

Case Study

Reducing your Funding Costs through Balance Sheet Management

Andrew Nicholls

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Ever wondered how the banks assess the risk of your business? They take into account a number of factors including the expertise of you - the business owner, the industry your business is in, what security you have to offer and most importantly, your historical and forecasted financial position. Banking fundamentally is a trade-off between risk and reward and it is a bankers role to understand risk and price the transaction accordingly – the higher the risk, the higher the price.

The “financial risk” is assessed using complex financial software which identifies the drivers of cash in your business, as well as how sensitive each driver is to changes in operating performance.

At NCS-Nicholls, we use the same software to help our clients understand the financial drivers of their business as well as assisting them to implement strategies to improve cashflow, thereby reducing their reliance on debt funding. As you would expect, this creates huge savings in interest costs.

Additionally, as banks price on the basis of risk, it follows that if a company’s “financial risk” improves, the banks pricing (interest, fees etc) should reduce accordingly.

We are all acutely aware, banks are quick to raise their fees and interest rates when risk deteriorates, but how many people have been offered a reduction in price as their risk improves?.....very few!

We have worked with many clients in conjunction with their banks to assess their current “financial risk” and ascertain what the bank’s requirements would be to initiate a price reduction. From there, we assist our clients with strategies to improve their financial position through balance sheet management, thereby reducing their “financial risk” to the bank resulting in a negotiated reduction in interest and fees.

When talking about the price of your bank funding arrangements it is important to acknowledge it is the client who ultimately controls the price – not the bank.

Andrew Nicholls is a Director of NCS-Nicholls Chartered Accountants, a family owned and managed practice that also specialises in Banking & Finance advice to individuals and businesses comprising small start-ups through to large corporates.

Andrew has been in the Banking & Finance industry in senior management positions for over 20 years, and assists clients in saving time and money in respect to their banking activities.

Important

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