Independent Banking Consultants

Business Finance case study >>

A profitable and well-run family business found itself inexplicably under the control of its bank's Intensive Care Team. We arranged a £9 million loan to refinance the business with another high street lender, in the process saving them almost £1.2 million in interest charges and fees.

About the Client

A successful fashion wholesale, design and manufacturing company with annual sales of circa £15m had built new premises for its own use using development finance from the bank, totalling around £8 million. The company already owned other commercial properties that it rented out.

Relationships with the bank had always been extremely cordial, until the retirement in quick succession of two experienced Lending Managers, leaving the business without a replacement for six months. When negotiations started about converting the development loan into a longer-term loan, the company found itself under the temporary control of the bank's property team.

The Challenges

Following a review, the property team then inexplicably announced that it was placing the company into its Intensive Care Team, claiming that there was a mismatch between the value of the properties and the bank lending. From that point the company was subjected to harsh treatment from the bank including:

- The offer of a term loan, albeit with heavy imposed increases in the interest margin
- A non-negotiable lending fee of £135,000, simply for converting the existing development loan into a term loan
- Cancellation of other banking facilities (some without notice), including a foreign currency purchase line, and a BACS payment facility
- A refusal to recognize and reconcile a 5-year old non-performing and expensive interest rate hedging product

Against this backdrop, their accountant had arranged for other lenders to examine the case but in view of the lukewarm responses received back from them, the directors asked IBC for an opinion.

The Solution

We carried out our own review, and found that the bank's Intensive Care Team had overlooked several key aspects, including:

- New trading companies, recently set up by the directors to capitalize on new opportunities, that were now performing well
- The fact that the core trading business was growing and generating healthy profits
- That rental voids in some of the commercial properties had been filled by tenants with strong covenants
- That the businesses was actually able to service all its debts

From behind the scenes, we advised the directors on their negotiations with the bank, yet despite this evidence to the contrary the bank refused to alter its stance, presumably thinking that the directors would eventually fall in line and accept the bank's terms.

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Outcome

By now, the bank had aggravated the directors to such an extent that they instructed us to look for alternative lenders. We researched the market to identify lenders with the greatest appetite, compiled a detailed report, and received four robust offers all of which contained terms far better terms than the incumbent bank had offered. We arranged meetings with representatives of each of the banks so that the directors could assess the people involved before making a final decision.

The chosen lender offered:

- A reduced lending fee (saving £85,000 compared to the fee demanded by the incumbent bank just for converting the development loan into a term loan)
- Comparable interest savings on the new term loan of over £1 million
- Less onerous lending conditions (reducing the risk of default considerably)

As an additional benefit, we were able to negotiate an additional facility that allowed the company to close out its onerous interest rate hedging product, saving a further £50,000 in the process.

Conclusion

It was clear that the bank in this case had made a serious error. So why was it that the directors and their accountants could only elicit a 'lukewarm' response from other lenders?

The problem was simply that neither the directors nor their accountants had ever worked in a bank, so without a detailed knowledge of how lending decisions are made, they were unable to convince other banks that all was well, and remove from their minds the thought that 'there is no smoke without fire'.

Having detailed knowledge and experience of what goes on behind the scenes in banks is a frequently overlooked point, but it really does make all the difference.

"IBC are good to have on your side. They understand banking and lending and helped us to get what we wanted. They do it in a professional way and the new banks were delighted to be talking to us. They got us a fantastic result and I would recommend them to any other business looking for finance. They still keep a watchful eye on things for us and help with our annual review with the bank."

Mike D, Managing Director

About IBC

Everyone at IBC has extensive 'inside knowledge' and practical experience, acquired over many years spent working in commercial banks at all levels – as front line lenders, credit managers, recoveries managers, and in leadership roles. This means we understand how banks work and how they think; we know the right people and we speak their language, making us a valuable resource for business borrowers.

We have been trading since April 2000 and are proudly independent – no conflicts of interest or divided loyalties. We are also authorised and regulated by the Financial Conduct Authority for the provision of credit related services, including debt adjusting and debt counselling.

If you think you or your clients could benefit from our services then contact us in confidence
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