the individual borrower they will want to understand your overall financial picture (assets and liabilities) and your personal future goals (are you just starting out, working towards retirement?).

Any formal bank submission should contain

- A family tree – asset ownership and income flow
- Taxation strategy – who pays, when, compliance
- Accountant prepared financial statements
- Profit & Loss forecasts
- Cash flow forecasts and the funding implications
- Details of existing debt commitments – overdrafts, bank debts, lease, hire purchase facilities, vendor finance

In summary you are best served to keep your request simple and ensure it focuses on the need for the debt requirement and what outcome you hope it will drive. A concise financial summary will enable a swifter decision time frame particularly where it is attached to a cash flow forecast supported by logic (i.e.: benchmarking, business plan, industry analysis). The financier will also appreciate being involved as early as possible. This will also ensure that





you are in the drivers seat when it comes to negotiating your business deal as you will have a firm idea of what you have to spend!

DKN, through our knowledge of the bank lending environment and as a result of our strategic relationships with a number of financiers, can assist buyers to source the appropriate finance solutions for their needs.

For further information or to enquire about how DKN Financial Group can assist with your Acquisition and Succession plans please contact Rachael Dunne, Executive Director Acquisition & Succession on 03 9667 0703.