



Access to finance

Tips to guide small to medium businesses

Just as cash flow and profit are important to business, ensuring your business has access to the right amount of finance when needed, and that the type of financing is the most appropriate for the purpose, is also essential to achieving financial success.

The following tips should help improve business access to external finance.

TOP TIP

For many businesses, lending conditions are difficult – but don't wait for conditions to shift. You should instead focus on improving cash flow to reduce your need for external finance

Start early

Do your research

- Where you decide to seek finance from external sources, such as a bank, do your research and shop around to find the best form of financing that meets your needs.
- Listen to other people's experiences with potential lenders.
- Consider the benefits of either consolidating your business loans with one lender or having different lenders for different financing to build your credit history and spread funding risk.
- Make sure you are getting the best price on offer.
- Ask potential lenders what banking services and tools they offer. These tools may be helpful to your business.

TOP TIP

Don't wait until you are desperate for finance. Plan well in advance as often loan applications can take some time for approval.

Get your timing right

- Approach potential lenders well ahead of time. Show them your plans, finances and projections, explain what you are doing, and demonstrate your track record before asking for money.

Before you apply for finance

Build relationships

- Be open and up-front in your dealings with your potential lender – you never know when you might need your relationship manager in your corner.
- Invite your banker to see the business and spend time discussing business plans.
- If possible, get to know the regional business manager and any other employees that may have input into loan decisions.

Prepare a business plan

- A properly prepared business plan will assist you to 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.

Project your finance needs

- Before applying for finance, ensure you prepare forecasted financials.
- You will 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.
- Prepare a cash flow forecast to identify:
 - how much funding you need
 - when you need the funding
 - how the business can repay any loan required
 - how long it will take to repay the loan
- Keep your expectations and projections realistic.
- Consider how you can best meet funding requirements – financing with a bank may not be your only option, there are several different types of specialist financing available from other lenders.

TOP TIP

Look at ways to increase cash flow to internally finance any funding requirement, such as reducing stock holdings, collecting cash from customers earlier or extending terms with suppliers.

Applying for your loan

Preparing your application

- There are six key questions that your loan application must address:
 - What is the purpose of the loan?
 - How long do you need the loan for?
 - How much do you want to borrow?
 - How will the loan be repaid?
 - When will the money be required?
 - What is the risk to the lender?
- Use accountants, brokers and mentors to assist if you feel out of your depth.
- Identify which assets you wish to pledge for security. However, if possible, keep some assets in reserve.

TOP TIP

Don't assume that the potential lender understands your business and industry. Make sure that your business plan and financial forecasts include all relevant details on how the business will be run.

Prepare for the interview

- Make sure you are well prepared – the lender will be looking at your confidence, management style and capacity to understand financial and other risks associated with your business.
- To ensure your meeting is successful, establish the expectations of the lender before you meet. This can be done by asking for a checklist of the information that will be required.
- Present your business in the best light. This will mean you're also presenting yourself in the best light.
- Ensure your proposition is sound and your business knowledge and skills are apparent.
- If it will present your business more positively, ask your accountant to go to the meeting with you.
- If you have forgotten something, don't get flustered. Explain to the lender that you have forgotten the item and that you will deliver it later that day or the following day.

Understand the contract

- Understand all the terms and conditions that are included in the financing arrangements. Ask the explain areas you are not sure on.
- Make sure you have processes in place to meet terms and conditions of the loan.
- Make sure you understand what it takes to service any new loans.
- Look at all the fees and compliance requirements.
- If you are not sure, ask your accountant or lawyer to review the contract terms and conditions and explain potential any issues these may have to the operations of your business before you sign.

After you have received finance

Maintain and enhance relationships

- Understand the decision-making structure within your lender. Often the ultimate decision is not made by the person you are talking with.
- Seek and develop relationships with various people within the lender's organisation – not just your relationship manager. This could include the credit manager, regional manager and front-line staff.
- Always have your numbers ready and invite your lender to your business to share your experience and keep them up to date with your business.

Manage compliance requirements

- Implement processes to capture information and prepare reports required under your financing arrangements.
- Keep financials and forecasts, particularly cash flow forecasts, up-to-date.
- Don't over-extend credit lines. There is a point where lenders will draw the line.
- Don't default on payments. It can make accessing future finance very difficult.
- Understand the impact on your ability to access finance or refinance when entering into any payment arrangements, particularly those with the Australian Taxation Office.

TOP TIP

Your relationship with the lender doesn't stop once you have the finance. Maintaining an ongoing relationship with your lender will assist you and your business when changes within your business occur.

Checklist for your loan application

Provide short written detail on:

What your business does

Business history – including information on the business’s past successes and depth of experience of the management or, if the business is a start-up, details of the relevant successes and experience of the individuals behind the business

Industry information

Ownership details.

Provide personal financial information

Such information is relevant as a lender is likely to undertake a credit check of the business owners as well as the business. The types of personal financial information your lender may be looking for includes:

A list of personal assets

Your tax returns

Personal banking details

Details of your superannuation funds.

Provide historical financial information

Where a business has been in operation for some time, a potential lender will want to review historical financial information. Ideally, this information should be either prepared or reviewed by an accountant. Information requested could include:

Balance sheets for the last three years

Profit and loss statements for the last three years

Cash flow statements for the last three years

Past Business Activity Statements

Current accounts receivable (debtors) and accounts payable (creditors) schedules

Bank statements

All tax returns for the last three years, including the assessment notices.

Provide forecast financial information.

Such forecasts should state any assumptions made, and should be written as if the loan application was successful. They should also include best- and worst-case scenarios. Information requested could include:

- Cash flow forecasts over the term of the loan you are seeking
- Profit and loss forecasts over the term of the loan you are seeking
- Budgeted balance sheets over the term of the loan you are seeking.

Provide details on any sensitivity analysis and/or financial ratios analysis.

Your accountants will be able to help you with this.

Provide a detailed description of the purpose for the loan in the application.

This purpose will be critical in determining the type of loan you require. Information requested could include:

- The amount of the loan that you seek
- Justification for the amount of the loan
- The term over which you seek the loan
- Security you are prepared to offer, if security is required (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).

Provide your business plan, including your marketing plan and references of your major clients and suppliers.

Note: CPA Australia recommends you check the information requirements of a potential lender before starting an application.

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