Enterprise and Industry

How to deal with the new rating culture

A practical guide to loan financing for small and medium-sized enterprises

July 2005

European Commission

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About this guide

The guide is part of a project carried out by the Directorate-General for Enterprise and Industry to help SMEs access finance in light of banks' changing capital requirements. Following a request from the European Parliament concerning the possible effects of the forthcoming Basel II framework and the corresponding new European directive, the European Commission issued an invitation to tender for the gathering of data on the use of internal ratings on SMEs by banks and the compilation of the present guide based on that data. The results of the survey and this guide are available from http://europa.eu.int/comm/enterprise/entrepreneurship/financing/basel_2.htm

This guide has been prepared by McKinsey & Company, Inc., and System Consulting Network S.r.l., notably Prof. Riccardo De Lisa. They received valuable ideas and support from Prof. Edward I. Altman and Confindustria, Italy. The authors would like to thank the banks and associations of credit institutions that supported the survey on which this guide is based. Their participation in the survey provided a wealth of important facts and figures for the compilation of this guide.

More information

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Preface

Small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU, and are thus crucial for fostering competitiveness and employment.

The Commission is committed to helping SMEs access finance. As part of this commitment, we have published this guide to provide concrete guidelines for SMEs applying for loans from banks. The Commission believes that both banks and SMEs can benefit from a culture of openness that provides both with opportunities to improve their risk management.

Günter Verheugen
Vice-President of the
European Commission
Responsible for Enterprise and Industry

Introduction

Why a guide on bank lending for SMEs?

In light of industry developments, the Basel Committee of Banking Supervision decided to reform the regulatory framework regarding banks' capital adequacy

Banks have traditionally been – and will continue to be – the chief source of funding for SMEs (small and medium-sized enterprises). In recent years, however, banks have been changing their approach to the lending business, including for SMEs. Underlying this shift is a significant transition in the European banking industry.

The evolution of risk management, accompanied by structural changes (such as increased shareholder expectations, intensified competition, and, in some regions, an economic downturn followed by an increase in loan loss provisions) has induced banks to pay more attention to measuring and managing their credit risks and their capital adequacy with respect to such risks.

In view of these developments, the Basel Committee for Banking Supervision decided to reform the framework that has to date been the basis for banks' capital adequacy regulation.

The European Commission, which has closely observed this process from the beginning, has made a proposal for implementing the new framework and adapting it to European specificities. The Commission's proposal for a European Directive for capital requirements of banks and investment firms is currently under discussion for approval by the European Parliament and the European Council.

Ratings are becoming more important in banks' lending business, including for SMEs

These developments are relevant to SMEs. Banks are looking more and more closely at the capacity of their borrowers to pay back their loans. Banks' assessments of the risks associated with loans are increasingly related to the characteristics of the individual borrower. These are summarised through so-called 'rating systems' into a 'rating'. Banks use these systems to identify the different individual risk levels of their loans and ensure that they earn a return appropriate to the risk they take.

These changes have a direct impact on business relations between credit customers and their banks. While the consequences for large corporations are relatively small, as they are accustomed to being rated, many SMEs face more significant changes. SMEs will be internally assessed (or rated) more and more thoroughly by banks, even when applying for small loans. In consequence, SMEs are likely to encounter a widening range of credit prices and overall borrowing conditions.

This guide is addressed to SMEs looking for practical advice on interaction with banks on credit matters

This guide aims at giving SMEs practical advice on how to adjust proactively to the ongoing changes in the so-called 'credit process' in order to benefit from the potential advantages and minimize any possible disadvantages from banks' greater focus on risk.

To set the stage, the guide first discusses the recent developments in the banking industry; it then outlines how an SME can successfully negotiate credit matters with banks in the future.

Who might benefit from reading this guide?

This guide is designed to serve the information needs of executives of SMEs who deal directly with banks on credit matters. It may also prove useful for the general management of SMEs. Throughout the guide, SMEs are understood to be companies with a turnover of up to EUR 50 million annually. Nevertheless, this guide might also prove useful for somewhat larger businesses. Although the guide covers general issues mainly of relevance to established companies, it is conceivable that start-ups can also draw insights from it.

Anyone concerned with the financing of SMEs will benefit from reading this guide

The authors encourage readers to understand the changing landscape of financing services not only in terms of a challenge they must address, but also as an opportunity to improve the quality of their financial and operational management. Finally, although this guide contains practical advice that should help SMEs to prepare for the current and upcoming changes, the rules presented in this guide are, of course, not a guarantee of successful credit relationships.

How this guide is structured

The guide is divided into three chapters and an annex:

This guide is divided into three chapters outlining the background to current developments…

- Chapter 1 explains the ongoing developments in the banking industry, including recent regulation, and gives some insight into how the SME lending business will evolve over time;

...the rating systems...

- Chapter 2 describes banks' credit processes and current changes relating to them with a particular focus on what ratings are, how banks use them now and in the future;

… and rules for interacting with banks on credit matters

- Chapter 3 offers SMEs a set of basic rules for dealing successfully with banks on credit matters in the evolving financing environment and illustrates the key advice with an imaginary case history ('Alpha Manufacturing').

A pan-European survey was used to collect the data as the basis for this guide

The key facts and figures cited in the guide are from a pan-European survey of banks and their associations, conducted by the authors in the summer and autumn of 2004, regarding current approaches to SMEs as credit customers.

The survey respondents hold a significant share of European banking assets and constitute a wide variety of banks, so the results can be considered as representative. The survey data also helped to formulate the advice given in the third chapter of this guide.

The annexes include some background to the survey, an illustrative outline for a business plan, a list of publicly assisted funding institutions, a list of further sources of information for SMEs, and a selected bibliography.

1 The developing relationship

The developing rating culture changes the SME-bank relationship

Market developments are the reason for the evolving relationship between banks and their credit customers

Banks have been – and will continue to be for the foreseeable future – the most important source of funding for SMEs. As banks' lending business is currently undergoing a significant transformation, SMEs are facing changes in the way banks conduct business with them as credit customers.

Emerging risk management techniques, accompanied by structural changes (such as higher shareholder expectations, intensified competition, and, in some cases, slow growth and an increase in loan loss provisions), have focused banks' attention on measuring and managing risks stemming from credit exposure.

In addition, the regulatory framework concerning capital adequacy of banks has been recently reviewed

In view of these developments, the Basel Committee for Banking Supervision (1) decided to reform the rules governing banks' capital requirements that have to date been the basis for banks' capital requirements. The new framework is known as "Basel II".

The European Commission, which from the outset has closely observed the creation of this new framework, has implemented it and adapted it to Europe. The Commission's proposal for a European Directive for capital requirements of banks and investment firms is currently under discussion for approval by the European Parliament and the European Council (2).

1 The Basel Committee was established by the central bank governors of the Group of Ten countries at the end of 1974. The current member countries are Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Countries are represented by their central bank and by the authority (where this is not the central bank) with formal responsibility for the prudential supervision of banking business.

2 COM(2004) 486 final - Proposal for directives of the European Parliament and of the Council Re-casting Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions and Council Directive 93/6/EEC of 15 March 1993 on the capital adequacy of investment firms and credit institutions. The documentation is available at http://europa.eu.int/comm/internal_market/bank/regcapital/index_en.htm.

Under the new Basel II framework, the minimum amount of capital that banks are required to set aside will (with some exceptions) no longer depend mostly on the size of the loan, but also and significantly on the risk of the loan. Generally speaking, this change will make 'riskier' lending somewhat more expensive (i.e. more capital consuming) for banks, while relatively safer lending will become less costly.

Regulatory changes have introduced capital adequacy requirements more linked to the risk of borrowers

The changes introduced by Basel II reflect the trend in the banking industry towards more quantitative and differentiated risk management. The new regulation encourages banks to assess the risk inherent in each individual credit agreement in more detail, i.e., to scrutinize more closely the borrower's future ability to repay the debt, by using rating systems. On the basis of this closer scrutiny, banks will take their loan decisions – to approve or reject an application, and, if it accepts, at what price – in a more differentiated manner.

For SMEs, there are two main consequences: first, banks will pay increasing attention to the risk assessment – or rating – of SMEs, even for those applying for small loans. Second, SMEs may face a wider range of price and credit conditions offered to them by banks.

Consequences for SMEs will be the increased use of ratings and a wider variety of loan prices.

2 The role of ratings

Ratings in banks' credit processes

In the context of the developments outlined above, ratings play an increasingly important role in the relation between a bank and its customers. This chapter explains what ratings are and how banks use them in the credit process. An understanding of the basic concept behind ratings will assist SMEs in adapting to the developing rating culture.

2.1. What is a rating?

A rating represents an assessment of a specific debtor's creditworthiness, i.e. of how likely it is that the debtor will repay the debt.

There are two types of ratings: internal and external.

- External ratings are issued by rating agencies. Acquiring an external rating usually makes sense only for relatively large companies that issue bonds or other securities on the capital markets.

- Internal ratings are assigned by banks to their borrowers. Since internal ratings are the relevant ratings to SMEs, we will focus on these below.

The assignment of rating is largely based on historical data

To assign internal ratings, banks collect information from their customers. Many of them also acquire financial and other information about customers from external sources and use this information as input for their own rating systems.

The rating is a shorthand profile of the borrower, summarising the qualitative and quantitative information available to the bank in comparison with data on previous borrowers and their loan repayment

Figure 1: Number of historical defaults occurring per 1000 borrowers per rating class per year – example

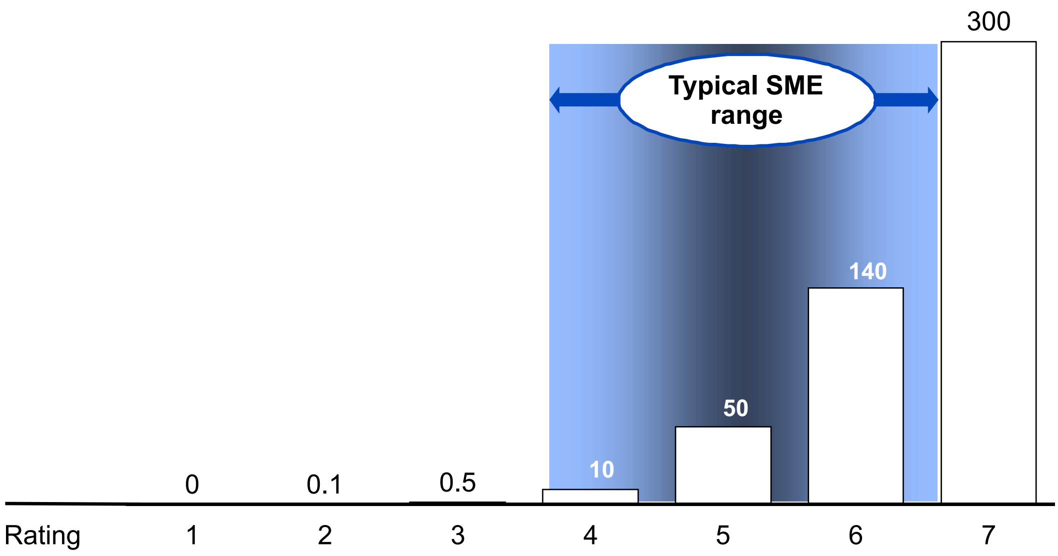


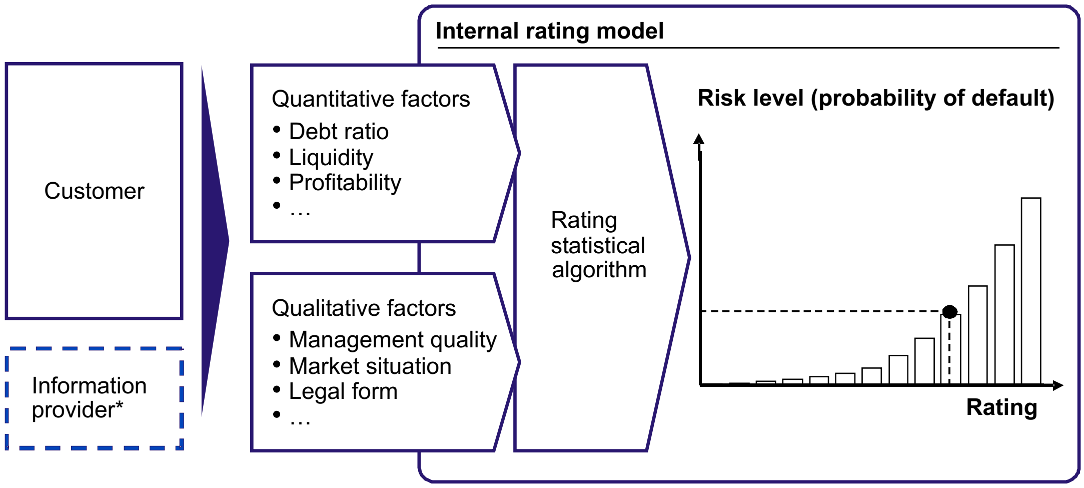
Figure 1 provides an example of how ratings are used to estimate the default probability of each borrower. For instance, if a borrower is assigned a rating of 4, its default probability will be 1%, according to the number of historical defaults occurring with 4-rated borrowers (10/1000 = 1%).

2.2. How borrowers are rated

Banks collect and analyse data on the payment behaviour of their customers

Initially, banks collect detailed information on certain characteristics of their borrowers, mainly from the borrowers themselves. Banks then compare specific factors drawn from the credit customer's data with historical data on loan defaults in order to determine how often borrowers with similar characteristics did not repay their loans in the past. Finally, based on statistical algorithms, the banks assign corresponding ratings to the new borrowers, as shown in figure 2.

Figure 2: How borrowers are rated



* External providers collecting financial data, only used by some banks

The information that banks collect usually includes both quantitative and qualitative characteristics of the loan customer. Although much of this information has always been collected, many banks will analyse this information more thoroughly and systematically in the new rating environment.

Both quantitative and qualitative input factors are used when banks assign ratings

For SMEs, quantitative information is usually taken from financial statements or annual reports; many banks also ask for business plans or tax returns. The key quantitative factors that banks draw from this material are financial figures and ratios. According to the survey (3):

- 75% of the mid-sized and large banks consider indebtedness of firms to be of high or very high importance as a rating input factor;
- 50% of these banks also place the same importance on liquidity and profitability.

The collection of qualitative information often involves face-to-face meetings where banks try to confirm that an SME is well managed. According to the survey:

- Approximately 50% of the participating mid-sized and large banks attach high or very high importance to an SME's management quality as a rating input factor;

3 See Annex 4.1.

- The next two most important qualitative factors, although at a clear distance behind management quality, are an SME's market situation and its legal form.

Within a rating system, the importance of qualitative factors typically depends on the size of the enterprise and the size of the loan in question. In general, qualitative factors will have more influence on the rating for larger SMEs or larger loans.

The larger the SME and/or the amount of the loan requested, the more information the bank will normally require for its rating assignment process.

For start-up companies, the information collected by a bank to process a credit request is substantially different since start-ups cannot provide historical financial data.

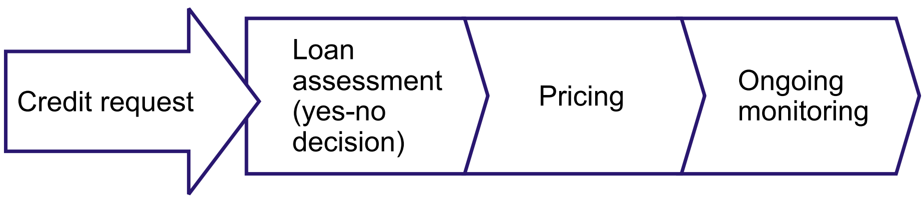
According to the survey respondents, qualitative input factors thus account for about 60% of the rating in such cases: business plans, management credentials, and the degree of management's financial expertise are viewed as key information.

2.3. How banks use ratings

Ratings are relevant along the entire 'credit process' …

Once a rating has been assigned, the bank will use it at several stages of its internal credit process, which comprises the credit decision, price setting, and the ongoing monitoring of borrowers as shown in figure 3.

Figure 3: The credit process



A) Loan assessment: "yes-no" decision on a credit request

Banks have always used rules to decide on SMEs' credit requests, based on their overall standing, collateral, and other comparable factors. However, most SME credit decisions in the past still largely depended on the individual judgement of the bank representative.

… for the yes or no decision on a credit request …

By focusing on ratings, banks are putting their credit decisions on a more systematic footing. Ratings, considered the most important criterion in the credit-decision process by nearly all the participating banks, frequently take the form of rules, e.g. required level of collateralisation for a specific rating or a minimum rating for obtaining loans with a certain maturity (Figure 4).

Figure 4: Common credit decision criteria considered by …

… almost all banks (85–95%)	… most banks (75–85%)	… many banks (60–75%)
• Rating • Collateral	• Maturity • Overall customer relationship	• Volume • Covenants

Source: European Basel II survey

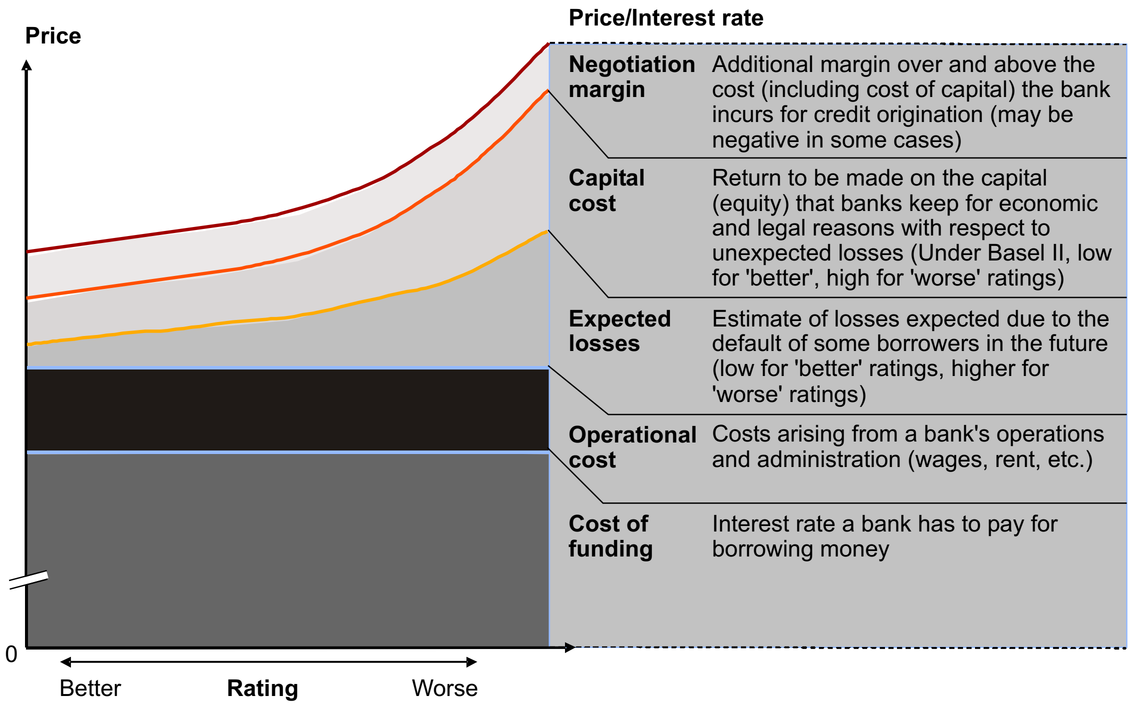
Hence, a borrower's rating may determine not only the 'yes' or 'no' decision on a credit request, but also the amount of collateral needed and the maximum maturity of the loan. In general, banks tend to formulate these decision-making rules more precisely than in the past, to apply them more systematically, and to tailor them to their specific business strategies.

B) Pricing: determining the interest rate of a loan

…for its pricing …

The borrower's rating is also becoming an increasingly important factor for setting the price (the interest rate) of a loan to an SME. The bank's perspective on the 'price of a loan' is affected by these factors: funding, operations, expected losses, capital costs, and margin as shown in figure 5.

Figure 5: A bank's perspective on the 'price of a loan'



Banks have to cover the costs of their funding, whether this comes from depositors, the capital markets, or from other banks that provide the bank with funds it will lend to its customers. As in every business, banks also have to cover their operating costs, in the form of wages, rent, etc.

A bank needs to price its loans taking into account that some loans will not be repaid (or will only be repaid in part). These cases are an inherent part of the credit business, so banks need to estimate the extent of irregular repayments beforehand. Very much in the way an insurance company collects a premium, banks need to charge a margin on every loan to cover their 'expected losses'.

In the interests of business continuity and prudence, banks have to set aside a certain percentage of every loan exposure as capital. This capital serves as a cushion in the event that loan losses are higher than the estimated expected losses, due, for example, to an economic downturn.

While the costs of funding and operating the bank have an impact on the final price of the loan, these usually do not depend on the borrower's rating.

However, expected losses and the cost of capital are directly dependent on the rating. Borrowers with better ratings are likely to have lower expected losses and capital costs.

Finally, the bank may require a negotiation margin over and above the cost the bank incurs for the credit process.

In the survey, a clear majority (60%) of even small banks indicated that they intended to use a risk-sensitive approach when calculating the price of a loan.

C) Monitoring: supervising a borrower's development

… and for the ongoing monitoring of borrowers

Banks are also increasing their use of ratings for the ongoing monitoring of any changes in their borrowers' credit quality. Most banks already regularly assess the risk associated with their customers by updating their ratings. These assessments are usually conducted on an annual basis. However, some banks also update SME ratings whenever new financial statements are available or if the bank representative identifies a need to do so.

A worsening rating is frequently considered an early-warning signal and can have various consequences depending on the credit contract, such as the enforcement of covenants.

The possible consequences include tighter monitoring of the borrower, a higher interest rate, the reduction of existing credit lines, and early cancellation of the loan. In some cases, the bank may even take steps to suspend the entire business relationship with an SME.

Thus, the rating is not only an important piece of information when SMEs are requesting a credit, but also when they are monitored throughout the entire life cycle of the loan.

2.4. The future of SME financing: a summary

The changes that banks have introduced to their credit processes over the past few years are a consequence of various factors, such as evolving management practices, banks' attempts to satisfy increasing shareholder expectations about return on equity and, most recently, new regulatory developments.

These changes include the growing use of ratings and an increasingly quantitative approach to credit decisions, pricing and monitoring. In parallel, factors other than ratings, such as covenants or collateral, are also becoming more important in the credit process.

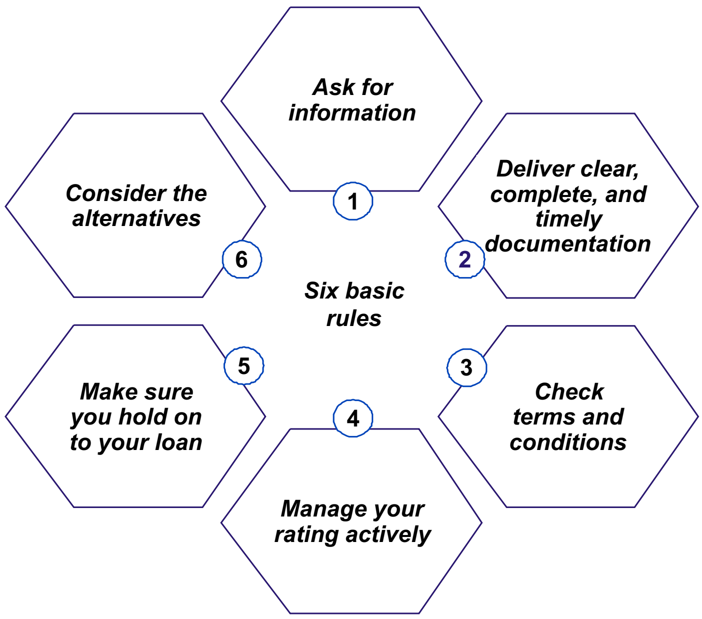
Such changes are not expected to decrease the volume of lending to SMEs. On the contrary, a large majority of banks continue to see SME lending as a strategic business, and about 40% of the survey participants intend to increase their volumes there.

3 The cardinal rules of credit

Ratings in banks' credit processes

This section offers six cardinal rules for SMEs to deal successfully with banks on credit matters within the new financing environment, which are shown in figure 6. Following these rules will help you navigate through the credit process, but obviously cannot guarantee a successful credit relationship.

Figure 6: Rules regarding the overall credit relationship



Ask for information

Rule 1

The general information provided by banks about their rating and credit processes, as well as the information they require from borrowers, can vary significantly between banks. Therefore, it pays to ask a bank what sort of documentation it provides about its rating process, what documents the bank needs and whether it discloses the results of the rating process to the customer.

A) General information on Basel II and ratings

Some banks will inform their SME customers about the changes that will occur as a result of the ongoing developments related to the introduction of rating systems. However, not all banks will do so, nor will all banks inform their SME customers in the same way. Therefore, you should ask your bank for any available documentation it has produced which is relevant to SMEs in the context of ratings and Basel II.

B) Information you need to provide to your bank

Be sure to find out well in advance about your bank's information requirements, i.e., what documents you should submit and in what format. This will give you enough time for preparation, especially if there are new or changed requests. According to the survey, about two out of three banks will increase the amount of information they collect.

For example, an increasing number of banks will ask SME customers to provide financial planning data or a business plan. If your bank requests a business plan, ask what main points the plan should cover. A sample outline for a business plan is in Annex 4.2.

C) Disclosure of the rating process

Find out how much information about your rating process the bank is willing to disclose. There are considerable differences in banks' disclosure policies: some banks may not give out much information, while others may inform you quite extensively about their rating process, its key drivers, and possibilities for improvement. Survey results indicate that one out of three banks will disclose details of the rating to their SME costumers. As the majority of banks may do so only upon request, it pays to ask for such disclosure.

D) Rating meeting: a health check-up for your company

Some banks will offer their customers regular meetings at which the bank representative explains the current rating and how it might be improved. These rating meetings (sometimes proposed under another name) are an opportunity worth pursuing. A general understanding of how your bank assigns a rating will help you to concentrate on those issues that have the biggest influence on your rating. As you improve these factors, the bank might offer you more favourable conditions. Additionally, you might benefit not only from improving your rating, but also from learning about the bank's assessment of your industry.

Deliver clear, complete, and timely documentation

Rule 2

Ensure that every document you deliver to your bank is correct and complete, is of high quality, and arrives on time.

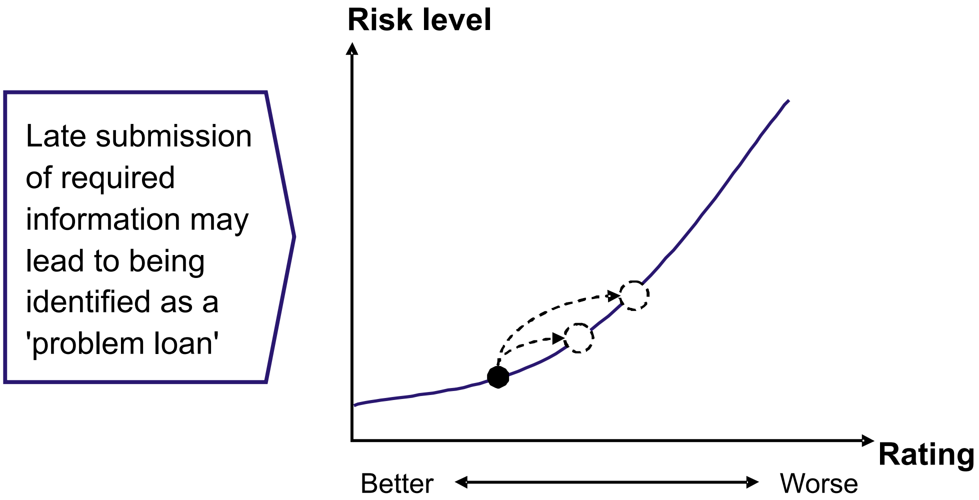
A) Provide high-quality information

Be sure that all information is correct and up to date. If you cannot provide exact figures, mark your estimates as such or provide ranges. Even if there are no apparent changes in the amount of information requested, many banks are looking at the documents you provide in increased detail. As the bank representative is your most important point of contact at the bank and commonly his or her judgement will play some role in the rating process, submit your documents in a clearly structured format that is convenient for the representative to read.

B) Submit all information on time

Following the logic of prudent risk management, many banks are inclined to assume the worst if any information is missing regarding a borrower's current situation. Since this might have implications for your rating – and might even be considered a 'warning signal' – it is crucial to avoid delays and omissions when providing information as illustrated in figure 7.

Figure 7: Possible effects of late or no submission of information



Therefore, you should always be prepared to provide required documents, even after the initial rating has been assigned.

Check terms and conditions

Rule 3

Banks take a number of factors into account to determine the price and other conditions of a loan contract. In the following, these factors are introduced in decreasing order of their likely relative importance. Since there may be considerable differences between banks, always ask whether and how your bank considers these factors, and how you can work on them to improve the conditions offered to you.

A) The rating is a key driver of your loan price

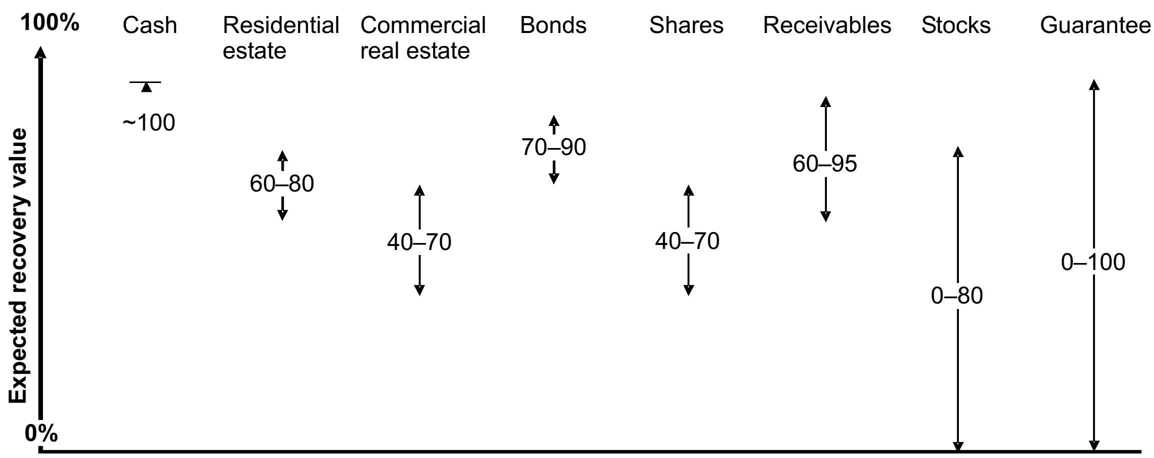
Banks use ratings as the main input for calculating the expected loss implied by a given loan. Additionally, the required share of capital to be set aside to take into account the possibility that losses will be more than expected will also depend on the rating. Thus, the rating is a key indicator of the cost a bank incurs for a given loan.

B) Collateral could reduce the price of your loan

Collateral is important factor that banks consider when pricing a loan. Providing more valuable collateral may help reduce the interest you pay. If your rating is relatively poor, collateral may help in getting a loan. It pays to inquire what types of collateral your bank is willing to accept.

Note that banks are very conservative in estimating the value of collateral, as it is difficult to assess the actual recovery value in case of default, and as it requires considerable effort by the bank to sell collateral to recover loan losses. The impact of collateral on reducing the risks of a loan depends on its type and liquidity as shown in figure 8.

Figure 8: Value of collateral is assessed differently



Source: Expert interviews

C) Uncertainty rises with length of maturity

A loan's maturity is another important factor in calculating the price of a loan, and one that is taken into account by almost all banks. Commonly, interest rates are lower for short-term loans than for long-term loans. This is because uncertainty rises with loan maturity.

However, a shorter-term loan means having to find new financing upon its maturity, so you should assess whether you are flexible enough to cope with the possibility of changed interest rates when the time comes to renew the loan. In general, banks will tend to grant longer maturities only to borrowers with a sufficient rating.

D) Covenants provide a way to tailor a loan contract

Incorporating special conditions or 'covenants', into the loan contract can be a way to take into account both the SME's capabilities and the bank's needs. SMEs are strongly advised to inquire about covenants and their possible effects on the loan price.

Typical covenants refer to the highest permissible degree of indebtedness of an SME, its threshold of profitability or, sometimes, its minimum liquidity. Larger banks already use such terms widely in their loan contracts, and both large and small banks will try to increase the use of covenants.

As an example, a covenant might give the bank the right of early cancellation of the contract if the borrower's equity falls below a certain value. With this covenant, the bank can reduce the risk it takes and may be willing to accept a longer maturity for the loan in question.

Survey results indicate that about 50% of all banks take covenants into account when pricing a loan. The same proportion of participants expects SME loans with covenants to become even more widespread within the next three years.

E) Overall customer relationship

The overall customer relationship, i.e., other business relations that you might have with the bank (e.g., securities deposit, insurance, leasing) is another factor that many banks consider in the pricing of a loan, since they represent other sources of revenue. Naturally, this factor tends to be more important for banks with a broader product range; therefore, it is frequently the more diversified banks that consider the overall relationship when it comes to pricing.

F) Price changes with volume: limited discounts on larger loans

One last factor is familiar from the pricing of tangible goods: the volume of credit. For instance, if you can transfer an existing loan from one bank to another one (at which you are applying for a loan), the latter may be willing to charge lower interest rates thanks to the increased loan volume. Figure 9 shows the main factors affecting the price of a loan.

Figure 9: What affects the price of a loan

Input	Price movement	Explanation
Internal rating	↗ ↘	Effect depends on actual rating
Collateral and guarantees	↘	Collateral reduces the loss in case of default
Maturity	↗	Longer maturity increases the uncertainty associated with a particular loan
Covenants	↘	Specific covenants allow banks to lower their risk (e.g., right of early cancellation)

Source: Expert interviews

Manage your rating actively

When doing business, keep the key rating input factors in mind.

Rule 4

A) Be aware of factors affecting your rating

Generally, knowing that the rating depends on the information you provide to your bank, and how you provide it, is the basis for managing your rating. Therefore, if your bank offers rating meetings as outlined above, use this opportunity to find out what drives your rating and what aspects need particular attention.

In addition, some banks offer rating advisory services.This goes a step further in that the bank proposes concrete financial and non-financial measures aimed at improving your rating. Ask if this kind of service is offered and what fees are charged (note that this service might go by a different name).

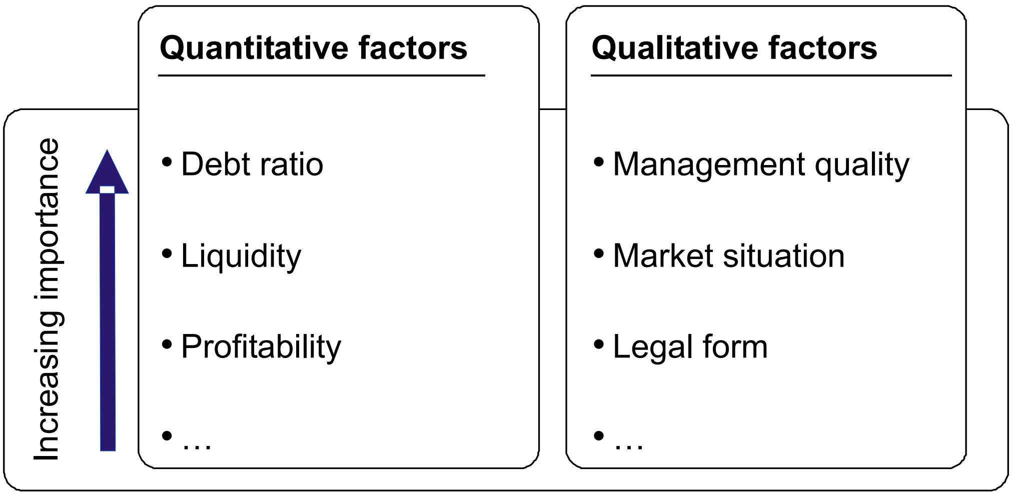
While this kind of service is offered only by some banks today, it is likely to become much more widespread within a few years. The survey results indicate that about one in every two banks will offer these services by 2007.

B) Focus on managing the key rating input factors

Once you know the factors driving your rating, it is useful to manage them as well as you can as they have an effect on the interest rate you pay. Banks in different countries use different indicators to assess a company's creditworthiness.

Figure 10 shows the factors that are considered to be most important for your rating in the future.

Figure 10: Important rating factors for European banks



Source: European Basel II survey

Quantitative factors consist mostly of financial ratios. A company's debt ratio or financial leverage will likely remain the most influential quantitative factor in rating systems, followed by liquidity and profitability measures.

Management quality and market situation will remain the most important qualitative factors. Interviews indicated that more attention would be paid to the borrower’s legal form in the future.

As ‘market situation’ refers to the industry you are active in, make sure to check with your bank whether the classification of your business is correct. Explain your standing within your industry and let the bank know about your strengths. For larger loans, some banks also look into a customer's dependency on key suppliers or customers.

Survey results indicate that qualitative factors have a weighting of 20-30%, on average, when assigning a rating to an SME. However, these factors account for an average of about 60% of the rating for start-up companies, as these cannot provide sufficient historical background information.

Since qualitative factors account for a considerable part of the rating, be sure to pay attention to these factors and be prepared to present them in sufficient detail. Essentially, you should convince the bank that you are managing the risks of your business well.

Make sure you hold on to your loan

Rule 5

As part of the ongoing monitoring of outstanding loans, banks keep an eye on how each borrower's business is developing. Depending on how your contract is specified, they may take action if they identify possible concerns.

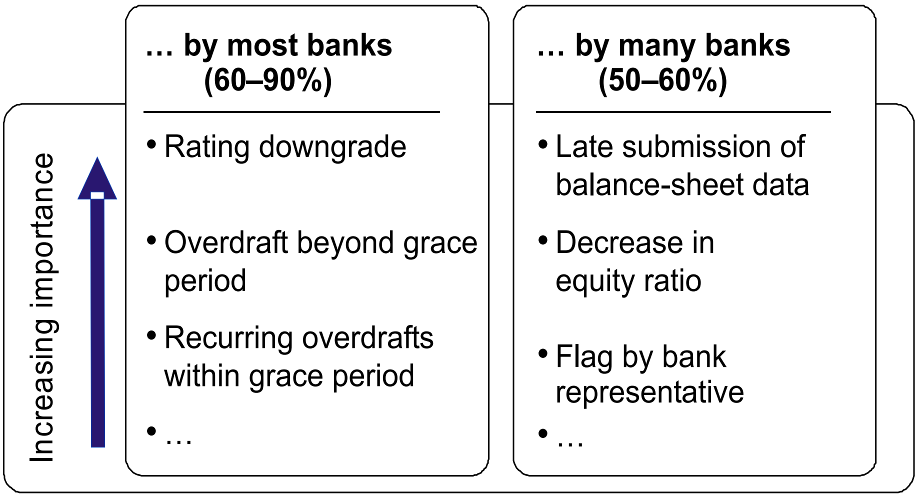
A) Think of your rating as an ongoing process

At most banks, credit monitoring is used first of all to issue rating updates on a regular basis (in most cases annually). You should be aware, therefore, that changes in your company’s performance and financial strength will be considered by the bank during the entire lifetime of your loan. Besides such annual reviews, updates are also often issued whenever banks receive relevant balance sheet or other information – or simply when the bank representative asks for a rating update.

B) Be sure you know the rules

It is essential to be certain of the conditions for the termination of your loan, as well as the existence and the nature of any covenants in your contract. Furthermore, ask your credit representative what kind of action or event the bank would consider a 'cause of concern'. Figure 11 shows the most important early warning signals used by banks.

Figure 11: Early warning signals used …



Source: European Basel II survey

C) Manage your payment behaviour

Always try to avoid unnecessary overdrafts and make sure you pay instalments on time. Be also aware that your accounts might be analysed automatically with regard to any exceptional movements (e.g., in terms of frequency or amounts, potentially for both increases and decreases).

When planning changes in your business, make sure to inform your bank. Otherwise, misunderstandings might occur, which could adversely affect your rating.

D) Submit all updates on time

In particular, make sure that balance-sheet information is delivered on time. Many banks take the late submission of information as an early-warning signal. Banks' risk management practice usually assumes that missing information is likely to contain bad news and that it is being withheld for that reason.

E) You are part of an industry

Additionally, there is one factor that you cannot control: the performance of your industry as a whole. A considerable number of banks interpret a weak overall industry performance as a warning signal or a negative rating factor.

It is always important to explain your strengths to your bank, but this becomes critical when you are part of an industry perceived to be in difficulty. In such cases, describe your own situation and demonstrate why you are not affected (or only partially) by the industry's problems.

Rule 6

Consider the alternatives

Although credit is traditionally the most common form of finance, there are also other options. In your search for the best financing conditions, become informed about all the available options.

The following section discusses two categories: measures to reduce the need for credit and alternatives to credit.

Figure 12a shows how both categories may influence your balance sheet.

Figure 12a: Measures to reduce the need for credit/Alternatives to credit: how they influence your balance sheet

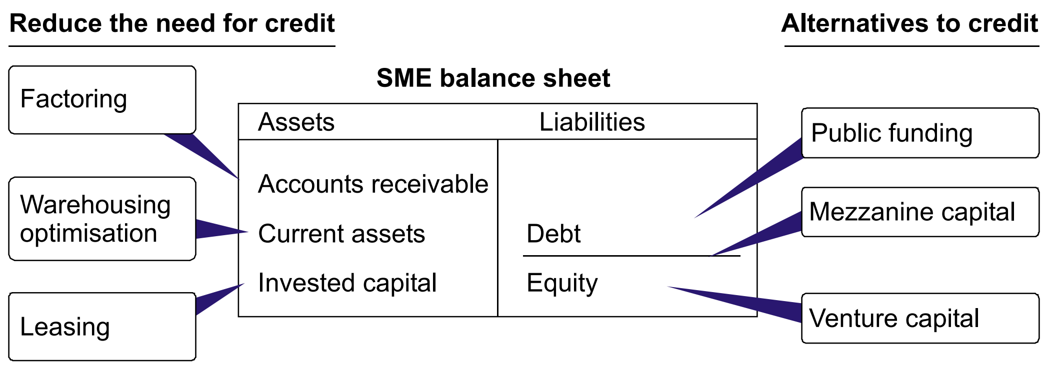


Figure 12b shows instead the positive and negative aspects of both.

Fig. 12b: Measures to reduce the need for credit/alternatives to credit: pros and cons

	Pros	Cons	Target group usually …
Factoring	• Timely and predictable payments • Protection against customers' defaulting	• Discount on amount outstanding • Potential impact on relationship with customer	• … has low liquidity • … has significant accounts receivable
Warehouse optimisation	• Less capital tied up in inventories • Balance sheet improvement	• Potentially requires a large effort for optimisation	• … has low liquidity • … has a large of goods in stock
Leasing	• Acquisitions without high investments possible • Tax advantages possible	• Sometimes more expensive than bank loan • No ownership of leased item	• … intends to optimise balance sheet
Loans from public funding	• Tailor-made programmes for special funding needs • Often cheaper than bank loan	• Subject to certain eligibility criteria • Sometimes lengthy procedure until approval	• … depends on eligibility criteria
Mezzanine capital	• Flexibility (e.g., in terms of structured amortisation)	• Cost potentially higher than bank loan and complexity of equity product	• … has balance sheet/capitalisation restrictions
Venture capital	• Improvement of capital • Potential know-how from investor	• Increases complexity of shareholder structure • Shared decision making	• … shows prospects of high growth

Measures to reduce your need for credit

A) Leasing

This hybrid between rent and purchase is increasingly available for all kinds of equipment today, not only for cars, but also machinery and even relatively small items, like printers and faxes. According to the survey results, more than 50% of banks plan to increase their SME leasing business.

B) Factoring

This source of capital is linked to your customer base. By selling outstanding receivables to a factoring company, you may get your invoices paid more quickly and more reliably; however, you will not receive the full amount. Most large banks offer factoring services. Survey results indicate that roughly half of all banks plan to increase their offering of factoring services.

C) Efficiency gains

Producing the same output with less capital input can be achieved in different ways, many of which boil down to internal solutions. For example, many SMEs in manufacturing or trading industries can save capital by means of warehousing optimisation, since holding lower inventory requires lower funding.

Alternatives to traditional credit

A) Mezzanine financing

There are a number of other forms of financing offered or arranged by banks for SMEs. Mezzanine financing is a hybrid form of capital that combines elements of both equity and debt. According to our survey, about half of all banks will offer this type of financing by 2007.

B) Private equity and venture capital

Companies with prospects of high growth should inquire about funds from private equity or venture capital firms. In return for the capital these firms provide, they take a stake in the company. In many cases, larger banks provide this kind of funding via specialised subsidiaries.

According to the survey results, many banks already offer this kind of financing today and the number could rise in coming years.

C) Sources of public funding

Besides mezzanine financing and private equity, you may also want to consider sources of public funding or subsidised funding, which are issued in many European countries, usually by semi-public banking institutions.

Annex 4.3 provides a sample list of institutions providing such loans for SMEs in most European countries.

Please note, however, that this type of funding frequently goes by other names and nearly all of these loans are subject to compliance with certain conditions or eligibility criteria. In some cases, this type of loan is also offered by private sector banks as intermediaries for the issuing institutions. Therefore, it pays to find out whether there are programmes that would suit your business.

3.2 Getting a loan: a 'real life' example

Introduction

Below we present the case of ‘Alpha’, an SME applying for a loan at ‘Beta Bank’. For each step of the process, including the ongoing relationship, we summarise how Alpha follows the six basic rules introduced above and the advantages of doing so. Please note that all figures cited are for illustrative purposes only and may vary significantly under different circumstances.

Alpha Manufacturing: Founded in 1988, this medium-sized company manufactures innovative health-care products using sophisticated custom machinery. Its products typically sell at a high margin, and Alpha Manufacturing has succeeded in asserting itself over the past few years and now controls a small segment of the fast growing healthcare market.

Alpha Manufacturing has 60 employees, generating a turnover of EUR 30 million last year. Its financing needs in the past resulted in a loan for EUR 1 million issued in 2003, which is to be paid back by 2008.

Alpha faced a strategically decisive situation in which it wanted to invest EUR 1.2 million in new machinery. The machinery would ensure Alpha's 'first-mover' advantage, which it had gained through intensive research in a niche segment of the health-care market. Alpha could pay EUR 200 000 of the investment upfront, but needed to finance the remaining EUR 1 million by means of credit.

Unfortunately, the bank from which Alpha had received its previous loan had just merged with another bank, with which Alpha had had bad experiences in the past. Alpha therefore decided to approach Beta Bank, which was recognized for providing good services to SMEs.

Credit request

Ask for information

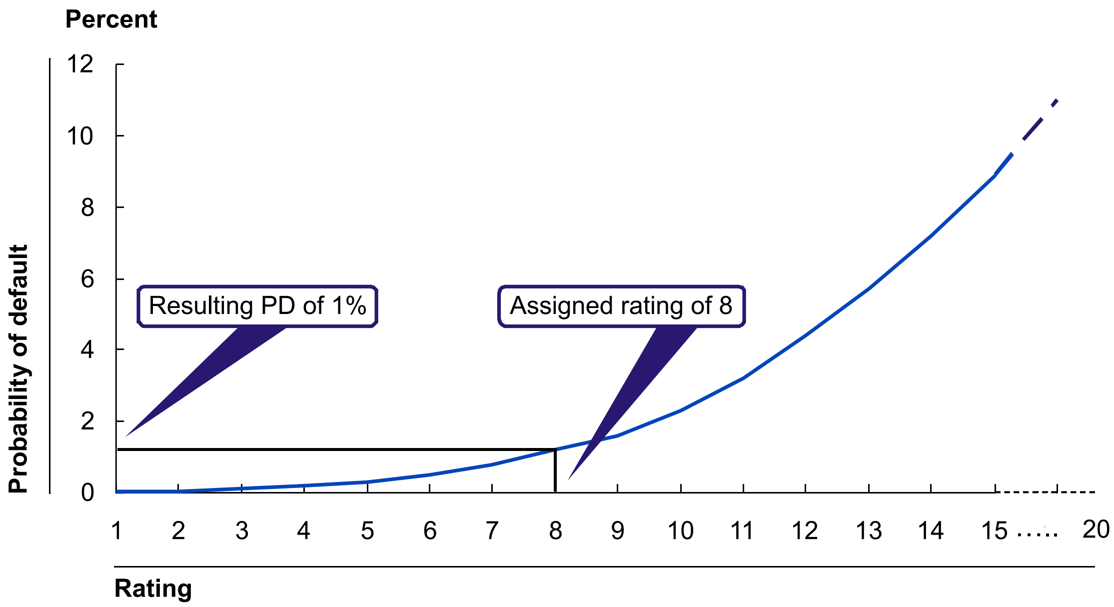
At the first appointment with Beta Bank, Alpha asked about the bank's credit process and learned that Beta Bank …

…had prepared a brochure for credit customers on Basel II and ratings;
…used its own internal rating system for SMEs;
…communicated information on its rating process to customers upon request;
…requested the following documents from SMEs applying for a loan:

- Statement with detailed core data of company, including founding date, personnel, legal form, history, etc.;
- Previous year's annual balance sheet, profit and loss statement, and cash flow statement;
- Business plan, including financial planning for the next three years.

Beta Bank's rating system for SMEs used 20 rating grades, which was slightly more than industry practice. By analysing its historical data on customers, Beta Bank had developed the rating classes and default probabilities shown in figure 13.

Figure 13: Ratings and corresponding probabilities of default



The data indicated that an enterprise with a rating of 1 was expected to pay back its loan regularly with a probability of almost 100%. A rating of 8, which was common for good SMEs, showed a probability of regular repayments of 99%, in other terms a default probability of 1%.

For its rating system, Beta Bank considered quantitative and qualitative input factors, the latter with a weighting of 30%.

Figures 14 and 15 list these factors, including the required information sources and relative weighting.

Figure 14: What to submit – quantitative input factors at Beta Bank

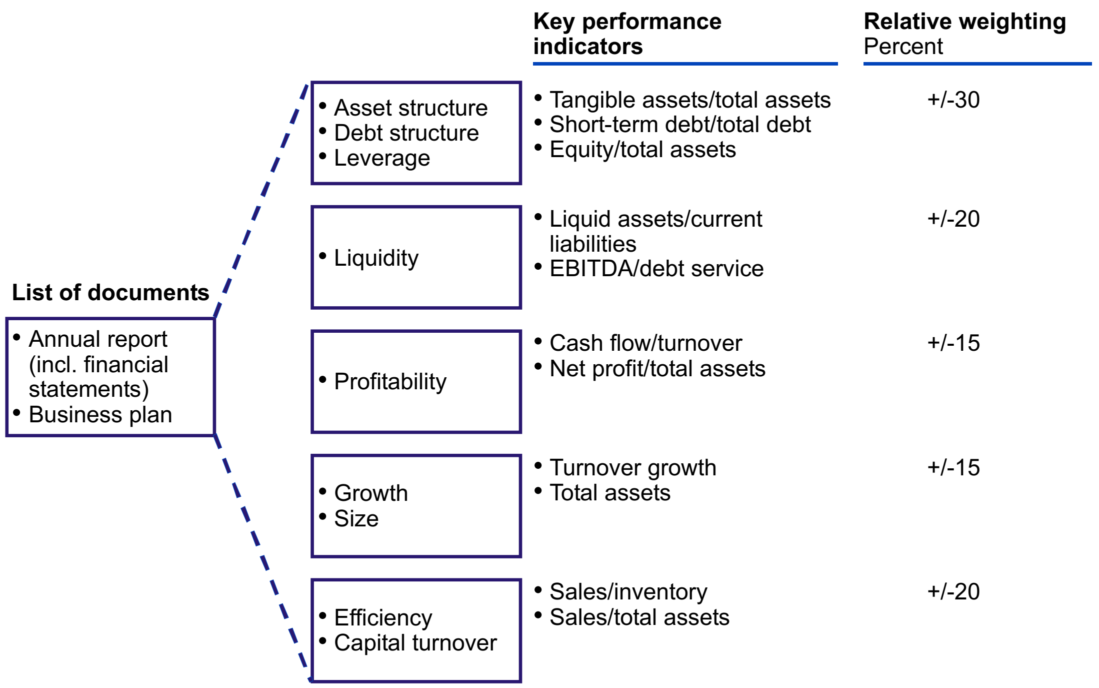
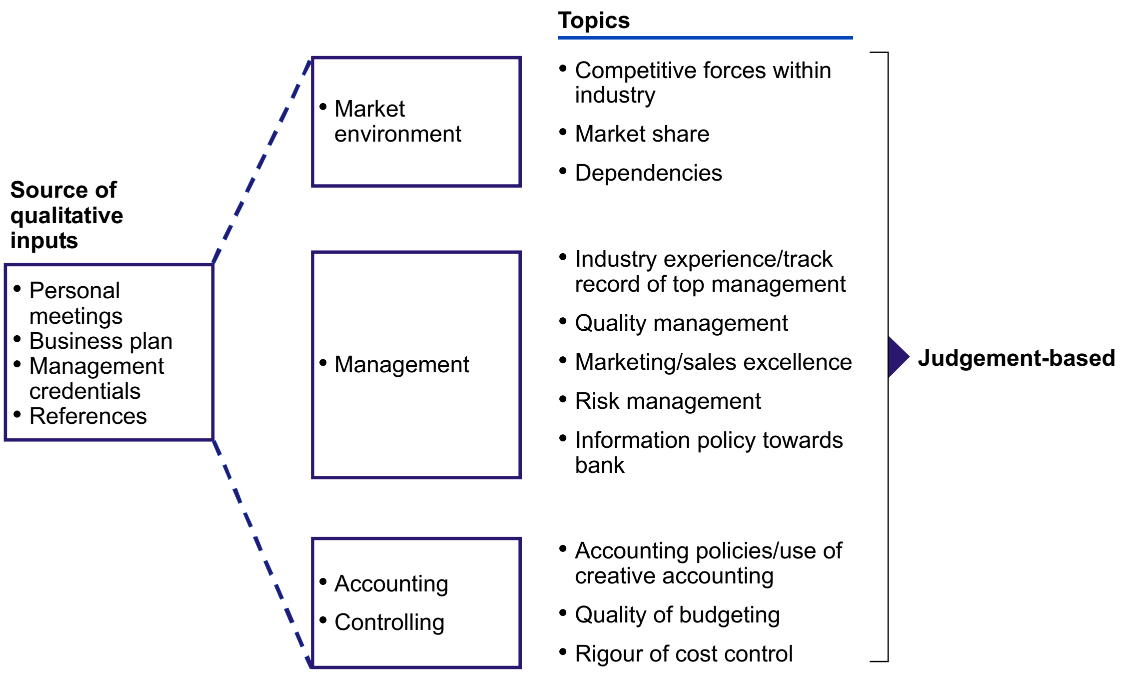


Figure 15: What to submit – qualitative input factors at Beta Bank



It is not mandatory, of course, to bring every single document to an initial meeting with the customer representative. But by doing so, Alpha could speed up the preparatory phase and, at the same time, made a professional first impression on the bank representative whose judgement would be part of the rating input and who would most likely be the key contact in any future relationship.

Deliver clear, complete, and timely documentation

Alpha began its data-gathering process straight away. At the meeting with the Beta Bank representative, Alpha had the following documents ready to hand:

- Brochure with all relevant data about Alpha Manufacturing;
- Print-out of the annual statements for the past two years;
- Business plan for the next two years, explicitly analysing the potential of the planned investment;
- Marketing material about Alpha in general.

Alpha applied for a loan of EUR 1 million in order to buy machinery costing EUR 1.2 million. It requested a loan with a maturity of five years, so that repayments would match the depreciation of the machinery. In order to obtain a lower interest rate, Alpha was willing to pledge as collateral the machinery it wanted to buy.

Credit contract

Cost of funding

Beta Bank had to consider several items that determine the price it could offer – as shown in figure 16. First, there was the 4.5% for the cost of funding that Beta Bank had to pay the capital markets or other banks for providing the funds for the loan.

Opeating costs

Second, as in every business, there were direct operating costs that needed to be covered, which amounted to 0.5% of Alpha's loan amount annually. Since the customer cannot influence these two items, we will focus on the other two components of the price that depend on the borrower rating: expected loss and cost of capital employed.

Expected loss

The part of the price to cover the expected loss is similar to charges levied in the insurance industry. Some borrowers with the same characteristics as Alpha were expected not to pay back their loans (in this case 1% of them) and that loss needed to be covered by revenue from other borrowers.

In order to calculate this price component, Beta Bank had to take into account three factors: the overall amount of the loan (EUR 1 million), the probability of Alpha defaulting (1%), and the loss in the event of default. This last factor depended on how much of the exposure could be recovered through the liquidation of the collateral.

Collateral

In the case of the machinery Alpha was planning to buy, based on its overall value (EUR 1.2 million) and on its low depreciation factor, Beta Bank estimateed to recover EUR 750 000 from the sale in the event of default. As a result the estimated loss given default was EUR 250 000, i.e. 25% of the loan amount.

Since the probability of Alpha defaulting was 1%, the expected loss was equal to 0.25% of the loan amount (25%×1%).

Cost of capital

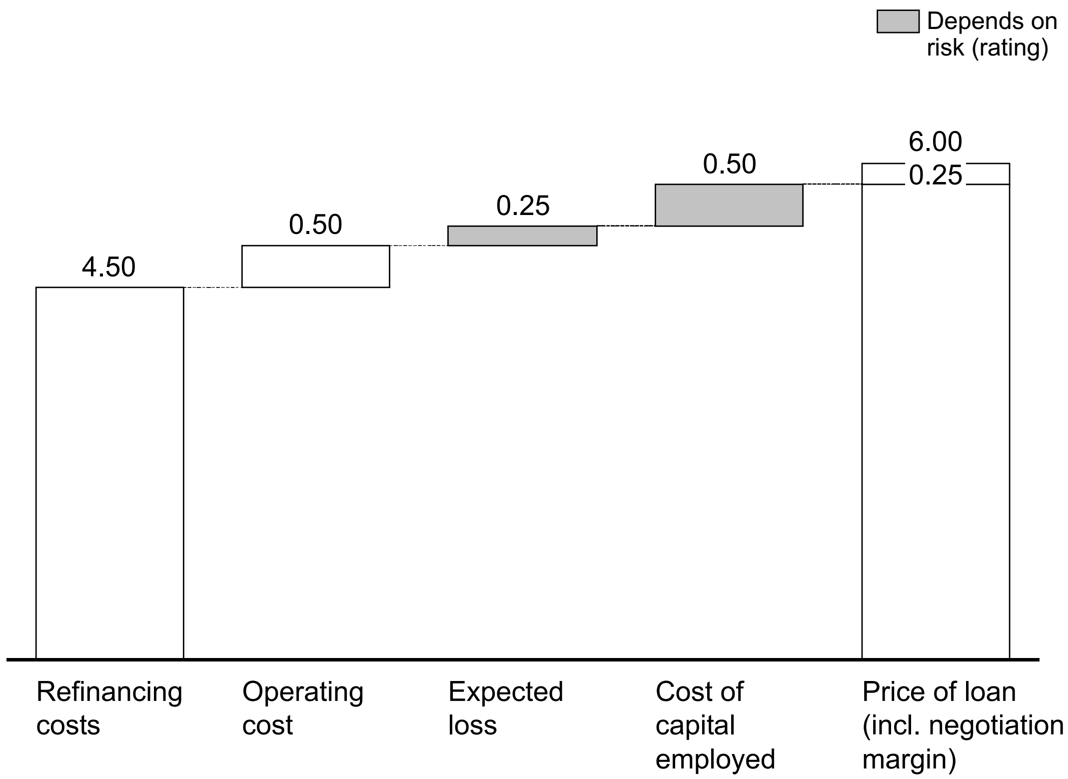
The cost of capital employed reflects the capital banks set aside for each loan so they can continue to operate if actual losses are higher than estimated (this is called unexpected loss). The capital Beta Bank put aside depended on Alpha's loan amount and on the risk of this loan not being paid back regularly.

Let's assume this amounted to 5% of the loan amount or EUR 50 000. That amount could not be used for other purposes by Beta Bank. Hence, the bank had an opportunity cost – the so-called cost of capital employed – which is generally 10-15%, depending on the bank's performance targets.

Bank's margin

In this case, 10% of the 5% put aside amounted to 0.5% of Alpha's loan amount, which was the annual cost of capital employed. Along with a negotiation margin of 0.25%, these items added up to an interest margin of 6% as shown in figure 16.

Figure 16: Stepwise calculation of the loan interest rate – example
Percent of loan volume per annum



In view of the above, only a week after the first meeting, Beta Bank made Alpha the following offer:

Loan offer

Loan of EUR 1 million, with a maturity of five years and a fixed interest rate of 6 %

While Alpha recognized that 6% was a good price, it was also interested in details about its rating and whether there wereopportunities to improve it – and it certainly wanted to bargain for the best possible financing conditions.

Check terms and conditions

In the second meeting, Alpha discussed the offer with the bank representative:

Rating 8 is derived from the overall situation of Alpha's business and could not be influenced in the short term:

- Quantitatively, Alpha's good profitability was decisive. Alpha's segment of the health-care industry enjoyed high margins and Alpha had proved in the past that it was able to capture them. However, Alpha's balance sheet was stretched, given that it had not yet repaid its first loan.
- On the qualitative side, Beta Bank considers management capabilities the most important criterion. The CEO of Alpha and the management team had a good reputation and extensive practical experience in the industry.

Even though a shorter maturity would have lowered the price of the loan, Alpha preferred the longer maturity as it did not want to be exposed to interest rate rises.

Alpha agreed to pledge another part of its production facilities as collateral in addition to the machinery to be purchased with the loan. This decreased the amount of Beta Bank's expected loss and the cost of capital employed by 0.2 percentage points to 5.8%.

Through some tough negotiating and the additional promise to shift its other banking activities to Beta Bank, Alpha succeeded in reducing the prise of the loan by another 0.05 percentage points, to 5.75%.

On request, Beta Bank made its rating process and the corresponding input factors known to Alpha. With this knowledge, Alpha was equipped to better manage these factors for a new loan or a rating update, thus enhancing the prospects of improving its rating and getting credit at a more favourable price in the future.

Manage your rating actively

Alpha checked all these input factors in detail. Many of them, such as growth and profitability, had been its focus for a long time and had been optimised as much as possible. But now that Alpha knew that its balance sheet was stretched, it took the following actions:

- Negotiated with the stockholders to obtain more equity;
- Managed its accounts payable and accounts receivable more actively in order to optimise net working capital;
- Implemented a new controlling system.

Ongoing credit relationship

Many SMEs are often tuned to bank requirements during the loan decision phase, but as soon as the loan is obtained they act as if the relationship with the bank was over. But naturally Beta Bank was very interested in getting updated information about Alpha's ability to service its debt.

Furthermore, by monitoring Alpha's performance, Beta Bank was ready to take action if Alpha's situation were to deteriorate. As its most far-reaching option, Beta Bank could terminate the contract if it were to doubt Alpha's ability to pay back the loan regularly.

Make sure you hold on to your loan

Alpha formalised the following measures in its relationship with Beta Bank, especially for annual rating updates:

- Active delivery of all relevant documents prior to rating updates;
- Regular discussions with the bank representative.

These actions helped Alpha to avoid giving any signals that Beta Bank might have interpreted aswarning signs of business trouble, such as:

- Payment delays, especially longer ones;
- Documents not provided, even after a written reminder;
- General problems in its industry.

Consequently, in just two years, Alpha successfully launched its new products that were manufactured with the new machinery. The business turned out to be even more profitable than expected, so now Alpha would like to increase capacity by investing a further EUR 1 million in another machine.

Beta Bank, which had become Alpha's main bank for all banking services, was naturally the first contact. The reply was quick:

Loan offer of EUR 1 million with a maturity of five years at a price of 7.5 % annually.

The reason for the high price was Alpha's balance sheet, which was burdened with two loans and thus deemed by Beta Bank to be more risky than before.

Consider the alternatives

Alpha was unwilling to pay the higher price and consulted a government-sponsored institution specialising in SME financing. From the discussion, two main opportunities emerged:

- Venture capital

  A fund offered to provide Alpha with EUR 1 million in return for a stake in the company. This capital injection would represent equity and, therefore, would improve Alpha's balance sheet.

  But Alpha's management was very proud of the company's full independence, maintained over the course of some very difficult years, and did not like the idea of somebody else influencing its business decisions;

- Leasing

  Alpha also found a supplier of machinery that offered leasing contracts. The price for renting the machinery Alpha wanted was EUR 250 000 per year on a five-year contract .

  Alpha would be able to pay this amount annually without external financing and would become the owner of the machinery at the end of the five year period. An early cancellation, however, would impose additional costs and would only pay off if the market situation changed dramatically, for instance if Alpha could not maintain its first-mover advantage.

  Alpha was at this point well aware of the amount of external financing in its balance sheet and favoured the leasing alternative.

4 Annexes

4.1. Background to the European survey on Basel II

Following a request from the European Parliament concerning the possible effects of the forthcoming Basel II framework and the corresponding new European Directive, the European Commission issued an invitation to tender (ENTR/03/45) for, firstly, the gathering of data on the use of internal ratings on SMEs by banks and, secondly, the compilation of the present guide.

To meet these objectives, McKinsey and Company, Inc. and System Consulting Network S.r.l. Designed a questionnaire comprising four main sections. The first section covered topics relating to the overall business model of the participating banks, such as their overall size, the size of their SME business, and the prospects for the latter in the near future.

With regard to the new capital-adequacy framework for banks, the second part of the survey addressed the implementation status of this new framework and its impact on the overall banking business. As the framework will focus on the credit processes of the banks, the third and most detailed section covered credit processes as they are now as well as asking for any changes planned in the next few years. The fourth and final section analysed the risk management practices of banks.

A detailed version of the questionnaire was sent to the 44 largest European banks. Out of these, 33 participated in the survey, covering the EU-15 member states as well as Norway and Switzerland. A shorter version of the questionnaire was sent to a representative sample of small and medium-sized banks in Europe (EU member and candidate countries). Of these, 71 small and medium-sized banks participated in the survey, giving a total of 104 participants overall and broad regional coverage.

The participating banks cover approximately 40% of total European banking assets. In addition, 67 banking associations were addressed with a questionnaire covering the implementation status of the new framework and the impact of the latter on banks and SMEs, as well as a section on overall credit-risk measurement. The responses from 27 associations completed the database compiled from the banking survey and contributed significantly to the results obtained.

The data gathering process described above was conducted from June to December 2004, accompanied by personal interviews with executives from the 44 large banks. It resulted in the creation of an extensive database. From the various analyses executed, the information gained in the interviews, and the authors' knowledge of working with banks on credit matters, a clear picture of the current trends and changes in SME credit management emerged. The authors then used this fact base to formulate the advice for SMEs contained in this guide.

4.2. Indicative outline of a business plan

The following outline provides a general overview of the elements typically included in a full-fledged business plan. To prepare your documents optimally, ask your bank for a similar sample or a checklist. You may also ask the institutions providing advice to SMEs on financing listed at the end of this annex.

1. Company description
- Foundation date, legal form, industry, aspiration
- Key financials (sales revenue, total assets, profit)
- Key people, succession plan if applicable

2. Current situation
- Strengths and weaknesses
- Competitive landscape, unique selling proposition(s)
- Details on products/services and customer composition

3. Projected situation (2-3 years)
- Opportunities and threats
- Own development versus market development
- Details on projected products/services and customer composition

4. Business model
- Marketing/branding/advertising
- Sales/distribution
- Machinery/infrastructure
- Suppliers
- Organisational setup and human resources

5. Financial planning
- Balance-sheet projection (2-year historic, current, 2-year future)
- Income statement projection including scenarios (2-year historic, current, 2-year future)
- Resulting capital needs, projected funding partners, methods and collateral
- Financial and internal controlling

Annexes:
- Customer references
- Management credentials

4.3. Business development institutions in Europe

The following list contains institutions that can provide financing to eligible SMEs. Typically, this financing is offered at lower rates or better conditions than by purely commercial loans. Schemes offered are commonly loans, but can include other forms of financing.

AUSTRIA

Austria Wirtschaftsservice (aws)
Address: Ungargasse 37
AT-1030 Wien
Webpage: www.awsg.at

BELGIUM

ParticipatieMaatschappij Vlaanderen NV
Address: Hooikaai 55
BE-1000 Brussel
Webpage: www.pmvlaanderen.be

Société Wallonne de Financement et de Garantie des Petites et Moyennes Entreprises (SOWALFIN)
Address: 13, Avenue Maurice Destenay
BE-4000 Liège
Webpage: www.sowalfin.be

Société Régionale d'Investissement de Bruxelles (SRIB)
Address: 32, Rue de Stassart
BE-1050 Bruxelles
Webpage: www.srib.be

CYPRUS

Κυπριακή Τράπεζα Αναπτύξεως
Address: 50, Λεωφ. Αρχ. Μακαρίου ΙΙΙ
ΨΥ-1508 Λευκωσία
Webpage: www.cyprusdevelopmentbank.com

CZECH REPUBLIC

Českomoravská záruční a rozvojová banka (CMZRB)
Address: Jeruzalémská 964/4
CZ-10 00 Praha 1
Webpage: www.cmzrb.cz

DENMARK

Vækstfonden
Address: Strandvejen 104A
DK-2900 Hellerup
Webpage: www.vaekstfonden.dk

FINLAND

Finnvera
Address: Eteläesplanadi 8,
FI-00130 Helsinki
Webpage: www.finnvera.fi

FRANCE

Banque du Développement des PME (OSEO-BDPME)
Address: 27-31, Avenue du Général Leclerc
FR-94 710 Maisons-Alfort Cedex
Webpage: www.bdpme.fr

GERMANY

KfW Mittelstandsbank (KfW Bankengruppe)
Address: Palmengartenstraße 5-9
DE-60325 Frankfurt am Main
Webpage: www.kfw-mittelstandbank.de

GREECE

Ταμείο Εγγυοδοσίας Μικρών και Πολύ Μικρών Επιχειρήσεων (ΤΕΜΠΜΕ ΑΕ)
Address: Λ. Αμαλίας 26
EL-10557 Αθήν
Webpage: www.tempme.gr

HUNGARY

Magyar Fejlesztési Bank Részvénytársaság (MFB)
Address: HU-1051 Budapest
Nádor u. 31
Webpage: www.mfb.hu

ITALY

Mediocredito Centrale (MCC)
Address: Via Piemonte 51
IT-00187 Roma
Webpage: www.mcc.it

Artigiancassa
Address: Via Crescenzo del Monte 25/45
IT-00153 Roma
Webpage: www.artigiancassa.it

LATVIA

Hipotēku banka
Address: Doma laukums 4
LV-1977 Rīga
Webpage: www.hipo.lv

LUXEMBOURG

Société Nationale de Crédit et d'Investissement (SNCI)
Address: 7, Rue du Saint Esprit
LU-1475 Luxembourg
Webpage: www.snci.lu

MALTA

Malta Enterprise Corporation / Korporazzjoni Maltija ghall-Intrapriza
Address: Enterprise Centre
Industrial Estate
San Gwann SGN 09
Malta
Webpage: www.maltaenterprise.com

POLAND

Bank Gospodarstwa Krajowego
Address: Al. Jerozolimskie 7
PL-00-955 Warszawa
Webpage: www.bgk.com.pl

PORTUGAL

Instituto de Apoio às Pequenas e Médias Empresas e ao Investimento (IAPMEI)
Address: Rua Rodrigo Fonseca 73
PT-1269-158 Lisboa
Webpage: www.iapmei.pt

SLOVAKIA

Slovenská záručná a rozvojová banka (SZRB)
Address: Štefánikova 27
SK-814 99 Bratislava
Webpage: www.szrb.sk

SPAIN

Instituto de Crédito Oficial (ICO)
Address: Paseo del Prado, 4
ES-28014 Madrid
Webpage: www.ico.es

SWEDEN

ALMI Företagspartner AB
Address: Liljeholmsvägen 32
SE-117 94 Stockholm
Webpage: www.almi.se

UNITED KINGDOM

Community Development Finance Association (CDFA)
Address: Hatton Square Business Centre, Room 101
16/16a Baldwins Gardens
London EC1N 7RJ
United Kingdom
Webpage: www.cdfa.org.uk

4.4. Institutions providing advice to SMEs

Due to the large differences in the banking industry throughout Europe, the advice given in this guide cannot cover all local details. To find out more about these, we have included a sample list of public, semi-public, and private organisations that advise SMEs on Basel II and rating questions. Please note that some of the institutions listed are central bodies and will likely refer you to their regional branches.

AUSTRIA

Wirtschaftskammer Österreich (WKÖ)
Address: Wiedner Hauptstraße 63
AT-1045 Wien
Webpage: www.wko.at

BELGIUM

Union des Classes Moyennes (UCM)
Address: 29, Avenue A. Lacomblé
BE-1030 Bruxelles
Webpage: www.ucm.be

Unie van Zelfstandige Ondernemers (UNIZO)
Address: Spastraat 8
BE-1000 Brussel
Webpage: www.unizo.be

CZECH REPUBLIC

Hospodářská komora České republicy
Address: Freyova 27
CZ-190 000 Praha 9
Webpage: www.komora.cz

ESTONIA

Eesti Väike- ja Keskmiste Ettevõtjate Assotsiatsioon (EVEA)
Address: Liivalaia 9
EE-10118 Tallinn
Webpage: www.evea.ee

FINLAND

Suomen Yrittäjät (SY)
Address: Kaisaniemenkatu 13 A
FI-00101 Helsinki
Webpage: www.yrittajat.fi

FRANCE

La Direction du Commerce, de l'artisanat, des services et des Professions Libérales (DCASPL)
Address: 3/5 rue Barbet de Jouy
FR-75007 PARIS
Webpage: www.pme.gouv.fr

GERMANY

Deutscher Industrie- und Handelskammertag (DIHK)
Address: Breite Straße 29
DE-10178 Berlin
Webpage: www.dihk.de

Zentralverband des deutschen Handwerks (ZDH)
Address: Mohrenstraße 20/21
DE-10117 Berlin
Webpage: www.zdh.de

HUNGARY

Kereskedők és Vendéglátók Országos Érdekképviseleti Szövetsége (KISOSZ)
Address: HU-1061 Budapest
Andrássy út 43
Webpage: www.kisosz.hu

ITALY

Confederazione generale dell'industria italiana (CONFINDUSTRIA)
Address: Via dell'Astronomia 30
IT-00144 Roma
Webpage: www.confindustria.it

Confederazione Generale Italiana dell'Artigianato (CONFARTIGIANATO)
Address: Via di San Giovanni in Laterano 152
IT-00184 Roma
Webpage: www.confartigianato.it

Confederazione Italiana della Piccola e Media Industria (CONFAPI)
Address: Via della Colonna Antonina 52
IT-00186 Roma
Webpage: www.confapi.org

Confederazione Nazionale dell'Artigianato e della Piccola e Media Impresa (CNA)
Address: Via G. A. Guattani 13
IT-00161 Roma
Webpage: www.cna.it

LATVIA

Latvijas amatniecības kamera (LAK)
Address: Amatu iela 5
LV-1050 Rīga
Webpage: www.lak.lv

LITHUANIA

Lietuvos verslo darbdavių konfederacija (LVDK)
Address: A. Rotundo g. 5
LT-01111 Vilnius
Webpage: www.ldkonfederacija.lt

LUXEMBOURG

Chambres des Métiers du Grand-Duché de Luxembourg
Address: Circuit de la Foire Internationale 2
LU-1016 Luxembourg
Webpage: www.chambre-des-metiers.lu

Fédération des Artisans (FDA)
Address: Circuit de la Foire Internationale 2
LU-1016 Luxembourg
Webpage: www.federation-des-artisans.lu

NETHERLANDS

Midden- en Kleinbedrijf Nederland (MKB)
Address: Brassersplein 1
NL-2612 CT Delft
Webpage: www.mkb.nl

POLAND

Związek Rzemiosła Polskiego (ZRP)
Address: ul. Miodowa, 14
PL-00-246 Warszawa
Webpage: www.zrp.pl

PORTUGAL

Associação Industrial Portuguesa (AIP)
Address: Praça das Indústrias
PT-1300-307 Lisboa
Webpage: www.aip.pt

SLOVENIA

Obrtna zbornica Slovenije (OZS)
Address: Celovška cesta 71
SI-1000 Ljubljana
Webpage: www.ozs.si

SPAIN

Confederación Española de la Pequeña y Mediana Empresa (CEPYME)
Address: Diego de León, 50
ES-28006 Madrid
Webpage: www.cepyme.es

SWEDEN

Företagarna
Address: Regeringsgatan 52
SE-106 67 Stockholm
Webpage: www.foretagarna.se

UNITED KINGDOM

Forum of Private Business (FPB)
Address: Ruskin Chambers
Drury Lane
Knutsford
Cheshire WA16 6HA
Webpage: www.fpb.co.uk

4.5. Other guides to ratings and Basel II

The publications listed below are practical guides for SMEs interested in improving their bank rating and financing conditions. This list covers the most readily accessible guides, but is neither complete nor does it represent an endorsement of the publications' contents.

FRENCH

Plusieurs conseils pour optimiser votre rating
Author: Patrick Hauri; Bruno Oppliger
Publisher: PME Magazine
Year: 2004

Les PME face aux enjeux du rating, du pricing et de Bâle II
Author: UBS Business Banking
Publisher: UBS
Year: 2003

GERMAN

Leitfaden Rating Basel II: Rating Strategien für den Mittelstand
Author: Dr. Werner Gleißer; Dr. Karsten Füser
Publisher: Verlag Vahlen
Year: 2003

Rating für den Mittelstand: Fit für das Gespräch mit der Hausbank
Author: DIHK
Publisher: DIHK
Year: 2003
Internet: http://verlag.dihk.de

Rating im Handwerk
Author: Uwe Baumann; Christian Eisenecker; Franz Falk; Erhard Steinbacher; Nikolaus Teves
Publisher: Arbeitsgemeinschaft der Handwerkskammern in Baden-Württemberg
Year: 2002
Internet: www.hwk-konstanz.de

ITALIAN

Negoziare con le banche alla luce di Basilea 2
Author: Lenoci-Peola
Publisher: Ipsoa
Year: 2004

Guida a Basilea 2 (CD-Rom)
Author: Camera di Commercio di Milano
Year: 2004
Internet: www.mi.camcom.it

SPANISH

Basilea II: Una nueva forma de relacion banca-empresa
Author: Jorge Soley; Ahmad Rahnema
Publisher: McGraw-Hill / Interamericana de Espana, S.A.
Year: 2004

4.6. A toolkit and further information sources

A comprehensive toolkit for SMEs' self-assessment and management improvement was developed by a recent project funded by the European Commission. Designed to inform SMEs in the EU countries about Basel II, the project compiled a toolkit for SMEs that is available at www.sme-basel2.com. The toolkit includes checklists and frameworks for assessing management and business objectives, for ranking product and services according to their attractiveness, for customer and supplier analysis, as well as self-assessment tools regarding an SME's operational and financial capabilities.