Just like you, banks are in business – and they don’t succeed by making bad deals. When they consider your loan application, they’re calculating the financial risk of entering into an arrangement with you.

Let’s break it down.

What the bank considers

For the bank, financial risk comes down to whether you can repay your commercial loan and the interest in the agreed time.

According to the Australian Bureau of Statistics, as of June 2016, the exit rate across all Australian businesses was 12.3% (percentage of businesses that ceased trading). To protect itself, the bank is looking for evidence that your business won’t fall among these statistics and fail to repay the principal amount.

When assessing financial risk, one of the main factors the bank looks at is you, the business owner. What skills and experience do you have? Do you understand your business and have a clear and realistic plan for developing it? Importantly, they’ll also be looking at your credit history, and any debt you may have.

Banks also consider:

· Security: The bank will evaluate what you’re offering as security against your loan – this might be a family home or other assets such as stocks and shares.

· Industry: Lenders view some industries as riskier than others, because of conditions such as competition, profitability and the economic climate. If your industry is seasonal, such as tourism or agriculture, they’ll want to know how you’ll manage repayments in the off season.

· Cash flow: ASIC reports inadequate cash flow among the top reasons why companies become unable to repay debt. The bank will want to see what revenue you have coming in, and be assured you can pay wages, keep the business ticking and make your loan payments on time – even if something unexpected happens.

Show the bank you’re managing risk

Having higher risk doesn’t mean you won’t get a loan. But you need to show the bank you’re aware of the risks and are taking the necessary steps to manage them.

Start by making a risk management plan that documents your business’s specific (financial and other) risks and identifies the steps needed to reduce or manage them.

See business.gov.au for useful tips on risk management and tools to plan for it.

Regularly review and act on your plan. No matter the size of your business, that’s an essential part of good business management.

Next, when preparing your loan application, think about what will convince the bank you’re on top of your business risks. Here are some ways to do just that:

· Provide all the documentation the bank asks for.

· Use a business plan to succinctly explain what your goals, objectives and target markets are with any forecasts that might help.

- Supply solid evidence of your personal experience and credentials.
- Make sure your financial records and forecasts are in good order (poor financial control and lack of financial records also rate highly among ASIC’s top reasons for company insolvencies.

Convincing the bank that you’re on top of risk management doesn’t involve smoke and mirrors. It’s about understanding your business, having robust practices, planning for the future and demonstrating you’re on top of any present or potential risk.