

## Client Briefing 1

### How much can you borrow?

#### Introduction

To understand how much your business can borrow it helps to be aware of what is happening with bank lending and why banks are moving customers away from overdraft borrowings and on to invoice discounting (or factoring) and other forms of lending.

Bank lending is always based on a mixture of cashflow and the security available. Banks are moving away from old fashioned overdraft lending because of problems with both risk and cost.

#### The bank's problem with lending

Traditionally a bank's overdraft lending has been secured by a charge on the company's debtor book. There has been a particular legal problem over this in recent years following a case in New Zealand called Brumark which has added to bank concerns over risk.

However there is a more fundamental problem for banks with this type of lending in that they set the overdraft limit at infrequent intervals. When taken out, a £100k overdraft might be well secured against £200k of debtors. But who knows what the security will be worth tomorrow, next week, 3 months later or if the business fails and the bank has to rely on its security?

The point being that the level of overdraft will move up and down at the same time as the level of debtors (the bank's supporting security) also changes. There is always a risk that the bank can become exposed if the business is in difficulties as the security reduces (less sales = less debtors) while the overdraft increases. Therefore to ensure that they are well covered by their security, banks are conservative in the loan to value (LTV) amounts they will advance. Even so, it is still difficult to manage exposure which means risk, while the people required to look at company accounts and monitor and manage this risk cost money.

By contrast, an invoice discounter or factor only ever advances against invoices that are issued. As a result it automatically matches its exposure in funds advanced to the level of security available. This makes an invoice discounter or factor's lending much less risky and the 'automatic' nature of the cover makes it less costly to manage.

#### Your business's opportunity

The bank's problem is your opportunity as the range of funders available now means that you have a real choice of independent specialist funders who may well be able to provide lending better tailored to your needs.

#### Business borrowing ability ready reckoner

To allow you to estimate how much your business can actually borrow from these different sources, our 'ready reckoner' is given below. By completing this with estimates as to the value of your business's assets, you can calculate how much you are likely to be able to borrow from a mainstream bank or from a mix of asset based lenders.

Please reply to

211 Piccadilly, London W1J 9HF

1/3 Bakehouse Hill, Darlington DL1 5QA

You should note that you need to match your borrowings to your business's circumstances as excessive borrowings ('overgearing') can lead to business failure. Consult with your business advisors and take advice as to your financing requirements and strategy.

### BUSINESS BORROWING ABILITY READY RECKONER

To calculate your business's indicative borrowing ability, complete the form below using:

- the basis of valuation noted to calculate the 'security value' of the assets; and
- the percentages shown to calculate the likely borrowings available.

Your actual borrowing ability will be determined by a number of factors and the table below can act as a general guide only.

Asset	Typical bank lending	Typically available from asset based lenders
<b>Property £.....</b> <ul style="list-style-type: none"> <li>• value with a restricted period to sell (say 3 or 6 months)</li> </ul>	60% commercial mortgage	70% commercial mortgage 100% open market value by sale & leaseback (if worth > £500k)
<b>Plant and machinery £.....</b> <ul style="list-style-type: none"> <li>• value on the second-hand market with 3 months to sell</li> </ul>		70% by sale and leaseback over 3 years
<b>Normal debtors £.....</b> <ul style="list-style-type: none"> <li>• invoices for services (eg temporary labour on timesheets) or goods (eg parts supplied), less than 3 months old</li> </ul>	50%	70% sometimes higher
<b>Contract debtors £.....</b> <ul style="list-style-type: none"> <li>• applications for stage payments on long term contracts (eg construction contracts)</li> </ul>		50% from limited number of funders
<b>Finished goods stock £.....</b>		Variable, contact us for details
<b>Total borrowing available</b>		

**For free initial advice on borrowing please fax this form together with your contact details to us on 0870 990 1586**