**Factors considered by financial institutions when approving finance**

* **Risk:** How safe is the investment for the financial institution?

Lenders will evaluate the *following risk factors* before approving finance:

* **Collateral** Can the borrower provide assets that can be used as security for the loan?

Can these assets be sold in event of repayment default?

* **Liquidity** Does the business have adequate cash flow to make regular payments?
* **History** Lenders will investigate the credit history of the business and its owners.

* **Guarantors** People other than the borrower who are prepared to guarantee that the borrower can make repayments when they are due.

If the borrower defaults, then the guarantor will make the necessary repayments.

* **Return:** Is the return that the investor/lender consistent with the risk they

are being asked to take?

How does it compare with returns from alternative forms of investment?

Lenders will consider the following factors:

* **Interest Rate** The lender must just whether the interest rate that can be charged is

sufficiently attractive to make the investment worthwhilewhen compared with alternative investments.

* **Future Business** A bank lender will want to make a judgement on the likelihood of the

borrower being successful and expanding their business as well as the possibility of future borrowings.