

LET'S TALK MONEY

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RESPONSIBLE CREDIT EXTENSION

Most businesses and individuals reach a point in their lives where a financial institution is approached to borrow money, be it to start a business, buy a car or a home or to finance a dream holiday. It is, however, a fact that a certain percentage of credit applications are declined for various reasons. It is therefore understandable that after the initial disappointment, the first question addressed to the bank is to give the reason(s) why the loan was declined. Banks evaluate credit on three basic principles namely, **Integrity, Repayment Ability and Security.**

Integrity

Every individual builds a "credit history" over his or her lifetime. The history can consist of a positive reference from another bank, furniture or clothing store, to a record of a default judgment listed at the courts and sometimes reported in the local press. Experience has taught that the probability of defaulting again once an instance has been recorded increases substantially. The opposite however, is also true; once a person has shown financial discipline in day-to-day transacting, the probability increases that they will continue with this behaviour.

Repayment Ability

The next step for the bank is to establish whether the individual or business has the means to repay debt regularly and promptly. In the case of individuals, the income (salary) is compared with normal monthly expenses to determine if there is a surplus available to service the monthly repayment. With businesses, financial statements are obtained to determine historical income indicators. These figures are then forecasted in a cash-flow projection to determine if the required monthly payment is affordable. Should it transpire that the debt can be repaid, the bank then looks at the final issue of security.

Security

A bank accepts money from depositors (who are the public in general) and has a regulatory and social responsibility to ensure that these monies are kept safe and without risk for the investor or losses for the bank. These investments are used to lend money to clients. Security is required to cover the "unexpected" risk; the person with the good credit record who suddenly decides to stop repaying his or her debt, or the carefully drawn up cash-flow which suddenly does not materialize as projected. The bank must endeavour to safeguard potential risk as much as possible by being able to recoup potential losses through the application of securities be it a fixed deposit, a policy with surrender value or even a mortgage bond over fixed property.

Why then does a bank sometimes decline an application for credit when there is enough security, sound repayment ability and the track record of the client is sound? The chances are nine out of ten that not all three pillars are present and that the bank is actually acting in the best interest of the client. Should you wish to apply for credit, please take this into consideration.

Should you have any questions regarding this article or anything else about Bank Gaborone please send us an email at info@bankgaborone.co.bw.

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