BANKERS' ADVANCES

It is a matter of common knowledge that bankers are pursuing an inspired policy of restricting accommodation to legitimate trade and industrial requirements. This policy forms part of the general movement to stem the rising tide of prices, and while within the limits of this article we are not much concerned with arguments for and against such a policy, yet it is apparent that a connection exists between it and the recent break recorded in many lines of commodities, and, furthermore, banks being, as they are, custodians of the nation's loose wealth, their duty to their depositors demands that they discriminate between loans which militate against the interests of the community at large and those which do not Further, English banks are of such size and national importance that, without question, they must modify their policies in accord with current national exigencies. This decision to withhold monetary assistance from those whose operations are not considered necessary or advantageous to the community only affects the legitimate borrower in so far as his applications for advances will be more closely scrutinized than heretofore, in order that bankers can assure themselves that they are not knowingly financing operations whose objects are wholly or mainly speculative in character.

In future, bank customers are likely to find bankers more exigeant in the matter of information to be supplied by the customer as a preliminary to considering applications for advances, and it is worth while making a brief *resumé* of the principal items of information likely to be required, a knowledge of which on the part of the customer will certainly help him to secure sympathetic consideration of his proposals.

In the first place, the banker considers the category in which the customer trades or does his business, whatever it may be. In other words, is he trading alone or in partnership, or is the customer a limited liability company, society, corporation, or liquidator or trustee? For, if in any of the latter categories, the banker has to satisfy himself of the borrowing powers possessed, and the capacity to create liability upon bills of exchange. The banker will also want to know to what extent assets may be pledged as security for advances. In the case of ordinary limited trading companies the power to borrow is implied, but it is always a good thing that the banker should be allowed personal inspection of the memorandum and articles of association, or deed, or Act under which such concerns take their powers.

The Balance Sheet

Having satisfied himself of the customer's power to borrow and, if necessary, to pledge security against such advances, the next step is to examine the financial position in detail and as a whole. This clearly calls for a balance sheet in a a statement of position, and their production in a clear and concise form, reliably audited, will create a good impression. Naturally, bankers do not wholly base their estimates thereon, because, in so many instances, either through carelessness or neglect, balance sheets of a most misleading character are submitted; also, the fact that the figures have been audited does not put them beyond question, for auditors can be misled if the accounts have been systematically falsified. Nevertheless, a balance sheet clearly drawn up and audited is certainly an important factor in the banker's eyes. It is read in much the same way as in any other investigation of position. The banker, however, has always in mind a quick realisation of assets, and, therefore, the higher proportion quick assets bear to liabilities the better it is from his point of view. Going into detail, he examines the proportion of working capital to total liabilities, whether there are any mortgages or other charges, and, if so, how they are secured. The proportion of bills payable and debts due by the company on open account are next examined. On the assets side the principal items of interest, as mentioned above, are such assets as are realisable within a reasonably short time; that is, cash, bills, book debts, and in certain cases, stock. Excepting cash, all these are subject to estimation, especially stock, which may be of a good selling character, or, again, may realise but a small fraction of its face value in case of a forced sale. In regard to plant, machinery, buildings, &c., looked at from the point of view of the bank, these are doubtful factors, and are not liked. The reason, of course, is that bankers can not, in fact, dare not, tie their funds up for long periods. They have a primary duty to their depositors to repay deposits on demand, hence it is that their lending operations are carried through with an eye on the period of time it would take to liquidate a loan position in case of trouble. If a borrower is in need of funds for fixed expenditure, such as plant, machinery, &c., unless he is in such a position as will enable him to repay the loan out of profits or other funds within a relatively short period, it is to one of the numerous houses catering for fixed long-term loans that he should go. Such concerns, using their own money, are in a position to allow their funds to outstand for long periods, and can afford to take a relatively higher percentage of risk.

The Applicant's Position

Having presumably approved the position shown by the balance sheet, the personal element enters; in other words, how is the applicant regarded by