

The Credit Crunch

What does it mean for you?

August 9th marks the first anniversary of the Credit Crunch. The last year has proven challenging for many financial institutions. Businesses need to be proactive when dealing with their bankers.

- if you are **re-negotiating** your **financing arrangements** or will need to do so in the not so distant future or if you are trying to secure new sources of finance you need to read what we have to say.
- **it is critical that you respond** to what is currently happening in the market in a very sophisticated and professional manner.
- principally this requires you to:
 - **be diligent in your preparation** before you present to the Banks.
 - **disclose as much information as possible** to indicate how you are dealing both on a day-to-day basis and strategically the management of the business and the associated risks.



How can Grant Thornton help you?

We can assist you to effectively manage the problems and opportunities arising from the Credit Crunch. Our services include:

- short reviews for clients concerned with their financing arrangements
- pre-emptive plans prior to your finance facility review, dealing with operating risks and detailing future cash flows
- specifically assist with the preparation of:
 - presentations to the Banks
 - financial projections
 - covenant reviews and negotiations
- advising shareholders on strategic options
- providing guidance and advice in the determination of the disclosures which need to be made as required by Company Law and Financial Reporting Standards

Why do you need to do this?

There has been much commentary on the recent developments in the sub prime mortgage markets in both the US and UK. This along with other macro events have in turn led to a lack of confidence in the banking sector both externally and amongst the banks particularly in relation to inter bank lending. These key issues have reduced inter Bank lending and led to banks having liquidity constraints.

New regulations are now imposing increased disciplines on the Banks with regards to their credit risk and the amount of capital they need to maintain. The consequence of all this has led to a “flight to quality” lending; particularly to strong proposals.

As a result Banks and Credit Institutions have:

- increased the costs of borrowing for customers.
- imposed covenants to monitor loan and business performance.
- in some cases imposed ratchet mechanisms, which result in higher costs if business targets are not achieved.

Conclusion

It is our experience that solid finance raising proposals with good business plans including a comprehensive assessment of the risks are still enjoying reasonable rates and attracting offers from the Credit Institutions.

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