

5

Loans and credit

AIMS

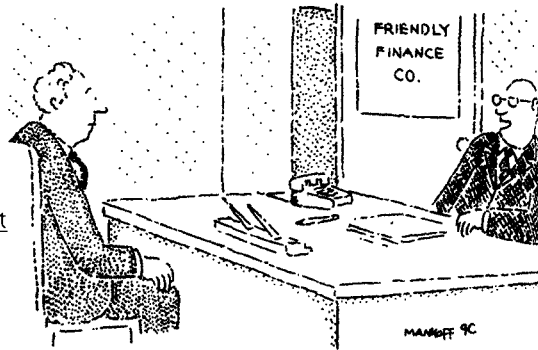
To learn about: lending decisions; key vocabulary of loans and credit

To learn how to: give advice and make suggestions

To practise: making lending decisions; giving advice to clients

Lead in

- How do commercial banks make a profit?
- How do banks decide who to lend money to?
- How do they decide what rates to lend at?
- How can large corporations raise finance?
- Why do large companies generally prefer not to borrow from banks?



"We'd like to lend you the money, but we're afraid we might lose you as a friend."

Reading: Banks and bonds

1 Read the texts below and then answer the questions on the opposite page.



Corporate bonds are issued by companies to raise capital. They are an alternative to issuing new shares on the stock market (equity finance) and are a form of debt finance. A bond is basically an IOU (short for 'I owe you') – a promise to pay back your original investment (the 'principal') at a maturity date, plus interest payments (the 'yield' or 'coupon') at regular intervals between now and then. The bond is a tradeable instrument in its own right, which means that you can buy and sell it during its life, and its value will tend to rise and fall as interest rates change.

Thirty or forty years ago, large companies that wanted to borrow money generally got loans from banks. Then they discovered that they could borrow at a lower rate by raising money directly from the public (and from institutional investors like insurance companies and pension funds), by issuing bonds. This process of disintermediation – cutting out the intermediary (the bank) between the borrower and the lenders – is obviously *not* a good thing for commercial banks. They now have to lend their money to borrowers that are less secure than large corporations.

Companies and financial institutions are given investment ratings, reflecting their financial situation and performance, by ratings companies such as Standard & Poor's and Moody's. The highest rating (AAA or Aaa) is given only to top-quality institutions, with minimal credit risk. Today, only one of these is a bank (Rabobank, in the Netherlands). The only other AAA ratings – and there are very few – belong to large corporations.

On the other hand, companies use investment banks to issue their bonds for them, permitting banks to make money from fees rather than from interest.

- 1 What are the two main ways in which large companies and corporations raise capital?
 - 2 What might explain why only one bank has a AAA rating?
 - 3 What form of income do banks now get from large companies?
- 2 Use a word from each box to make word combinations from the text. You can use some words more than once. Then use some of the word combinations to complete the sentences below.

credit	date
debt	finance
equity	instruments
financial	payments
interest	performance
investment	rating
maturity	risk
tradeable	situation

- 1 Bondholders get _____ until the bond's _____.
- 2 Because bonds are _____ you can sell them at any time, but their price will depend on the company's _____ and the level of interest rates.
- 3 Only companies with hardly any _____ get a AAA _____.

Vocabulary

You are going to listen to an interview about lending decisions. Before you listen, check your understanding of the words and phrases in the box by matching them with their definitions (1–10).

collateral	credit rating	maturity	portfolio	cost of funds
EBIT	operating cash flow	credit limit	margin	overhead costs

- 1 the abbreviation for a company's earnings before interest and taxes
- 2 all the securities and financial assets held by a financial institution or an individual
- 3 an evaluation of a borrower's ability to pay interest and pay back a loan in the future
- 4 something of value that secures a loan or other credit; if the borrower cannot repay, the lender can sell it to pay off the loan
- 5 the date on which a loan must be repaid, or the length of time until this date
- 6 the difference between the interest rate a lender pays and the rate it charges its borrowers
- 7 the expenses of operating a business that are not directly related to individual products or services (e.g. electricity, telephones, administrative costs)
- 8 the maximum amount that a bank will lend to a customer
- 9 the money generated from a business's normal activities
- 10 the price (interest rate) that a financial institution must pay for the use of money

Listening 1: Lending decisions

Gerlinde Iglar works for a German bank. Listen to her talking about how banks make lending decisions for commercial and corporate customers, and complete the notes on what she says. **5.1**

Normally the bank analyses _____
 The bank has to evaluate _____
 The bank discusses _____
 Normally the company should be able to _____
 The bank has got different limits for _____
 They also have a rating for _____
 Before financing foreign transactions, the bank _____
 If the bank doesn't have a limit _____

Listening 2: Margins

Listen to Gerlinde Iglar talking about how banks determine lending rates, and answer the questions below. **5.2**

- 1 What are the two factors that determine the interest rate a customer is charged?
- 2 What is the advantage for a business of having a Triple A or AAA rating?
- 3 What are the different costs involved in the calculation of the bank's margin?
- 4 How can a bank reduce the risks involved in granting a loan?

Advising and suggesting

- 1 Think of some phrases for giving advice and making suggestions or recommendations in a business situation.

Some common phrases are shown below; you will add more later.

Phrase	Example
How about <i>doing</i> ...	How about opening a savings account?
I think (that) you should <i>do</i> ...	I think you should reduce your spending.
I think (that) you ought to <i>do</i> ...	I think you ought to pay off that debt first.
It'd (It would) be a good idea <i>to do</i> ...	It'd be a good idea to pay those bills regularly.
I'd (I would) advise you (not) <i>to do</i> ...	I'd advise you to sell those stocks immediately.
It's advisable <i>to do</i> ...	It's advisable to diversify your portfolio.
Have you considered <i>doing</i> ...	Have you considered getting life assurance?

LANGUAGE

Note that a verb following *how about* and *consider* is always in the *-ing* form; a verb following *should* is always the infinitive without *to*; and a verb following *advisable* is always the infinitive with *to*.

Notice also the difference in spelling between the noun *advice* and the verb *advise*. The noun is uncountable. We do not say *an advice*; we say *some advice*, *a piece of advice*, *several pieces of advice*.

- 2 Which of the phrases opposite are more formal, and which more informal? Which of them would you use in a formal letter? Which would you use with a colleague you know well?
- 3 Can you think of any phrases using the verbs *suggest*, *recommend* and *advise*? Write them in the table opposite showing the structure that is used, and add an example for each. Use a dictionary to help if you need to.
- 4 Use some of the phrases opposite to give advice or make suggestions to the following people:
 - 1 A customer who has \$5,000 in a savings account paying 2.5% p.a. and a credit card debt of \$3,000 on which she is paying 1.25% per month
 - 2 A customer who has just had a pay rise of \$1,000 a month
 - 3 A customer who wants to invest \$50,000 in the stock of just one company
 - 4 A customer who has just finished paying off his mortgage and asks for a loan of \$50,000 to make improvements to his house
 - 5 A self-employed customer without any plans for retirement
 - 6 A customer who wants to take €10,000 cash on a long vacation
 - 7 A customer who complains about the length of the queues at his local branch
 - 8 A shopkeeper who always keeps the day's takings at home overnight and pays them in to the bank the following morning

Practice 1

As part of a training course, a bank is asking teams of employees from different departments to give their opinion on loan applications. The bank operates at local, national and international levels. It lends to individual customers, small and medium-sized businesses, and large companies.

Your teacher will give you a role to prepare. Use the phrases for giving advice and making suggestions from the **Language focus** opposite.

Work in groups of four. Student A should look at **page 116**, Student B at **page 125**, Student C at **page 134**, and Student D at **page 132**.

Practice 2

A bank advisor is in a meeting with one of the customers from the cases in **Practice 1**.

Your teacher will give you a role to prepare. Use the phrases for advising, suggesting and recommending from the **Language focus** opposite.

Work in pairs. Student A should look at **pages 117–8** and Student B at **pages 125–6**.

Writing

Following the discussion in **Practice 1**, write a brief email to the training manager, confirming the decisions made.



Dear ...
I'm writing to inform you about the decisions that were made in this morning's training exercise ...

6

Business correspondence 2

AIMS

To learn about: style and standard phrases in business letters

To learn how to: reply to complaints

Lead in

- In what situations do you write a letter rather than an email?
- What kind of letters do you and your colleagues have to write at work?
- What do you find difficult about writing business letters in English?
- Does your company or institution have templates or models for standard or common letters? If so, why?

LANGUAGE

Formal and informal style 2

Business letters, sent from one company to another, or to clients and customers, are generally written in a very polite, formal style. However, it is not only letters that are written this way: the first contact between a company and a business partner is generally written in a formal style, even if it is an email. Subsequent correspondence between people who know and like each other often becomes less formal, using the style discussed in **Unit 4**. Such correspondence is increasingly done by email rather than letters (posted by 'snail-mail').

1 Which style, formal or informal, would you use for the following?

- 1 Writing to a customer you know well to summarize a meeting
- 2 Writing to someone you don't know to apply for a job
- 3 Writing to someone you have known for years to apply for a job
- 4 Complaining to a valued business partner about contractual terms that have not been respected
- 5 Writing to a long-time business partner with a renewed contract
- 6 Apologizing to a customer for bad service
- 7 Apologizing to a colleague for missing a meeting
- 8 Congratulating a member of staff for their good results

Standard phrases

Business letters often include standard sections – an opening sentence referring to previous correspondence or stating the reason for writing, a closing sentence, etc. There are fixed phrases for these, as well as for the different things you can do in a letter (give news, give information, apologize, etc.). These phrases often use longer, more formal words instead of short ones with a similar meaning (see **Unit 4**).