



Government  
of South Australia

Department of Trade and  
Economic Development

# BizFacts

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## Getting Ready for Finance

When your business needs finance it is important to plan your approach to potential lenders prior to making the appointment to present your application. The reason for this is that a well-prepared application will stand a much better chance of being successful.

Many businesses fail to plan for finance, or use the wrong finance options in their business (such as using an overdraft to buy new capital equipment). Planning for finance is important because it lowers the risk to the lender and allows you to ensure that as a business owner, you can adequately manage and appropriately utilise the finance you obtain. **Make it work for your business, not against you!** The key considerations of a finance plan should be:

- Can the business afford to make the principal and interest repayment on time every time?
- Has the bank enough security to recover the debt if the business cannot make the repayments?
- What is the track record of the business with lenders?

These three components will be the most important consideration from a bank's perspective, especially the track record of the business. The business banking manager will look at the past relationship they (or other financial institutions) have had with your business and whether you have been able to keep on track with loans in the past. This will then determine to a large extent, the trust the bank has with financial projections you have made in your application.

### Purpose of the Getting Ready for Finance Checklist

The Department of Trade and Economic Development has put together the following checklist to help you in the preparation of a finance application to a bank or finance company. It is designed to guide you through the process of obtaining the most effective finance for your business. The following checklist will help you to gain an understanding of the sorts of questions that a lender is likely to ask about your application, as well as the sort of information that is required to put together a professional (and successful) presentation.

### Instructions

Proceed through each item of the checklist and its corresponding links, ticking off each box as you complete the corresponding task.

| KEY FINANCE ISSUE / TASK |   | Completed ↘ | N/A ↘ |
|--------------------------|---|-------------|-------|
| 1.                       | <b>Identify which type of finance you need</b><br>There are three main categories: <ul style="list-style-type: none"> <li>◆ Property finance</li> <li>◆ Working capital finance</li> <li>◆ Plant and equipment finance</li> </ul>   |             |       |
| 2.                       | <b>Identify which types of facilities you need</b><br><b>Short term:</b> <ul style="list-style-type: none"> <li>◆ Overdraft</li> <li>◆ Short term commercial bills</li> <li>◆ Bridging finance</li> <li>◆ Letter of credit</li> <li>◆</li> </ul> <b>Medium to long term:</b> <ul style="list-style-type: none"> <li>◆ Commercial loan</li> <li>◆ Long term commercial bills</li> <li>◆ Commercial property loan</li> <li>◆ Fully drawn advance</li> <li>◆ Development loan</li> <li>◆ Hire purchase</li> <li>◆ Debt factoring</li> <li>◆ Home equity loan</li> <li>◆ Leasing</li> </ul> |             |       |
| 3.                       | <b>Find out who offers the product(s) you need on the best terms</b>  |             |       |

|           |   |  |  |
|-----------|---|--|--|
| <b>4.</b> | <p><b>Develop the loan proposal, including:</b></p> <p><b><i>The purpose of the loan</i></b><br/> <i>Outline the following:</i></p> <ul style="list-style-type: none"> <li>◆ Amount and term of loan required</li> <li>◆ What the funding is required for</li> <li>◆ Who the loan will be paid to at settlement</li> <li>◆ How the loan is to be repaid</li> <li>◆ What security you are offering for the loan</li> <li>◆ What the valuation of the security is</li> <li>◆ Whether there is an independent valuation of the security of not</li> <li>◆ Whether there are any contract details and if so what these are</li> <li>◆ Whether there is a settlement date on the contract</li> <li>◆ Facilities required</li> </ul> <p><b><i>Applicant details</i></b><br/> <i>Outline the following:</i></p> <ul style="list-style-type: none"> <li>◆ The borrowing entity</li> <li>◆ The legal description of the borrowing entity</li> <li>◆ Determine whether there will be guarantors and outline names and details of these people in the proposal</li> <li>◆ The owners' and managers' details</li> <li>◆ The contact details of your accountant and solicitor</li> <li>◆ Details of your current banker</li> </ul> <p>Determine whether legal documents are required in the proposal</p> |  |  |
|-----------|---|--|--|

| KEY FINANCE ISSUE / TASK   | Completed ✓ | N/A ✓ |
|--|-------------|-------|
| <p><b><i>Business and industry details</i></b><br/> <i>Outline the following:</i></p> <ul style="list-style-type: none"> <li>◆ The management team</li> <li>◆ Your products and services</li> <li>◆ The history of the business</li> <li>◆ Details of the market you operate in</li> <li>◆ Resources and location of your business</li> <li>◆ What plant and equipment and other resources your business currently owns</li> <li>◆ Your competitors</li> <li>◆ Where your business fits in the market in relation to your competitors</li> <li>◆ Your key suppliers</li> <li>◆ Your key customers</li> <li>◆ Key staff and their roles within the business</li> </ul> <p><b><i>Financial details</i></b><br/> <i>Outline the following:</i></p> <ul style="list-style-type: none"> <li>◆ Financial statements</li> <li>◆ Cash flow projections</li> <li>◆ Current borrowings and facilities</li> <li>◆ Personal assets and liabilities</li> </ul> <p><b><i>Security offered</i></b></p> <ul style="list-style-type: none"> <li>◆ Real estate</li> <li>◆ Plant and equipment</li> <li>◆ Other assets</li> <li>◆ Include details of any guarantees to be offered</li> </ul> <p><b><i>Collateral business</i></b></p> <p>You may wish to take advantage of other services the financial institution has on offer – this is value adding for the bank and may result in potential cost savings for your business.</p> <p>You may wish to investigate the following services and supply details of your current arrangements:</p> <ul style="list-style-type: none"> <li>◆ Insurance</li> <li>◆ Superannuation</li> <li>◆ Payroll services</li> <li>◆ Investment advice</li> <li>◆ Are EFTPOS or credit card facilities supplied?</li> <li>◆ Are on-line banking facilities supplied?</li> <li>◆ Are bank guarantees supplied?</li> </ul> |             |       |
| <p><b>5. Plan your presentation</b></p> <ul style="list-style-type: none"> <li>◆ Make sure you have documented all of the issues covered above</li> <li>◆ Understand and investigate any tax consequences</li> <li>◆ Seek professional advice if you are unsure about any aspects of your proposal</li> <li>◆ Approach more than one lender - shop around for the best deal!</li> </ul>  |             |       |

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|           |  |  |
|-----------|--|--|
| <b>6.</b> | <b>The Presentation</b>  |  |
|           | <ul style="list-style-type: none"> <li>◆ Make sure you have allowed the lender enough time to carefully consider the proposal</li> <li>◆ Make sure that you present the proposal professionally (no shorts or thongs!)</li> <li>◆ Be honest in presenting your business for finance as it builds trust between you and the financial institution</li> <li>◆ Be positive – sell your proposal to the lender – get them excited about doing business with you</li> <li>◆ Ask for a decision date to allow you time to organise delivery, settlement or alternative arrangements</li> </ul> |  |

## Final questions

- How much will the bank or finance company lend me?
- Will my proposal be successful?

## Getting Ready for Finance

### What type of finance do you need?

The first place to start is to determine what type of finance is required. There are three main categories of finance:

- **Property Finance** – To finance the acquisition of a property or to re-finance an existing property loan.
- **Working Capital Finance** – To finance stock, debtors and overheads in a business.
- **Plant & Equipment Finance** – For new or used plant and equipment, motor vehicles, furniture and fittings.

### What types of facilities are you looking for?

Once you have determined the type of finance, it is then important to select the right product to match. Generally speaking, short-term finance should be used for short-term assets, such as stock or debtors, and long-term finance should be used for long-term assets, such as property. Following is an overview of the most common types of finance facilities.

#### Short Term

| TYPE                               | DEFINITION   |
|------------------------------------|--|
| <b>Overdraft facility</b>          | A credit limit on a cheque account that provides the business with short-term funds for working capital. This is considered a short-term facility as the bank can withdraw the facility by giving the business notice (generally a month). |
| <b>Short term commercial bills</b> | A form of commercial loan that can be structured on an interest only basis, or reducing basis, for short-term debt.  |
| <b>Bridging finance</b>            | A loan facility that allows a new property purchase before the existing property is sold.  |
| <b>Letter of credit</b>            | A short term finance facility for import and export business usually negotiated in foreign currency.   |

#### Long Term

| TYPE                              | DEFINITION   |
|-----------------------------------|--|
| <b>Commercial loan</b>            | Loans for most commercial purposes such as property, working capital or plant and equipment.   |
| <b>Long term commercial bills</b> | A form of commercial loan that can be structured on an interest only basis, or reducing basis for long-term debt.  |
| <b>Commercial property loan</b>   | A commercial loan that is specifically written for property. This is normally a medium to long term loan.  |
| <b>Fully drawn advance</b>        | A loan facility that reduces on a principal and interest basis over a fixed term.  |
| <b>Development loan</b>           | Loans tailored for developments that can be drawn down in progress payments as required up to an agreed total.   |
| <b>Hire purchase</b>              | A loan facility for plant and equipment that has a fixed term with fixed monthly principal and interest repayments and also may have a final lump sum instalment or "balloon" payment. |
| <b>Debt factoring</b>             | A working capital facility with a limit based on a percentage of the debtor payments due to the business.  |
| <b>Home equity loan</b>           | A loan that is secured by the equity in a borrower's home.   |
| <b>Leasing</b>                    | A finance contract based on monthly rental payments in advance or arrears over fixed term with a "residual" payment due at the end. Normally used for plant and equipment.             |

### Major Sources of Finance

Once you have determined the product(s) you are looking for, the next step is to find out who has those products on the best terms. The major sources of finance are as follows:

- **Major Trading Banks** – All of the facilities are available from the major banks such as National Australia Bank, Commonwealth Bank of Australia, ANZ and Westpac, and many are available from South Australian banks such as Bank SA and Adelaide Bank.
- **Finance Companies** – Offer a good range of commercial plant and equipment products and working capital facilities.
- **Accountants** – Your accountant may be able to arrange business finance on your behalf.
- **Finance Brokers** – A finance broker will arrange finance on your behalf on a commission basis.
- **Merchant Banks** – Mostly for large transactions.
- **Friendly Societies** – Have a limited range of commercial products, but are competitive for personal lending.
- **Building Societies** – Have a limited range of commercial products, but are competitive for personal lending.

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# Developing the Loan Proposal

## **Purpose of the loan**

A lender will want to know in detail what you require finance for, as well as the terms and facilities you require. This includes:

- Amount and term of loan required - How much you need and how long you need it for. What the funding is required for - Who the money will be paid to at settlement and the breakdown of plant & equipment, working capital etc.
- Repayment source – Where the repayments come from. This may be from revenue from the business continuing at the current rate; perhaps from increased sales due to the purchase of additional capacity in the form of equipment, or it may be from reduced costs due to improved technologies within the business by the purchase of new equipment. It is important to detail exactly how the funds are being generated to pay for the loan.
- What security you are offering for the loan – The assets that are being offered to the lender as security for the loan. The following table illustrates the value of different types of assets:

| TYPE OF ASSET     | LENDING VALUATION RATIO (LVR) |
|-------------------|-------------------------------|
| Stock             | 20-30%                        |
| Debtors           | 20-75%                        |
| Plant & Equipment | 20-100%                       |
| Property          | 60-75%                        |

It is important to remember that the different lending valuation ratios are dependent on varying factors. For further information, refer to the section on “How much will the bank lend me?”

- Valuations of security – What the assets to be offered as security are worth, and the details of any independent valuation. Independent valuations can be important, however, it should be remembered that they will cost the business money to obtain. In some cases the bank may request an independent valuation. Also detail whether there is an independent valuation of the security or not.
- Contract details – The details of any contract for the purchase of a property, business, or plant & equipment, with a copy provided in the application.
- Settlement date – What date do you have to pay the vendor, or supplier of goods.
- Facility type – What types of products or facilities are required. You may need more than one type of facility.

## **Applicant Details**

Describe and explain your business; your history, your management skills and gaps, your financial details and track record etc. Provide as much information as possible and be honest with the lender.

- Borrowing entity – Details of the borrowers or the entity that is to be the borrower.

- Legal description of the entity – (ie ABN/ACN & ABC for a company, company structure etc).
- Guarantors – The names and details of the individuals that will provide personal guarantees for the loans.
- Owners and Managers – The owners and managers names and details.
- Accountant and Solicitor – Contact details in case the bank requires further legal or financial information.
- Bankers - Current bankers’ details.
- Legal Documents – Examples - Copies of Partnership Agreement, Constitution of Company, or Trust Deed for a Trust.

## **Business & Industry Details**

- Management – Outline the management team and the structure and background of your business
- Products and Services – What are you offering to the market?
- History – The track record of the business and how you came to be where you are today.
- The market – Outline the geographical location, size, growth levels, trends, and number of competitors in your market.
- Resources and location – Where the business currently operates from, and what plant and equipment and other resources it uses.
- Competition – provide a profile of the competition, their capabilities, location, strengths and weaknesses and where your business fits in relation to them.
- Suppliers – The details of the key suppliers of resources to the business.
- Customers – Outline briefly your key customers (details of their value to your business).
- Key staff – Details of the key employees of the business and their roles within the business.

## **Financial Details**

- Financial Statements – Include financial statements for your business for the last three years.
- Cash Flow Projections – Supply projections for at least the next twelve months, particularly in regard to the purchase of new equipment, which should increase revenue and/or reduce costs.
- Current Borrowing's – Detail the current facilities and terms of any borrowings against the business
- Personal Assets and Liabilities – A statement of assets and liabilities of all guarantors.

## **Security**

- Real Estate – If your business is providing real estate as security for the loan, outline the legal description and address of the property.
- Plant & Equipment – If your business is providing plant and equipment as security for the loan, provide details of each item

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- Other Assets – Description of any other assets to be offered as security.
- Guarantees – Details of any guarantees to be offered.

If you deal with what are considered blue chip companies or Government, the lending valuation ratio will be higher than if you are dealing mainly with small companies.

## Planning Your Presentation

- Be Prepared – Follow the checklist to ensure that you have gathered all the relevant information that may be required.
- Understand the taxation consequences of the facilities required by your business– you may need to ask your accountant about the tax consequences of the facilities you have chosen. Often there is a different tax treatment of one product versus another in terms of the timing of deductions, depreciation allowances or GST.

### GST Checklist for Finance

| PRODUCT                   | GST STATUS              | TAXABLE SUPPLY |
|---------------------------|-------------------------|----------------|
| Overdraft Facility        | Input taxed             | No             |
| Commercial Loans          | Input taxed             | No             |
| Commercial Bills          | Input taxed             | No             |
| Commercial Property Loans | Input taxed             | No             |
| Fully Drawn Advance       | Input taxed             | No             |
| Bridging Finance          | Input taxed             | No             |
| Development Loans         | Input taxed             | No             |
| Hire Purchase             | Principal is Taxable    | Yes            |
|                           | Interest is Input Taxed | No             |
| Debt Factoring            | Input taxed             | No             |
| Home Equity Loans         | Input taxed             | No             |
| Leasing                   | Taxable                 | Yes            |
| Letters of Credit         | Input taxed             | No             |

## How will I know if my proposal will be successful?

It must have these essential elements:

- Servicing Ability – Can I comfortably afford the principal and interest repayments on time every time?
- Security – Does the bank have sufficient security to recover its debt if I can't make the repayments?
- Track Record – Have you been able to do what you said you could do in your dealings with banks in the past?

You can be reasonably confident of success if you have explained these elements in your proposal.

## How much will the bank or finance company lend me?

This will depend on the quality of the assets being offered as security, but this table may help you to work out how much you can borrow:

| TYPE OF ASSET     | LENDING VALUATION RATIO (LVR) |
|-------------------|-------------------------------|
| Stock             | 20-50%                        |
| Debtors           | 20-75%                        |
| Plant & Equipment | 20-100%                       |
| Property          | 60-75%                        |

Generally speaking, assets will score a higher LVR if the bank can easily identify and sell them in the case of default in repayments.

It is important to remember that the different lending valuation ratios are dependent on varying factors. Stock is dependent on how easy it is to sell, on what conditions the raw materials were sold to the business, the processing time from raw material to finished goods, and whether the stock may deteriorate quickly (an example is food related products). Debtors are dependent on their quality.

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