Applying for a loan

Information for small to medium businesses

CPA
AUSTRALIA

One of the key challenges for many small to medium businesses is working out how to approach a lender for a loan.

This fact sheet will discuss how small to medium businesses can plan to obtain bank finance. For more information on sources of finance for a business please see Appendix 1.

To the point

- Your accountant, lawyer or finance broker can advise you on your application
- Don't restrict yourself to one bank or just to banks, shop around
- Loan applications and shopping around take time, so it's best to schedule time to complete the task so you aren't rushed
- Lenders should be happy to discuss your needs in a preliminary meeting
- Make sure you take the necessary information required by the lender – relationships built on transparency do matter
- If you fail in your loan application, seek feedback as to why it failed and what may be needed to be successful

Start early	Before applying for a loan	The loan application
Shop around for best suited loan Research what is available Don't wait until you need the finance Consider using a finance broker	Understand what loan products are available to meet the needs of your business Prepare a business plan Prepare robust financial forecasts – Cash flow, profit and Loss statements Understand how the bank will assess the loan application – the 5C's	Ensure the application addresses what the loan is for, the loan amount, the term of the loan, when the loan is required. Include business plan and financial forecasts Provide information on what security is available Include previous financial statements (three years) Profit and Loss, Balance Sheet Provide business tax information including tax returns, notice of tax assessment, BAS for previous three years Include a list of personal information that includes personal assets and liabilities, three years tax returns

Start early

Shop around

Lenders offer different loan products and services. It can take some time to understand what the differences are and therefore identify the loan that suits your needs.

You should also consider whether it makes sense to consolidate your business with one bank to get the benefits of a package or have different providers for different products. You may also consider visiting a finance broker, as they can help a small business evaluate the options of many lenders.

Give yourself time to do some homework

The first aspect of the process is to find out what lenders have to offer. Your current bank may not be the best for your business. There is no guarantee they will offer you a loan. Do research, talk to other people in business, look at comparison websites and reviews. This will help you gain the background information you need about what all the lenders have to offer you. You don't have to confine yourself to a bank within your own town or region. Technology makes it possible for you to work with a lender based anywhere in Australia.

Timing

Don't wait until you are desperate for money. This isn't a good foundation for a successful loan application. Lenders want to feel secure in their decision. It doesn't want to hear that your business needs the loan to survive; it wants to hear that your business needs the loan to grow.

Find a specialist

Ask around; try to find out which lender has loan specialists who understand your industry . Such specialists will have a better understanding of your sector, which means they should have a better appreciation of the conditions your business is exposed to. If you are a small business or a start-up, consider making your first approaches to lenders with a small business focus or small business support already in place. Study websites and ask others to find our which banks offer what kinds of business support.

If you are using a broker, ask if they are contractually bound to offer certain loans, or if you are getting the best on the market.

Before applying for a loan

To give yourself and your business the best chance of success when applying for a loan, it is important you appropriately prepare. There are six key questions that your loan application must address:

- What is the purpose of the loan?
- How much do you want to borrow?
- When will the money be required?
- How long do you need the loan for?
- How will the loan be repaid?
- Will you be required to use personal assets as security?
- What is the risk to the lender?

Understanding loan products

In a competitive market, lenders will package finance products under different names and introduce a range of features to differentiate themselves. A description of the most common debt finance products is available at Appendix 2.

In matching a debt product and selecting the appropriate features to suit your business requirements, you need to determine the following about your business:

- What the funds are going to be required for and how long do you require the funds for– for example, to fund the purchase of inventory or to fund a building extension?
- Be realistic about the amount of funds you require and can afford.
- What level of security can you offer? How will the lender view the value of the security?
- How will the lender assess 'risk' for your business?

Your banker, broker or accountant will be able to assist in identifying the most appropriate debt product and to suit your business requirements.

It is also important that you understand lender speak when assessing loan products and preparing for your loan application. A list of commonly used terms is provided in Appendix 3.

A business plan

A comprehensive business plan is the best place to start in preparing your loan application. It should provide the lender with ample information of your business, your future plans, how you will implement these plans and their financial implications.

It will help you address many of the questions the potential lender has. A properly prepared business plan will assist you demonstrate what you are going to use the funds for, how much you need to borrow, how long you need the loan and the financial impact on the business.

It's important to remember that a lender doesn't know your business like you do, so a comprehensive business plan is vital when applying. The plan should include market analysis, robust forecasting, competitor analysis, marketing plan and references to your major clients and suppliers.

A business plan template can be downloaded **here**.

Financial forecasts

Your business plan should include a budgeted profit and loss statement and cashflow forecast for the same period that you will be borrowing the money or five years whichever is shorter.

For the forecasted financials, you need to include the loan as if you have been successful. This will give the lender a clear picture of how the business will operate on a financial basis during the term of the loan, including the ability to make repayments and cover interest charges.

It's important to know how to prepare these forecasts in line with your lender's expectations. You may need your accountant's help to prepare these documents.

Your lender may ask you for an **accountant's letter** or capacity to repay certificate from your accountant. CPA Australia has informed accountants that they cannot provide a certificate or assessment relating to whether you will be able to meet your financial obligations under a loan.

Consider the lender's position

Your business needs to make a profit, so does a lender. When you approach a lender for financial assistance, you are asking them to go into business with you. This means you are asking the lender to consider your business plan, agree with your strategy, approve your expenditure, and accept some of the risk that the business may not succeed.

Lenders are in the business of supporting sound and viable financial decisions, therefore every request must be considered on its own merits.

Lenders have to consider risk.

The bottom line for a lender is: how much risk do we take on with this project? Will we make a profit, or are we more likely to make a loss? Each lender has its own guidelines to help it decide if a business proposition is worth funding or not.

Many of the loan applications lenders receives will not be approved, simply because the risk the bank is required to carry is too high, or it believes the applicant cannot support the risk either.

Banks are regulated by the Australian Prudential Regulation Authority (APRA) which requires them to make prudentially responsible lending decisions Lender also quantify risk according to their own lending portfolio. A lender may decline to loan to a viable business based on the fact they are overexposed in the industry sector the business is in.

How will a lender assess your application – the 5 C's

Although each lender will have their own guidelines in assessing loan applications, they all will use the 5C's to assist in their assessment:

Character	The borrower's reputation, integrity and 'willingness' to repay the loan. They will look at the details in the business plan and the relationship you have with your lender may also come into play.
Capacity	The borrower's ability to repay. This will be evident from the forecast cashflow and budgeted profit and loss statement.
Capital	The borrower's current financial position. The lender will look at previous financial statements, any outstanding obligations to the Australian Taxation Office and other publicly available information such as credit reports and the Personal Property Securities Register to assist with this assessment.
Conditions	The lender's 'terms' and the ability of the borrower to meet these terms.
Collateral (security)	What the borrower can offer as 'security' for the proposed loan. This will be determined in part from the balance sheet of the business and most likely the lender will also consider personal guarantees from the directors of the business.

Common mistakes that may hurt your application

It's likely that a loan application from a small business, with only a limited amount of security might be viewed with caution by a potential lender. However, there are steps you can take to maximise the probability of your application being successful:

1. Don't ask for more than you need

Lenders use a variety of formulas to work out how much they think they should lend to you. So it makes sense that you don't ask for more than you need to borrow. The more that you request, the harder it may be to secure those funds. It's also important not to underestimate what you need. If you do underestimate, you may need to go back and ask for more money.

2. Don't rush it

Each lender will have different loan approval processes. The first bank officer or loan specialist you talk to may not be the person who makes the final decision on your application. It may depend on the size of the loan you are seeking, the size of the lender and the systems the lender has in place for loan approvals. You're certainly entitled to ask how long the process might take, but avoid placing too much pressure on the lender to respond. This will not hasten the process and may give the bank officer reason to be more cautious.

3. Common mistakes that small business make in the application process

- Thinking that business turnover (cash flow) reflects their actual profits.
- Not providing information about the directors of the small business. Banks will assess directors and may ask for guarantees from directors.
- For micro enterprises – thinking that business assets can be used toward security. While this can be considered for some business customers and corporate segments (if used as additional security rather than sole security), it is not acceptable for the micro business segment.
- Inflating the value of business assets. Bank valuations assess standard market value for a quick sale therefore many small businesses overstate the true market value of their assets

The loan application process

So what is the bank looking for in your loan application? Three things – information, security and experience.

One of the most important aspects of your loan application is to demonstrate to a potential lender that you can organise your thoughts and ideas in writing and can support them with financial information.

Make sure you understand all the information that is being presented in the loan application. Respect the lender's need to ask what appear to be personal questions. Remember, they are going to be your business partner!

The quality of information the lender has about your business, your plans, and your industry, will impact the probability of a successful application.

The objective of preparing a loan application is to show the lender that you run a viable business and therefore providing you with a business loan is a low-risk proposition.

Bankers will be very interested in how you run your business as a profit generating exercise and your plan to generate cash flow. Healthy cash flow is the very essence of a successful small business. If your cash flow is poor, your business will struggle to operate efficiently and repay any loan.

Security is also crucial to the loan application. The more security you have, the better your chance of getting a loan. The security you offer will form the basis of the loan agreement. Preliminary discussions with banks will give you an idea of the kind of security they would be looking for, and the dollar value of such a security.

Types of securities

Often small business owners or directors will offer their family home as security for a business loan. Depending on how much equity you have in the property, this may require changing your mortgage arrangements. The bank also wants to ensure you are committed to repaying the loan, so the requirement of security binds you to the business, and the bank.

Alternatively, business assets may be provided as security in lieu of residential assets, at higher interest rates.

There also exists the option of a more expensive unsecured loan for small businesses that may be willing to pay higher lending costs in exchange for not risking their personal assets.

Banks may also ask business owners and directors of companies to provide personal guarantees (depending on the circumstances of the business) as part of receiving a loan.

A bank will likely impose conditions on a loan, known as covenants. A covenant is an agreement between two or more parties that binds them from certain actions. For example, a borrower is bound to provide financial information to a lender, or is to refrain from incurring further debt during the life of the loan or to ensure that the Loan to Value Ratio (LVR) does not go above a certain percentage.

Lenders Mortgage Insurance (LMI) is required when the LVR exceeds a certain percentage for example 80 per cent. LMI protects a lender when a borrower has an LVR that is greater than that percentage. Where LMI is required, a one-off premium is payable by the borrower.

Checklist for writing your loan application

<table>
<tr><th>Content</th><th>Detail</th></tr>
<tr><td rowspan="4">Content</td><td>What does my business do</td></tr>
<tr><td>Business history – including information on the business's past successes and depth of experience of the management. If a start-up, of the relevant successes and experience of the individuals behind the business</td></tr>
<tr><td>Industry Information</td></tr>
<tr><td>Ownership details</td></tr>
<tr><td>Business plan</td><td>Even if your business is already established, include a business plan as part of your loan application</td></tr>
<tr><td>Forecast financial information</td><td>The bank will require forecasts: cash flow forecasts, profit and loss forecasts and balance sheet forecasts. The forecasts should:
• be over the term of the loan you are seeking
• should state any assumptions you have made
• be written as if the loan application is successful
• the forecasts could include best- and worst-case scenarios.</td></tr>
<tr><td>Details on any sensitivity analysis and/or analysis of financial ratios</td><td>Your accountant can help you with this.</td></tr>
<tr><td>Details on loan required</td><td>A detailed description of why the loan is required. This purpose will be critical in determining the type of loan you require.
You should state:
• the amount of the loan that you seek
• why you need that amount
• the term over which you seek that loan</td></tr>
<tr><td>Available security for the loan</td><td>For most types of loans, banks require security over the loan. As part of your application, you identify the security you're prepared to offer. The value of the security should be greater than the value of the loan, and the value of that security should hold up over the term of the loan.</td></tr>
<tr><td>Historical business financials – at least three years where available</td><td>• Balance sheets, profit and loss statements and cash flow statements
• Annual tax returns and notice of (tax) assessment for three years
• BAS for previous year
• Bank statements for one year
• Loan agreements
• Current account receivables (money owed to business)
• Current account payables (money owed by business)</td></tr>
<tr><td>Personal Information</td><td>This information is relevant as it's highly likely that a lender will undertake a credit check of the business owners as well as the business.
This information should include:
• List of personal assets and liabilities
• Personal banking details including loans and deposits
• Personal tax returns</td></tr>
</table>

Remember

- Be sensible about the amount you actually need to borrow and be able to justify it.
- Take your time preparing the application and don't hurry the bank to make a decision.
- A well-prepared business proposition is a good sign of a borrower's commitment to a potential lender

Providing the information recommended in this checklist plus any additional information requested by your potential lender, will assist in the lender in making a risk assessment of the business and decide whether to grant the loan.

The interview

Presenting your business in the best light at a meeting, means presenting yourself in the best light. Remember: this is a business meeting. There is no reason to feel intimidated or nervous about asking a bank for money. They will want to do business with you, if your proposition is sound and your business knowledge and skills are apparent.

If it will add to presenting your business in a sound light, ask your accountant or financial advisor to go to the meeting with you. Make sure the bank officer understands clearly what the involvement this person has with your business.

What the lender is seeking to find out at these meetings is whether or not you fully understand the implications of taking out the loan you are asking for. The lender will be testing to see if you really know your business, and the need for financing, as well as what you say you do.

The lender will take into consideration the competitive position of your business within your industry and location, your enthusiasm for the project and your dedication to your business. However, in the end, a lender bank wants to find out just how successful you are likely to be, and how likely it is that they will profit from your business success.

Find the right tools

Some banks offer free software applications that can run alongside your internet banking. Such software may assist you to monitor your accounts, pending automatic payments, exchange rates and more. Ask the lender during the application process if they have a particular banking service which may assist your business.

If you succeed in your application

If you have been successful with your loan application, this is only the start of your relationship with your lender. The process of providing information to your lender continues over the term of the loan.

If the loan provided by the lender is more than $1 million, lenders generally carry out annual reviews. This usually happens either when your annual accounts are available or on the anniversary of the borrowing. At the annual review time you should be ready to provide all the information you prepared the first time. It is also likely that you will be interviewed by the lender.

To develop and maintain a positive relationship with your lender, there is one requirement that must be observed, and that is you must be candid in keeping the lender properly informed on the performance and future of your business. Any tendency to tell the good side and leave the bad side unmentioned should be avoided. Any downturn in events should be discussed with your relationship manager as soon as it is known.

What if your loan application fails?

Lenders don’t approve all applications from small businesses. The reasons can be many and varied, so it’s important to seek feedback from the lender as to why your application failed. This feedback can provide some valuable insight into the weaknesses of the business and/or application.

Appendix 1: Sources of finance for a business

All businesses need finance to establish and grow. Finance can be provided from:

- Debt – this is financing that is provided from an external source, such as bank
- Equity – this is financing that is provided from an internal source, such as an owner or investor

Before applying for a loan, small businesses need to consider whether debt or equity or a mix of both is the most appropriate financing method your business.

The advantages and disadvantages of debt and equity are summarized below:

Advantages	
Debt	**Equity**
• Retain control over the business • Opportunity for increased return on investment • Growth in value of the business is retained by the owner • Debt repayment commitment can be fixed • Lower cost of capital • Lower cost of raising debt finance (usually) • Interest expense is tax deductible	• Ability to raise funds in excess of security • No exposure to changes in interest rates • External resources could add strategic input and alliances • Improved profile with lenders • Increased financial controls • More stable financial structure • Possible mentoring support from the investor as well as funds

Disadvantages	
Debt	**Equity**
• Ability to raise funds is limited by security available • Business may be exposed to financial risks because of interest rate movements • Reduced opportunity to establish new external alliances • Liquidity exposure of a highly geared structure • Business opportunities lost through tight cash flow • Profitability reduced by debt servicing costs	• Loss of total control and autonomy in decision making • Greater pressure on achieving growth and higher returns • Need to identify exit strategy • Potential conflict between owner and investor • Additional costs of equity process • Greater management reporting required • Dividends are not tax deductible • Length of time to raise equity can be three to six months • Loss of retained profits if dividend payments are required

Appendix 2: Types of debt products

Short Term Funding

All businesses need finance to establish and grow. Finance can be provided from:

- Debt – this is financing that is provided from an external source, such as bank
- Equity – this is financing that is provided from an internal source, such as an owner or investor

Before applying for a loan, small businesses need to consider whether debt or equity or a mix of both is the most appropriate financing method your business.

The advantages and disadvantages of debt and equity are summarized below:

Debt Product	Description	Repayment/Interest	Fees
Overdraft **Purpose:** Overdraft facilities are generally used to finance the day-to-day fluctuating cash requirements of a business.	A facility that allows the customer to operate a bank account with a pre-agreed credit limit which can be drawn down. Overdraft accounts will usually only be provided to a business that has been successfully trading for a few years.	Overdraft facilities don't have a specific maturity date. The product is 'at call' or on demand, which means that the bank has the right to cancel the facility at any time. Interest is usually paid monthly. The rate of interest is determined in accordance with a risk margin that the bank will determine. The customer will only pay interest on the amount of the facility drawn down.	Generally include: Application fee - one-off fee to initiate the facility. Line or facility fee - generally charged on the available limit in arrears and is payable monthly or quarterly. Cheque account fees and transactional costs are also payable. Account keeping fees - charged monthly for operating the account.
Line of credit **Purpose:** A line of credit is usually used to access funds for working	A line of credit or equity loan can provide access to funds by allowing the borrower to draw on an account balance up to an approved limit. As long as the balance does not exceed the approved limit, funds can be drawn at any time. These loans are usually secured by a registered mortgage over a property.	Repayments are usually required to at least cover the interest and fees on the loan. Interest is usually paid monthly. As this type of loan is usually secured against property, interest rates tend to be lower than for overdrafts. However, if you fail to make your payments you can put your property at risk.	Generally include: Application fee - one-off fee to initiate the facility. Line or facility fee - generally charged on the available limit in arrears and is payable monthly or quarterly. Cheque account fees and transactional costs are also payable. Account keeping fees - charged monthly for operating the account.

Debt Product	Description	Repayment/Interest	Fees
Credit card **Purpose:** Credit cards should be used only to fund short-term working capital requirements **Important:** Some lenders will not provide a credit card to a company and therefore you may need to seek advice on your personal exposure to debt	Credit cards are usually offered on either 'Interest free days' or no "interest free days. They are generally easier to obtain due to the high fee structure and interest rates charged. The "interest free" cards generally carry higher interest, charged either from the day you purchased or from statement date unless you repay in full within the interest free period. Interest on cash advances applied immediately. They also tend to carry higher fees. No 'interest free' days cards have a lower interest which is charged from date of purchase and generally carry lower fees Cards with an interest free period work best if you pay off your balance in full each month and avoid cash advances. The no-interest-free-period card will suit if you are unable to pay off your outstanding balances each month. Unfortunately, many people who don't pay their cards off each month have high interest cards and so pay more than they need to.	Credit cards usually have an expiry date, which indicates that, unless the facility is renewed, all outstanding amounts will be due by this date. Interest is generally either charged from the date of purchase of items or from the date your monthly statement is issued. For cash advances, interest is usually charged from the date of the withdrawal.	Annual account fees Fees to use rewards programs Fees for late payments Payment dishonour fees; and Fees for exceeding your credit limit.

Long Term Funding

Debt Product	Description	Repayment/Interest	Fees
Cash flow lending **Purpose:** This product is generally used for funding fluctuations in working capital. Best suited for service based or distribution businesses that don't have major investments in fixed assets. In addition, many manufacturing businesses use this type of funding.	A lending facility for small businesses that generate solid cash flow, but don't own significant fixed assets to provide as security. The loan is secured by working capital assets of the business, such as stock and debtors. The cash flow projections need to reflect the ability of the business to meet finance costs. Regular reports are required by the lender. These loan facilities operate like a business line-of- credit facility, allowing you to draw down on funds as required.	The loan is similar to that of an overdraft facility in that it is approved for a specific term, with a regular review requirement. Interest is charged monthly on the daily balance outstanding.	Establishment fee - upfront fee to establish the line of credit. Service/administration fee - fixed or variable amount which is charged monthly or quarterly in arrears; based on the balance/ facility limit.

Debt Product	Description	Repayment/Interest	Fees
Debtor finance **Purpose:** This product can provide core working capital finance, as well as meet short-term fluctuating needs.	Debtor finance may be known as factoring, business growth finance or working capital finance. The funding is secured by the value of the amount owed by the businesses customers (debtors). The finance is generally available up to 70 to 90 per cent of the book value of debtors. When the debtor is invoiced the financier will pay the agreed percentage of the invoice. When the debtor pays the balance of the invoice, the remaining percentage is received. The benefit to the business is that they don't have to wait until the customer pays before they receive their funds. This finance effectively shortens the cash cycle for a business. The funding is very flexible as it increases with the level of sales activity and is only utilised as required. Debtor finance does not always have to be disclosed to customers, as you still handle all debt collection and interaction with the customer. This product is now a more widely accepted form of finance to manage high growth and businesses with fluctuating activity.	The debtor ledger value provides an upper limit of funds available. A business can repay part of the upper limit available. Interest is payable monthly on the funds drawn down, or alternatively, the financing company will take a percentage of the amount collected.	Establishment fee - upfront fee to establish facility. Line fee - based on a percentage of the maximum facility payable monthly. Administration/service fee - fixed or variable fee charged monthly or quarterly in arrears and based on the balance/ facility limit.
Full drawn advance **Purpose:** This product is suitable for financing permanent or longer-term funding requirements for property, plant and equipment or the purchase of a business.	This product is a long-term loan that requires principal and interest repayments over the term of the loan. The term of the loan is generally between three to ten years.	A Fully Drawn Advance/Term Loan is provided for a fixed period. The loan is reduced by monthly repayments, which include both interest and principal components. The interest rate can be either fixed, variable or a combination of both. There may be penalties for early repayment if the rate is fixed.	Fees include: Application fee - one-off fee to initiate the loan. Monthly account fees - fixed amount per month.

Debt Product	Description	Repayment/Interest	Fees
Mortgage equity loan **Purpose:** A long-term form of finance suitable for purchase of capital assets such as land and building.	A long-term loan where residential property is used as the primary source of security and the funds used in the business. In general, lenders will lend up to 80 per cent of their value of the residential property.	The term of the loan is fixed. Repayments will involve both principal and interest. Interest can be based on fixed or variable rates or a combination. It may also be possible to have a combination of fixed and variable or a capped rate, which provides protection to borrowers where changing rates have reached the cap rate.	May include: Establishment fee - once-off fee to establish the loan. Administration service fee - either fixed or variable based on the balance/facility limit or invoice amount, charged monthly or quarterly in arrears. Document fees - fees to cover mortgage registration, property valuation, legal fees and stamp duty.
Interest only loan **Purpose:** Generally used for medium term funding requirements and is often suitable where cashflow is tight at the start of the business.	An interest only loan involves the lending of a fixed amount for a specific period, where only interest payments are required to be met during the term of the loan. The principal is due on maturity of the loan. The loan is generally secured by property or business assets.	The loans are generally for a period of one to three years. The principal is due on maturity. The loan may be rolled over into a principle and interest type product at the end of the term. Interest is generally paid monthly based on the full amount of the loan.	Establishment fee : Upfront fee to establish the loan Administration/service fee: charged monthly or quarterly in arrears and is either fixed or variable and based on the balance/facility limit or invoice amount.
Chattel mortgage **Purpose:** Chattel mortgages are used for financing assets such as motor vehicles and plant and equipment.	A chattel mortgage or bill of sale is a loan agreement in which you borrow funds to purchase equipment. The borrower provides security for the loan by way of a mortgage over the equipment financed. If the borrower is a company the product will be a chattel mortgage and if an individual, it will be a bill of sale. Under this finance the equipment/ asset will be owned by the borrower and they would expect to be able to claim the full amount of the GST as a capital acquisition on purchase of the capital item.	Chattel mortgage finance is generally over a three-to-five-year period. The repayments are usually monthly and include components of interest and principal over the term of the product. At the end of a finance period there is usually a capital residual to be paid.	Chattel mortgages usually require stamp duty on the finance arrangement. No other fees are applicable.

Appendix 3 – Understanding Lenders ‘terms’

Dealing with money and banking involves lots of words and terms that you might not have come across before. In this fact sheet, we provide a simple guide to some of the common words that you might encounter when dealing with your bank.

Risk

The meaning of ‘risk’ varies according to whether you are the borrower or the lender/investor. As a small business seeking a loan, risk would be the chance you take in borrowing money, and being able to repay it. You may ”risk” your business or even your family home to support your business finance opportunity. As a lender or investor, ‘risk’ means the gamble taken to support your financial opportunity, usually risking the repayment of the loan and the interest on it.

Security

In the legal sense, ‘security’ is a right against a particular asset belonging to another; for example, the banks may hold security over the home of a small business owner as collateral for a loan. A creditor without security has rights only against the debtor, not against any specific property.

Cash flow forecast

Sets out all expected payments and receipts in a given period. It is different from the projected profit and loss account, and in times of cash shortages, may be more important.

This cash flow forecast also helps you to get a picture of the likely extent of a crisis and how long it might last. Forecasts should include all assumptions used to arrive at the projected cash flow, for example increased sales versus historical actual of say plus ten per cent and add in the reasons why.

Cash reserves

Cash put aside or kept back, sometimes for a special use.

Capacity to repay

The determination made by a lender on whether a borrower can repay a loan after examining financial statements, financial ratios, and operating data.

Credit history

A record of an individual's or company's past borrowing and repaying behaviour. Your credit history is contained in a credit file and it will include credit applications and enquiries you have made during the past five years; records of some current credit accounts; overdue accounts (defaults) which may have been listed against your name; bankruptcy information; judgments; and public record information such as Directorships and Proprietorships.

Interest cover

Determines the actual cash available to service the interest payable on the debt considering possible fluctuations in interest rates over the life of the loan and the making full use of the loan facility.

Loan to Value Ratio (LVR)

This is ratio that a lender will lend against a small business asset. For example, if a factory is valued at $500,000 at an LVR of 65 per cent, the bank may consider a loan/facility of up to $325,000.

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