

Lending to the Legal Sector

Everyone is only too aware that many businesses are suffering as a result of the current economic climate. However, everyone may not be aware of how to get through it. Recessions bring great uncertainty for the future of many businesses, but two things are certain; it will pass and it will produce winners and losers. The businesses that are well equipped and able to respond to the issues in this recession will survive and are generating substantial profits now. There is no doubt that many law firms have seen a downturn in fees, although experience is mixed and those firms with an international presence have had some benefit from the weakness of sterling and from more buoyant conditions in some overseas markets. Firms that have relied heavily on residential conveyancing have been particularly badly affected and all firms that have meaningful property teams have found times difficult.

Some firms, particularly the larger ones, have recognised for some time now that the sector is evolving and they have been investing in the business and building a cushion to protect or provide opportunity for the unknown. They have also invested in the infrastructure and IT required to produce them detailed management information, to help the management teams thoroughly understand what the business is doing and how they are doing it. Their management teams know how to interpret the information and have the ability to spot opportunities and identify issues, allowing them to save money in certain areas and invest or make more money in others. These management teams have solid relationships with synergy. They talk openly and execute well thought out strategies. For support and guidance, they surround themselves with trusted knowledgeable people. They see their banks as their trusted advisors and have open honest conversations.

Banks, and Barclays Commercial Bank in particular, want businesses to succeed and in appropriate situations are willing to lend to help support them through these challenging times. As many of the overseas banks have now withdrawn from the UK markets there is less capacity for lending. However at BCB we remain supportive of the professionals sector. As with all businesses the bank needs to manage their balance sheet wisely and thoroughly assess the risk in each case.

Banks want to see a well functioning management team equipped with the information they need to analyse the businesses performance. This includes a structured business plan with a well thought out strategy, including forecasts with an array of possible outcomes and risks identified, alongside a budget pack including a Profit and Loss Statement, Balance Sheet and Cash Flow Forecast. Businesses need to justify their requirement for the funding and evidence debt serviceability, even if their profits significantly decrease or they are in the unfortunate position of having to write off a large amount of bad debt.

It is fair to say that Professional Services firms historically have not been as efficient in collecting their debtors as businesses in other industries and this should be addressed. Firms should also be mindful of the build up of work in progress and to consider invoicing clients as they go along – monthly for example.

Generally banks are comfortable to lend against specific tangible assets such as property or against a strong debtor book, but they will want to see a reasonable level of cover and a proportion of the risk being taken by the partners. Firms should consider structuring their debt to the funding needs of the business. If there is a core borrowing requirement this should be funded over a term and any working capital overdrafts should be fully fluctuating. If term debt is required firms should consider protecting themselves against future interest rate rises.

For those businesses that are struggling, Barclays Commercial Bank have a specialised Business Support team that works with ailing firms to get them back to good health. Business Support Director Andrew Baglee says; “The key to a successful turnaround is early intervention which then allows the various stakeholders to address the areas of concern. Our Managers have a wealth of experience in dealing with the sector. We aim to work closely with the business and the Relationship Director to address the issues and get the business back on track as swiftly as possible.”

Barclays Business Support has an excellent track record of assisting the businesses that it works with and a key message to those customers is “you are not alone”.

Top 10 Tips:

1. Have an open and honest relationship with your bank
2. Ensure that the firm’s borrowing facilities are correctly structured
3. Keeping your credit balances in the same place as your debt could save you money on pricing
4. Provide a concise business plan with profit and loss statement, cash flow forecast and a balance sheet to your bank
5. Try to give the bank as much notice as possible of a pending problem
6. Do not be tempted to use bank facilities to pay partners more than the profit earned
7. Ensure you comply to the terms and conditions of your facilities as breaches of covenants or conditions can cause difficulties
8. Ensure you have the management information to analyse business performance
9. Do not allow a build up of work in progress
10. Ensure you collect promptly from your debtors

If you would like to talk further about your businesses future or banking needs, please call Head of Professional Services, Jane Galvin, on 0207 116 8609.