

# What we look for when we lend



# What we're looking for in your business

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

At Santander, we're committed to supporting our customers over the long term. We work hard to understand what you need to make your business a success. This guide explains what we consider when a business applies for a loan. It also gives you simple tips on how you can improve your chances of getting the funding you need.

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

We want to understand the people and structure behind your business. Strong leadership and a healthy workplace culture make a big difference to long-term success.

## Here's what we'll look at

### Management experience

- Has your leadership team managed trading through good and challenging times? Do they understand how the current climate affects their business?

### Your people

- Do your employees have the skills, qualifications and motivation to help your business succeed?

### Business partners

- 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?

### Decision making

- Is authority shared across your team, or concentrated with one person?

### Culture

- Are your employees happy and motivated? Do they feel empowered?

### Industry and market

- How is your sector performing compared to competitors? How is your business responding to economic or regulatory changes?

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 this means for you

- Supplying clear financial records (budgets, forecasts and reports from the last 3 years) helps us build confidence in your business. The more we understand how you operate, the more likely we can support you with the funding you need.
- Look at your business to see if there's anything you can do to minimise the risks associated with climate change. Any positive action can be viewed favourably by lenders.

# Ability to repay

Making sure a business can repay its 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 work out whether your available cash flow would meet your loan repayments:

$$\text{Debt service cover} = \frac{\text{Net operating income}}{\text{Total debt service}}$$

## What's your borrowing risk?

- We'll work out what proportion of your total business' capital the loan will be:

$$\text{Gearing ratio} = \frac{\text{Total borrowing}}{\text{Owner's equity}}$$

## Can you cover the interest?

- We'll work out how well your business can cover the interest costs:

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

We may also request that due diligence is carried out by a third party.

This is only if a transaction is highly leveraged or specialised.

## Here's 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 need.

# Interest rate protection

When protection against movements in interest rates should be considered.

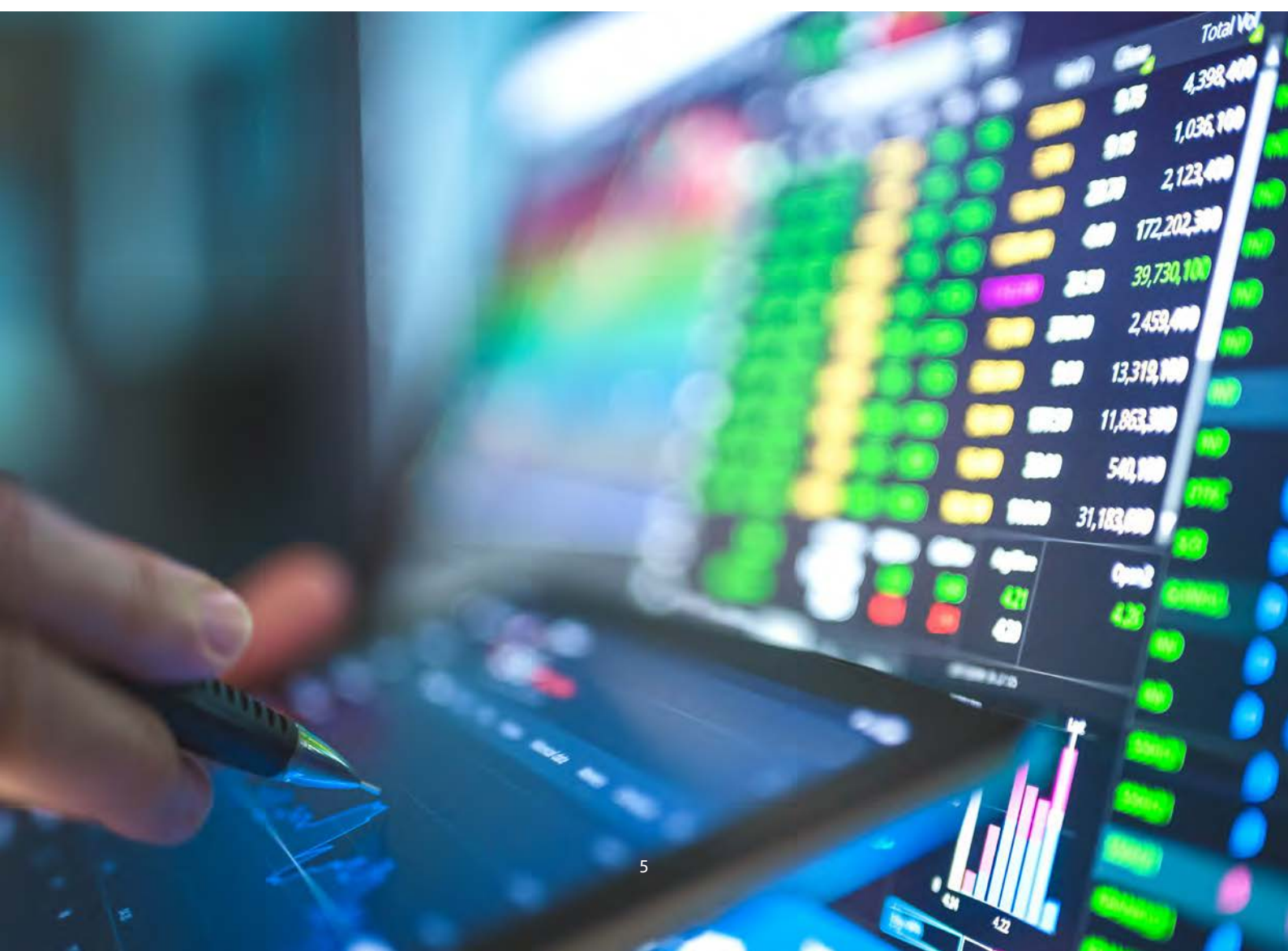
Interest rates, both actual and forecast, are key aspects in determining the amount and term of any lending facility. Generally, the higher the proportion of lending on a variable interest rate basis, the greater the uncertainty to anticipate future interest costs and the ability to meet them. This can lead to lenders being more cautious in their lending terms.

The relationship between your income streams and your cost base will need to be assessed. We're most likely to request a level of protection against interest rate movements where:

- debt service cover is low
- debt service costs are a major portion of your overall cost base
- income streams are relatively fixed
- we'd expect rising interest rates to negatively impact your income streams

Some sectors, such as real estate tend to evidence a number of these aspects. We may therefore be more likely to request loans in these sectors to have some form of interest rate protection. Your relationship team will be able to discuss this with you in more detail.

**If we need you to have interest rate protection with your loan, you aren't obliged to take this out with Santander.**



# Key considerations

## Your risk margin

The interest rate we offer you will depend on your overall risk profile. We work this out by looking at your business' capital and its ability to repay. The better your risk profile, the lower your interest rate.

## What you can do...

Reducing debt and reviewing your suppliers are some ways you could improve your risk profile. Your relationship team 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 legal and is not to fund losses as this makes loan 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.

## Loan amount

We want to make sure your business gets the right amount for its needs. We'll make sure your business can repay the loan and cover the interest payment. We'll also want to know how much you've invested personally.

## What you can do...

Lenders are more likely to provide funding when owners have personally invested. A strong personal financial commitment reassures lenders that risks and rewards are shared. Lenders are more confident when owners are also financially committed.

## Repayment terms

We'll look at the loan term and repayment structure. Longer-term loans are riskier as it becomes more difficult to predict what may happen further into the future. We'll work with you to get the right balance between keeping your repayments manageable and limiting overall risk.

## What you can do...

Try not to borrow for longer than you need. The shorter the term, the lower the cost of borrowing.

## Insurance or security

We may ask for security or a personal guarantee as insurance in case your business can't repay the loan. We'll also want to make sure you have 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.

## Be prepared

When it comes to securing funding, a detailed 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 your business. 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

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. We may not be able to meet your initial request. If so, we'll see how we could restructure it to meet our requirements and still benefit your business.

# What happens if your application for credit is declined

If your application for lending is declined, we'll explain the main reason for the decline and help you assess your options. You have the right to appeal the initial decision and have this independently reviewed by a specialist in our lending appeals team.

If we can't support you this time, there are other sources of finance available you may wish to consider. For more information on what you can do next, visit the **British Business Bank's website**.

More information on business finance can be found at [betterbusinessfinance.co.uk/](https://betterbusinessfinance.co.uk/). A business mentor service can offer you access to free support and guidance at [ukfinance.org.uk/mentors-me](https://ukfinance.org.uk/mentors-me)

Please note that Santander has no affiliation to the external websites provided. These organisations may be able to provide impartial help, guidance and support, to help you make an informed decision.



To find out more on lending solutions, please talk  
to your local Relationship Director or visit  
[santander.co.uk/corporate](https://www.santander.co.uk/corporate)