



**DO YOU  
NEED A  
LOAN?**

## **HELPING SMES ACCESS CREDIT IN SERBIA**

While each bank has different approaches and procedures when it comes to issuing loans, there are some practices that are common to the vast majority of banks. The World Bank conducted a survey of commercial banks in Serbia to better understand such practices and found that banks place a very high importance on the quality of the financial information that is provided by companies seeking a loan. Incomplete or low quality information results in delays, higher costs (meaning higher interest rates and/or fees), or outright rejection.

These insights are meant to help SMEs understand how banks make lending decisions, so you can better prepare yourselves for the loan application process and increase your chances of a getting a loan (and at better terms). Keep in mind that small loans with shorter repayment time (called maturity), such as overdrafts, are not likely to require so much information and preparation. But particularly if you want a larger loan, for a longer maturity, these insights could be relevant to you.

## 8 INSIGHTS TO HELP SMES UNDERSTAND HOW BANKS MAKE LENDING DECISIONS

1

### **The number one priority for a bank is making sure the loan (and related interest) is repaid.**

Banks want to make sure you can repay your loan. One important way banks assess whether a company is able to repay a loan is through analyzing its financial information. Banks will analyze whether your company will generate enough profit, over the time period of the loan,

to repay the loan and corresponding interest. It is therefore important to manage finances well. If a company waits until they are short on cash to request a loan, it is highly unlikely that a bank will approve it.

2

### **Collateral is not enough.**

Collateral is important, since it represents a form of insurance for a bank, in case the loan is not paid back. But it's not enough. What is collateral? It is an asset that the bank can seize if the loan is not repaid, in order to sell it to recover all or part of the loan. So, collateral is only valuable to a

bank if it can be sold. For this reason, things that are hard to sell (no matter how valuable) will not usually be considered as collateral. Examples of this would be custom-made machinery or property that doesn't have clear rights attached to it.

3

### **Banks prefer to lend to established businesses, with a positive credit history. Startups and new ventures are not typically financed by banks.**

If a company has been operating for less than two years, and does not have at least two years of annual financial statements to demonstrate formal operations, banks are unlikely to issue a loan. Similarly, if an existing company with several years of operations is seeking a loan to

finance new line of business, banks are unlikely to approve a loan. A new company or a new line of business make it difficult for a bank to be confident of the company's future profitability (and ability to repay the loan).

4

### **Reputation matters.**

The first things banks will do is try to get information about your company and you (as owner), before considering other parts of your loan application. If you or your company is perceived to have a "bad reputation", the rest of your loan application will most likely not even be considered. Banks will check if there is any negative publicly available information about your company's financial history, as well as the personal financial history of the owners of the company. This includes a

history of past bankruptcies or other negative information. They will also check to see if you have or had in the past any accounts blocked by the National Bank of Serbia. Finally, they will check your credit rating from the Credit Bureau of the Serbian Association of Banks. Your credit rating takes into consideration your repayment history for past loans, and other information that is provided by banks that you did business with in the past.

5

### **Banks cannot rely on “unofficial” information.**

It is risky for a bank to take into account what is not on in your official books. As mentioned in insight #1, banks want to know a company has the necessary profitability to repay its loan. If a company operates in the gray economy, or minimizes profit in its financial statements for

tax purposes, it will be very difficult to convince a bank that it is more profitable than it looks “officially”. If a company is interested in obtaining bank finance, it needs to be more transparent about its profitability.

6

### **Banks need up-to-date financial information they can readily understand and process.**

Your annual financial statements show your company's financial situation as of December 31 of last year. If your annual financial statements are more than three months old, banks will want to see updated information, called interim financial statements, in addition to your annual financials. Don't just print out your accounting records and

send them to the bank. They won't make any sense. Prepare an updated balance sheet and income statement (or ask your accountant to do this for you) that will give the bank a more recent picture of your company's financial situation, in a way they can easily understand them.

7

### **Other companies you own (and your close family members) are taken into consideration when processing a loan application.**

Do you own more than one company, or do members of your immediate family members (spouse, children) also own businesses? If yes, prepare a list of your “family of companies”. This is information the bank will want to know and will

ask you about. Some banks will use software to match owners and their relatives to get a better understanding of the business and the overall family of companies.

8

### **Qualitative information is important.**

Banks will analyze qualitative aspects of a company, including the competencies and experience of SME owners and managers, the owners' approach to corporate governance, the way they run the business, and succession planning (that is, the way a company could continue working without the current owner,

which is especially important if the owner/manager is close to retirement), the quality of their business plan, and the competitiveness of the business (products, demand, and market structure). Providing information on these aspects up front in a clear and concise manner will strengthen your loan application.

