

Small Business and Dealing with Debt

How banks can help if you are experiencing financial difficulties

Healthy cash flow is the very essence of a successful small business. Recent changes in the financial environment and the domestic economy have affected bank customers including small business customers. And while a weakening economy may put additional pressures on a business, you should always be mindful of your cash flow situation, regardless of the economic climate. After all if your cash flow is poor, your business will struggle to operate efficiently and the business may not be able to meet its obligations to its supplier or its lenders like the bank.

Additional pressures such as illness or relationship breakdown can result in difficulties in repaying loans, so if you do encounter problems it is best to get in touch with your bank as quickly as possible and work out a strategy for keeping on top of your loan.

This fact sheet will provide information on what you can do if your business experiences financial difficulties.

To the point

- Banks want to help small business during periods of financial difficulty but you must contact them as early as possible for assistance
- Don't ignore letters of demand from people or banks to whom you owe money as the situation will only worsen
- Seek help from your bank or financial advisor if you are experiencing financial difficulty
- Avoid using money lenders who charge high fees and interest

What should the business consider in these tough times

In any time of economic uncertainty small business owners should be asking themselves the question: How exposed is my business to an economic downturn?

Small business should be examining their customer base to determine the likely effect on revenue sources and should

only deal with customers who can return positive cash flow. Business owners should also consider new and alternative sources of income. Failing to have contingency plans for alternative sources of income when the going gets tough could have a serious impact on your business, if the traditional sources of income dry up.

Why is a healthy cash flow important

While failure to generate profits is critical to a business, it is only one cause of business failure. Profits don't guarantee positive cash flow. The business is at risk of insolvency if it does not have the cash to finance working capital needs.

Timing of cash inflows and cash outflows is the basis of cash flow management. Make sure there are always sufficient funds available (ideally cash in the bank, rather than credit) to pay essential payments such as wages and salaries, suppliers' payments, loan repayments and taxes when they fall due.

Action plan if cash flow is faltering

Small business may consider the following steps if cash flow is faltering-

1. Reduce expenses - one of the key ways is to keep a tighter rein on your inventory. Look at the frequency of stock ordering and endeavour to reduce inventory levels. There is little point in having money tied up in stock the business is not selling as readily as before;
2. Outsource debt - if you feel uncomfortable chasing customers, you might consider selling your debt through invoice discounting. Most banks will offer invoice discounting although your debts need to be of reasonable size to justify using this facility;
3. Making your money work - if your business has cash sitting idle, such as provisions for GST or payroll tax payments, then make sure that money is working for you. Use a business offset facility if you have a loan or put your money in a high interest bearing account ahead of making your tax payments;



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4. Overdrafts - if you are going to run into the red then take a look at an overdraft facility. This may be the right solution for a business where your cash flow ebbs into overdraft for short bursts of time. However, if you need a fully drawn advance to be repaid over time then a principal and interest loan is probably a better bet.

Seek professional advice

If you are faced with a financial crisis, the first step may be seek professional business advice. The investment may be worthwhile in order, for example, to confirm your cash position. Cash is the fuel which keeps your business going so it is essential to concentrate on your cash flow and keep paying the bills.

What should I do if i am experiencing financial difficulties with my bank credit facility?

Banks understand that small business can face unexpected changes in their circumstances. Changes in your business clientele or suppliers can affect your financial plans and your ability to make loan repayments. The more your bank is able to fully understand the problem and the causes, the more bank staff may be able to assist you.

If you do find yourself in difficulty let your banks know as soon as you can. Tackling a debt problem is easier when you act early and get advice. Banks have specialist teams which work on these issues.

Remember the most important thing to do is talk to the bank as soon as possible. Don't ignore letters of demand from people to whom you owe money. It can only get worse.

How will my bank help me?

If you are in financial difficulty with your loan, it is in everyone's interest to find a solution. Banks will often make calls to small business customers who are showing signs of repayment stress and offer solutions to assist in debt management. But you should not wait. If you are facing financial difficulty, speak to your bank as soon as you can.

The Code of Banking Practice (which is available from the Australian Bankers' Association and most retail banks) sets out the banking industry's key commitments and obligations to customers on standards of practice, disclosure and principles of conduct for their banking services. It applies to personal and small business bank customers. The Code also talks about financial difficulty and what banks will do.

It states that if you agree, your bank will try to help you overcome your financial difficulties with your credit facility with the bank and could, for example, work with you to develop a repayment plan. This may include extending the term of the loan or changing your repayment schedule, if that's suitable.

The law (the Consumer Credit Code) also allows for variations to loan contracts where the borrower is suffering hardship due to unemployment, illness or other reasonable cause. You should talk to your bank about whether these provisions might apply to your circumstances.

How do banks deal with small businesses who are in financial difficulty?

Your bank will try to come to a workable solution to help the business through a period of financial difficulty. This can involve working out what assets the business has available, working out repayments, understanding the business' cash flow and reaching an agreement on a reasonable plan for repaying the debt.

In some cases, this discussion may take place through specialist teams. It may take time to fully understand the situation of the business. After this, bank staff may provide you with personal assistance and information to find the best possible way to help you control and to manage your business' financial obligations with the bank now, and in the future.

Each business' circumstances are individual and different banks will have different procedures.

Generally your bank will want to:

- Help you find solutions if you have missed a monthly payments on loans;
- Discuss possible ways to assist you if you are unable to make contracted repayments on loans, such as re-structuring your debt so that you can repay it over an extended period.

Some of the options that might be considered include paying interest only for a period, increasing an overdraft or funding facility, or considering some asset liquidation.

Banks treat each case individually and will not encourage you to accept a repayment plan that the business cannot afford or sustain. Banks may be willing to accept smaller payments but they do not have to accept any offer of repayment just because your business has contacted them. You will be given every opportunity to agree satisfactory conditions for repaying your business debt. However, if a satisfactory agreement cannot be reached or an arrangement is agreed but the business cannot keep to it, your bank may ask the business to repay the loan in full.

It may be in the best interest of the business if it is sold or wound up before too much equity is eroded. Your business should seek professional advice before taking this step.

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Can I complain about how my case is being handled?

If you are concerned or unhappy about the way your bank is handling your case, you can complain to them. They will tell you about their complaints handling system. Some banks have consumer advocates who can make a free and independent assessment of your complaint and help achieve a quick and unbiased solution.

If you are not satisfied with the bank's response, you can make a complaint to the Financial Ombudsman Service (FOS). The FOS is an independent complaints scheme that is free for consumers. Refer your complaint to:

Financial Ombudsman Service

GPO Box 3
Melbourne VIC 3001

You can also telephone the BFSO office on **1300 780 808** or visit their website for more information at www.fso.org.au

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Bank Resources

Bank	Resources
AMP Banking	13 30 30
ANZ	13 33 33
Bank of Cyprus Australia	1300 660 550
Bank of Queensland	1300 55 72 72 (Ask for the business assistance team)
BankWest	13 17 18
Bendigo and Adelaide Bank	1300 361 911
Citibank	13 24 84
Commonwealth Bank	13 22 21
HSBC	1300 308 008
ING Direct	1800 639 082
Laiiki Bank	1300 88 700
Members Equity Bank	1300 658 108
National Australia Bank	13 22 65
St George Bank	133 800 (Business Direct Consultant) Financial Tools can be found at: www.stgeorge.com.au/promos/open-for-business/legal-and-finance-tools.htm www.stgeorge.com.au
Suncorp Bank	13 11 75 (Business Call Centre:) Suncorp encourages customers to contact their our Business Call Centre at any time to speak to someone regarding their particular circumstances. For customers experiencing specific financial difficulties we have a dedicated team to assist them. This team can be contacted on 1800 225 223 Information on the Suncorp website regarding assistance and financial hardship: www.suncorp.com.au/suncorp/customer_relations/financial_hardship.aspx www.suncorp.com.au/suncorp/personal/banking/financial_hardship.aspx
Westpac	1800 067 497

Internet: www.bankers.asn.au and www.smallbusinessbanking.com.au

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