

ASKING YOUR BANK FOR A LOAN

If you require finance for your business look at the problem from the bank manager's point of view. If you were in his/her shoes you would want:

The Borrower

Information about the borrower, including management skills and experience in the industry.

This is no time for modesty. You are trying to persuade a bank manager you are a good choice for a loan. Tell him/her your achievements. Highlight successes. You may never have been in business before but you might have had a position of responsibility such as a Supervisor. You may be able to demonstrate you are industrious, careful with money, a leader etc.

The Project

A background of how this business fits in the industry and its competitive advantage.

Write down why your business project will be successful. Include your business plan, which will show you have researched the project thoroughly. Convince the reader you have thought of everything and your business is certain to succeed.

Financial

Provide information about yourself including your net worth, which is the difference between the value of what you own and what you owe.

Prepare a budgeted Profit Statement and Balance Sheet. Your planned (budgeted) Profit Statement sets out the expected income and the expected expenses. The Balance Sheet shows how much money of your own money will be used and how much you plan to borrow. It also shows how you will be using this money.

Use a cash flow statement to demonstrate there is adequate to live on and a reasonable surplus after meeting the bank's interest and loan repayments. Don't forget to include GST and Income Tax.

Cash flow shows money coming in and going out period by period (usually monthly). It helps you plan for peak needs of funds. It shows the impact of your decisions such as what will happen to your money supply if you buy a new car. You can try out different financing options and it helps you decide when is the right time to incur the cost.

Security

Banks are very cautious. Having agreed to lend you the money they want to back the loan with your home. If you do not own a home, you will probably have difficulty in borrowing any significant amount unless you can produce a guarantor, such as a parent. You can limit the risk of losing your parents' life savings in two ways.

1. Tell them to limit their guarantee. If you fail, the bank will continue to add interest charges until they are paid. If you have overstepped your borrowing arrangement, your parents' risk will be limited to their guarantee and no more.
2. You can and should provide them with a security over your business assets, including your stock and debtors (money owing to you). This means their claim against your business for repayment of their debt would be paid ahead of 'unsecured creditors'

Presentation

Make your proposal look good. If you can put in some photographs so much the better. If you can give the bank manager some samples or pictures to look at when you take in your presentation this will help to impress. Bank managers lead dull lives. Take pity and try to brighten up their day. They have to work through many presentations during a year. Make your presentation easy to read. If you need to elaborate, put the details in an appendix. Put covers around your presentation, bind it and make it look smart.

Information you Should Require From a Bank

1. Fees payable?
2. Can you repay early? If so, are there penalties for early repayment?
3. Is the interest rate fixed, fluctuating or a mixture of the two?
4. Can the loan be increased without it having to have a new loan drawn up, which would incur further costs?
5. Are there any other conditions attached to the loan such as a life insurance policy?
6. Is there a valuation required? Would government valuation do?
7. What are the on-going fees?
8. What is the maximum amount you can borrow on your home, if you are using it for security for the loan?

General Advice

Shop around and compare bank offers. Each bank manager will be different. One may have had a nasty experience with your type of business and be most reluctant to lend to you even though you have a sound proposal.

More General Advice

If you can, keep a reserve fund, in case of emergency. Income tax and ACC, in particular, can take you by surprise. Your credit card limit can be useful. Push its limit as high as possible and do not use it. The interest rate may be high but if you borrow on it for a short time only, the bill will be small and getting the money will not cost you a fee for arranging the loan and it will be hassle free.

It is better to borrow a little more than you need than the reverse. You can always repay the surplus.

Bank money is cheaper than finance company money. If you need a new vehicle, do not assume you will require hire purchase. Try the bank first.

Avoid wasting your cash resources. Why finance other people's businesses by being lax with your debt collection or overstocking?

***WARNING: The information supplied here is simplified and condensed.
It is only a guide and should not be relied upon as a substitute for
professional advice.***