

BANK LOAN APPLICATIONS

INFORMATION AND DOCUMENTATION TO SUPPORT SUBMISSIONS FOR LOAN AND GRANT FINANCE:

It is important, when submitting an application to a third party institution (generally banks but can also be a state body such as Enterprise Ireland or County Enterprise Boards), that as much relevant information about the business is provided. Many consider that providing financial statements and budgets is solely sufficient for this purpose. But these are just figures on paper and do not adequately explain the non quantitative qualities of the business.

So the following information should always support an application for funding:

The Business	<ul style="list-style-type: none"> ➤ full description of the sector ➤ the product or service being supplied, its qualities and how they differ from the existing competition. ➤ the target market for the product or service ➤ distribution channels that will be used ➤ the organization structure of the business – can be as small as one person to cover sales and administration to many people covering key activities such as sales, production, accounting and finance etc
The principles i.e. the business owners	<ul style="list-style-type: none"> ➤ background of the principles ➤ education and qualifications ➤ relevant business experience ➤ other pertinent information
Purpose of the borrowings	<ul style="list-style-type: none"> ➤ clearly, a bank needs to know why a business is seeking funds ➤ so clear explanation e.g. to fund stocks, debtors and similar working capital requirements; or to fund long term expansion by creating additional warehouse space and acquiring more distribution vehicles; or funding for new commercial premises.
References	<ul style="list-style-type: none"> ➤ another banker's reference where the business has borrowed successfully before and repaid the bank in full. ➤ trade references from suppliers who supply the business on credit terms. ➤ Other reference e.g. from the company's accountants who may have other client dealings with the applicant bank.
Most recent financial statements and financial projections for 12 months (budgets)	<ul style="list-style-type: none"> ➤ Should clearly set out pricing policies and set out the margins from sales in the sector ➤ Cash flow assumptions over sales and costs ➤ Most importantly, the sales expectation – how arrived at and how it will be achieved.

CONDITIONS THAT ARE GENERALLY IMPOSED ON A BORROWER BY A BANK:

These are generally set out in the loan agreement and include:

- That the loan be secured on either the personal assets of the principles or on the assets of the business (*see later*).
- That the funds advanced are used solely for the purpose borrowed and no other purpose.
- That the schedule of repayments is complied with (e.g. in a 60 month agreement, that the payment be made on 11th day of each month from 11th June 2020 to 11th May 2025 inclusive).
- That interest is charged in accordance with the risk classification of the business as set out in the agreement (e.g. the rate to apply is 3½ points over Eurobar – so ECB rate is .15% and therefore interest is charged at 3.65%).
- In the event of non compliance with the conditions set out in the loan agreement, the bank can appoint a receiver or examiner over the affairs of the company to enforce its security and recover the balance owed to it.

SECURITY OFFERED BY COMPANIES ON ASSETS THAT IT OWNS:

Where a business has substantial assets of its own in the form of property and other valuable investments, a bank can obtain security on loans in the form of a “charge” on those assets.

An everyday example is a “Mortgage” charge. A loan is advanced for the acquisition of property and the property is mortgaged to the bank as security.

Where a company offers a “charge” on its assets as security for borrowings, the charge is registered in the Companies Registrations Office and is therefore on the public record. The onus is on the Bank to register the charge and it must be done within 21 days of its creation (S. 409 Companies Act 2014).

FIXED AND FLOATING CHARGES:

There are TWO types of charge that can be registered on a company's assets and they are known as a "Fixed Charge" and a "Floating Charge".

Fixed Charge:

This arises where a company has substantial fixed assets of its own to offer as security:

- The charge attaches to a specific asset or specific group of assets owned by a company.
- The company is not free to deal in the asset so pledged (it cannot offer it for sale or alter the asset without the agreement of the bank)
- The charge should be registered in the Companies Registrations Office.
- In the event of default on loan conditions, a receiver can be appointed over the asset by the bank.
- In the event of a "winding up" (or liquidation) of the company's affairs, a creditor, whose balance is secured by a fixed charge, will rank ahead of all other creditors in the order of repayment.

Floating Charge:

Most small trading companies tend not to own the assets that they use. For example, many operate out of rented offices or warehouses. Many run fleets of vehicles that are on lease or contract hire. So a company can have the use of these assets but does not have title to them for the purpose of offering security to banks.

But it is the case that these companies can carry stocks and debtors which are of substantial value at any time. But they must be free to deal in these assets and therefore an alternative to a fixed charge needs to be available to offer as security. This alternative is known as a "floating charge" and can only be offered by companies to secure debt.

- The charge is a *general charge* on all assets of the business ***both present and future***.
- Therefore, the company is free to deal in the assets so pledged (i.e. dispose of stocks and replace them; collect debtors etc)
- The charge should be registered in the Companies Registrations Office.
- In the event of default on loan conditions, the charge is deemed to "crystallize" and become attached to the assets of the company that are in existence at time of default.
- In the event of a "winding up" of the company's affairs, a creditor, whose balance is secured by a floating charge, will rank ahead of unsecured creditors but will only be repaid after creditors secured by a fixed charge AND after "Preferred Creditors" – see below.

FIXED AND FLOATING CHARGES – ORDER OF REPAYMENT IN A WINDING UP:

Under S. 261 Companies Act 2014, a liquidator must distribute the proceeds of the liquidation to the company's creditors in a specific order. The order of repayment is:

1. Creditors secured by a fixed charge on the company's assets.
2. Preferred Creditors. These creditors are:
 - Unpaid wages and holiday pay
 - Statutory Redundancy payments
 - Unpaid rates
 - Unpaid taxes (VAT, Paye and Corporation tax of previous 12 months)
3. Creditors secured by a floating charge on the company's assets
4. Unsecured creditors
5. Shareholders.

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