Have you got a dual banking strategy in place?

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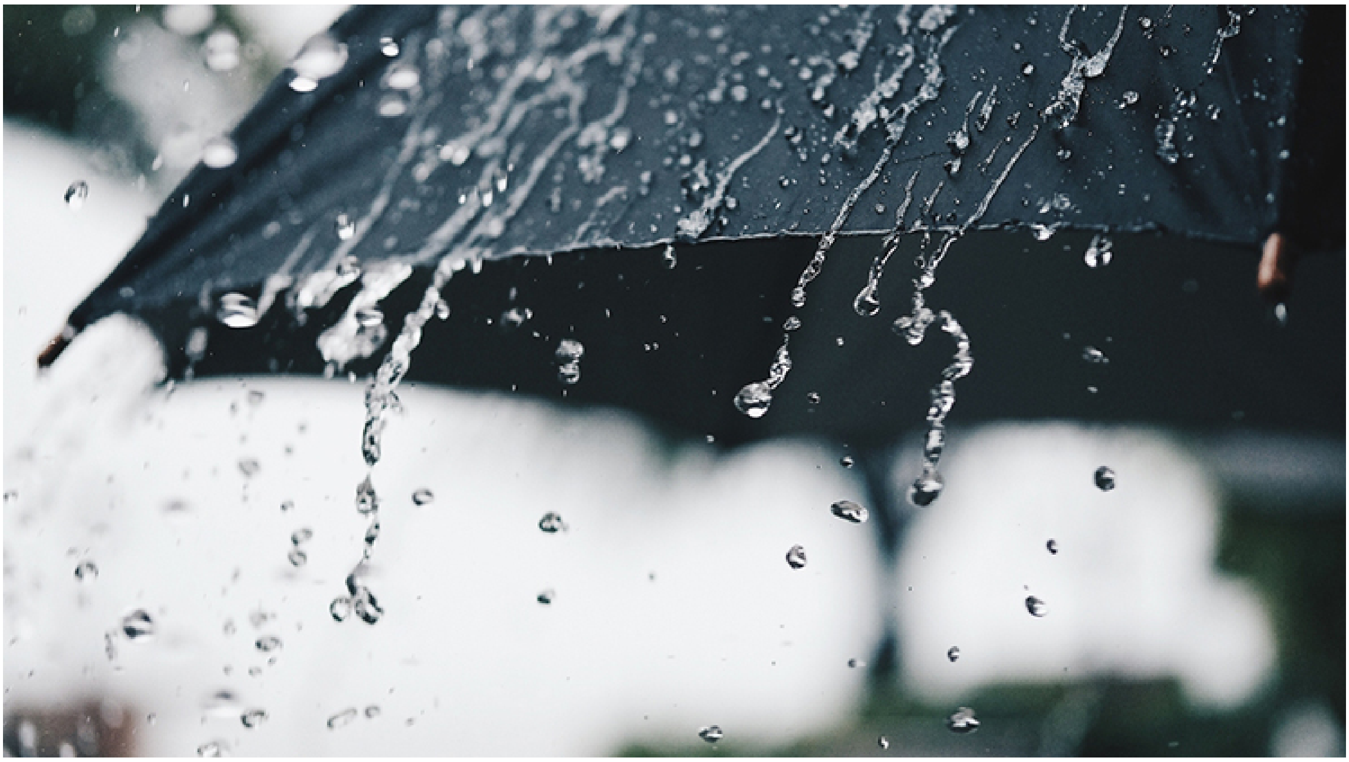

All too often, business owners use the same lending institution to finance both their trading (active) business and investment (passive) assets (your two pools of wealth). This leads to unnecessary and avoidable exposure to risks across your group. This also often leads to cross collateralisation and guarantees occurring between the two wealth pools.

Dual banking is an asset protection strategy designed to separate the business (active) lending from the investment (passive) asset lending such that if the business is in default, the business lender cannot call upon the business owners' passive assets.

Is your home safe from the bank?

If the active business suddenly found itself in a downturn and was no longer able to meet its financial obligations, the business financier may be in a position to call on any registered charges it has over a business's assets. If the fire sale value of these assets is insufficient to discharge the debts held over them, then any guarantees or charges the financier holds over any other assets may be called upon. Without the correct asset protection strategies in place, this may be the business owner's personal home or passive investments held outside of the business.

What does a dual banking strategy look like in practice?

Below is an example of a dual banking lending structure for a typical business owner that has borrowing requirements within the active business and passive property investment.

Business Lending – Financier #1

1. Registered direct charge over business assets, both fixed and floating charges.
2. Director guarantees (excluding spouse) over business borrowings (Limited to the level of debt).
3. Charge over primary residence (avoid if possible).
4. No cross guarantees with passive asset holders.

Passive Lending – Financier #2

1. Charge over the passive asset (e.g. property).
2. Director / Trustee Guarantees (Limited to the level of debt).
3. No cross guarantees with active business entity operators.

Using separate financiers for active and passive pools ensures we are restricting the impacts one pool can have on the other if things turn for the worse. With the above financing structure in place, if a business found itself unable to meet its financial obligations, Financier #1 would be limited to calling on charges held over business assets to repay debt. As the passive assets are financed by a second institution, no guarantees are held over them by Financier #1 and they are therefore protected.

Further Benefits:

Other benefits to a dual banking strategy include creating an alternative banking relationship in addition to a traditional lending partner. Additional banking relationships help to improve a business owner's competitiveness when renegotiating existing finance arrangements or establishing new ones. Not surprisingly, this may also result in overall higher service levels being provided due to the competitive environment.

Particularly since the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, many of the major lending institutions now have stringent ‘new customer’ lending policies in place to assist with assessing credit worthiness. However, often these policies are not applied retrospectively to their existing customer base, due to the long term relationships and proven track records already established. Therefore, it is considered prudent to undertake establishing new relationships when a business is operating successfully and without the urgency of pending refinancing deadlines.

Lending institutions are frequently reviewing their existing credit policies and risk profiles. This may result in a sudden and dramatic change in the conditions of an existing lending arrangement. Having a second relationship already in place will improve a business owners bargaining position with its existing lender or provide an alternative lending arrangement in a timely manner when it may be need most.

How do your Financing and Asset Protection Strategies stack up?

Dual banking is just one funding consideration and one example of an asset protection to build wealth and strengthen the firewall between business owners active and passive wealth pools.

Fordham is here to ensure that the wealth you have created is protected and continues to work for you in the future.

Not sure if your Group is protected? Contact your Fordham representative to assist in a review of your Group’s Funding and/or Asset Protection Structure.