



Professionals connect – case study

2009 – Storm clouds on the horizon?

How accountants can best protect their clients when a lender is concerned with its client’s financial health

Banking relationships in 2009

- > The 2008 credit crunch has resulted in a subtle shift in power from borrower to lender.
- > Banks now need to rationalise their funds resulting in less money being available to be lent on reduced asset valuations.
- > Relationships with financiers are critical.
- > Lenders’ credit review processes are more stringent, with reduced sums of money being available. Lenders prefer to deal with financially strong, long standing customers.
- > The approval process will take longer. Money required ‘urgently’ may not be forthcoming. Plan ahead.
- > Lenders are naturally nervous about incurring a bad debt in this environment.
- > Lenders aim to ensure that doubtful loans are detected as early as possible.

Why do lenders become concerned with their customers?

- > Customers breach lending covenants, e.g.:
 - Non-provision of agreed financial information.
 - Non-servicing of Principal and Interest.
 - Overdue statutory obligations, e.g.: ATO, super.
 - Overdraft excesses.
- > Customers seek to vary existing facilities e.g.:
 - Release of property from lender security.
 - Request for overdraft increase.
- > Lenders often seek independent advice as to the customer’s historic financial performance, industry position, management capability, viability, ‘stress testing’ projections, etc.

What is likely to happen when a lender is concerned about its exposure? Lenders have options including:

- > Requiring additional financial information (usually urgently).
- > Requiring additional evidence, e.g. updated property valuation.
- > Appointing an Investigative Accountant (IA) to review and report on the financial health of your client. An IA is an independent

accountant engaged by the lender. Its client is the lender, not your client.

- > That IA could be a competitor firm. Your client will have little option but to pay the cost.
- > Transferring your client’s file to its ‘watch’ or ‘credit’ area. This may sever the long standing client / bank manager relationship and may increase the interest rate payable.
- > Collateral (e.g. family home) may be at risk.

For most borrowers, this will be the first time they encounter such enquiries from a lender. Typically, they will be uncertain how to respond.

How you can assist your client in these circumstances:

- > The moment a lender makes these enquiries, have your client contact you immediately. Lenders become frustrated when a borrower does not provide the exact information sought.
- > Have your client appoint you to deal with the lender. Often a borrower does not provide the additional information sought because it does not have the ability to collate it readily. Let your client manage its business whilst you quickly comply with the lender’s requests.
- > Review your client’s debenture charge for (non)compliance with covenants. Breaches can lead to the lender taking recovery action such as the appointment of a Receiver.
- > PPB is regularly engaged by lenders to undertake IA reviews. PPB is not a competitor to your firm and is on the panel of most lenders. Should your client’s lender require an IA, PPB is able to assist with the process. We respect your relationship with your client.

Be alert but not alarmed! Don’t let your client wait to inform you of its lenders’ concerns before it is too late, e.g. an IA has already been appointed.

Be prepared to move quickly. Seek our experience as you work with both your client and its lender to ensure that everyone works together to achieve the best outcome.

Important:

This information is not advice. Readers should not act solely on the basis of information contained in this document. We recommend that formal or independent advice be sought before acting in the areas covered herein.

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