

## How to get cash from banks

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**Spotless financial records, low debtor levels and a clear, easy-to-understand business case are three critical requirements for any SME that wants to get funding from a bank, a panel of business and finance experts has told SmartCompany.**

While these experts say access to bank credit remains extremely difficult, companies willing to put in the hard work in preparing their pitch do have a shot at getting the cash they need to fund growth.

The economy might be in recovery mode, but the credit crisis is far from over for SMEs. The most recent Sensis Business Index for the March quarter has found 35% of small businesses feel it is still difficult to obtain finance, while the recent results from the big four banks showed business lending fell across the board in the second half of 2009.

Little wonder then that Australian SMEs are having trouble even get in the door of the bank, as was shown by a recent CoreData report which found 25% of business customers who visited NAB had to make contact with the bank more than six times just to get an appointment.

Andrew Inwood, principal of BrandManagement, which owns and operates CoreData, says that while some banks are more open to business customers than others, the market is still very tight.

David Knowles, partner at Pitcher Partners, says conditions are improving but businesses will continue to struggle for some time – and they need to be prepared.

“Things have gotten better but are a long way from where they were since the GFC. Pricing is still way over the top for business loans, the margins are very challenging for smaller companies, especially with rising interest rates.”

### How the banks are thinking

The business banking market has changed so rapidly in the last 18 months that many businesses were left mystified as to why their once friendly bank manager suddenly went cold. Experts say the thaw is only just beginning.

Tim Lea, partner at Cashstream Financial, says the market has moved from essentially playing “a commoditised game of chicken” with lending to directly refusing a large number of applications.

“The way I’m seeing it is that a lot of the banks are talking a good game in terms of saying they are open for business, but the actual reality I see is that they aren’t in credit mode. I don’t think we’ll see any marked improvement until the end of this year.”

Inwood points out that due to the difficult state of credit market in the US and western Europe, the banks remain easy targets.

“The banks went through their books and found several guidelines they could enforce. They found many loans which were outside of their covenants, naturally, and requested a whole lot more additional information regarding forecasts, business plans. In the end, a number of loans were restricted.”

Knowles says much of the damage has been caused by the downturn in property and that any recovery in SME lending could be led by an upturn in the commercial market.

“A valuer is not prepared to say something is worth more than what the market is trading out, even though 18 months ago it might have been 20% more. Banks are hesitant to lend against that.”

But analysts such as David-Green Morgan from DTZ Research have said while commercial property is recovering, it will take some months before credit starts flowing freely and banks begin to ease up.

The bottom line – getting a loan is still a huge challenge.

### **Step one - look inwards first**

Despite this bad news, industry experts say credit can be found if SMEs are willing to put in the hard work.

But first, Markwell warns businesses and entrepreneurs to have a long, hard look at whether their need for funding is a temporary problem or evidence of some serious internal issues.

“A lot of people have attempted to fix internal cashflow problems by seeking additional financing, but if they ran their businesses better they might not have needed it in the first place.”

D&B director of corporate affairs Damian Karmelich also points out businesses can reduce pressure on working capital by paying debts on time and maintaining good relationships with suppliers.

“If businesses just pay their bills on time, and other businesses help them out in return, that can reduce many of the pressure that might lead them to seek funding.”

### **Step two – demonstrate a solid business case**

Before any meetings at the bank are arranged, these veterans say there is one thing every hopeful business borrower needs – consistency.

Lea says businesses need to provide evidence their company is in safe hands with a clear direction and achievable goals, much like an entrepreneur giving a pitch for a start-up.

“Directors need to be able to convince the lenders their business is under control,” he says.

Knowles agrees, saying the overall viability of the business is the dominant factor lenders will look at.

“At the end of the day, it comes down to the business case. It’s all about how well prepared you are in making the presentation, and not sounding too ‘doom and gloomy’. Getting financing is becoming easier, but the banks have the whip hand and are very choosy in which deals they finance and which they don’t.”

### **Step three – prepare the financials**

But a good story alone won’t get you far. Lea says this confidence needs to be backed up by solid finances and a strong financial track record.

“Good evidence of this is just simple management figures. If any person or any business is going for any form of lending, they need year-end accounts for the previous year at least in draft format and ideally in a final form.”

“You will need to have security first up,” Tony Markwell says.

“But businesses need to demonstrate they can pay loans back without relying on security, and there needs to be quite a high margin of safety between your property and interest.”

Knowles says banks have extremely stringent credit checks, and the more evidence that can be produced in favour of a business the better.

“You’ll need projections, audited numbers, management accounts, and all detail you can give around that. The more certainty you provide to a banker, the more risk you take out of the equation and the more likely you’ll get past a credit check.”

Of course, lenders won’t trust anyone on face value. Karmelich says businesses need to be prepared for extremely thorough credit checks.

“Make sure your finances are in a format which can be easily reported and are easy to explain. When a credit provider tries to get that data through an agency like us, you need to be able to show numbers that can confirm your viability.”

### **Step four – look at your cashflow**

Additionally, while Karmelich says good finances will increase a company’s chance of success, he notes that any lender will investigate a business’s timeliness.

“The name of the game is propensity to pay. Whether you actually have a history of paying your debts is another part of the equation that any credit provider will check out through a credit check. Make sure you are paying your bills on time, don’t just show that you have the ability to pay them.”

“The other major thing is to make sure your credit report is up to date. If it has old data, it might not be presenting you in the best light and you don’t want then when you’re applying for credit. Get it updated.”

Lea says businesses need to ensure they have cleared their debtors, maintaining that banks will not look kindly on a large gap in the books.

“Certainly I would suggest that businesses make sure they have tightly controlled receivables. Too often we have companies without a controlled debtor book, debts over 90 days and so on.”

“Business need to clean that up as quickly and effectively as possible, and that’s just good business practices anyway. Typically a bank doesn’t want to see any more than 2.5% in overdue debts.”

### **Step five – time your run**

Markwell also adds that borrowers to plan ahead if they need funding. “You can’t be going into an office an expecting to have an overdraft approved in a week, it just doesn’t work like that,” he says.

And if you’re in an extremely dire situation and desperately need credit to survive the next week – forget it. Knowles says the banks simply aren’t interested in turnarounds.

“These cases are just too high a credit risk. Balance sheets have been eroded in these cases, and while banks tend to look at historical figures and take the crisis into account, it just isn’t happening now.”

### **Make your own luck**

Businesses following these steps will not only find themselves in a better position to access credit, but also with a better idea of how to run their business.

The majority of these experts believe the market is recovering and that if SMEs handle their finances with care they can access the funding they need to fund growth.

“The markets are starting to improve now,” Andrew Inwood says. “But it’s going to be really interesting in the market as other lenders move into this space the banks aren’t taking up. And if other lenders are going to come in, when are they going to do it – and how? The next step will be interesting to watch.”