

OBTAINING A BUSINESS LOAN

Choosing the right lender or bank for your business can be a bit of hit and miss, if not approached in the right way. Just as much as the banker or lender is interviewing you, you should be interviewing the lender. A good lender relationship could be the make or break of your business down the track. Often this is where a commercially qualified and experienced **New Zealand Mortgage Brokers Association (NZMBA) broker** can help. Not just for helping you through the process of selecting a lender but also putting a viable and well thought out proposition to the bank or lender.

How much money is required: This is not guesswork it is calculated given certain business parameters, expectations or conditions.

1. Work out funds needed to a) operate, or
b) acquire or maintain assets.
2. Do a cash flow projection for next 12 months. This should show the effect on the bank account.
3. What is the capital you need?
4. Set out what the borrowed funds will be used for

Write up a Business Plan

There is software on the market to help prepare business plans. This is not a document to be made to look good and then dumped in a drawer never again to see the light of day. It is usually prepared by you in conjunction with your accountant. It doesn't need to be long or too detailed but should be a 'living' document covering the following points as a minimum:

1. The reason for forming the business.
2. What the business aims to achieve in the short and long terms.
3. How will you achieve your plans?
4. Your markets and customers.
5. The products and services you plan to sell and how you plan to do this.
6. Your competitors and the threats and opportunities they present?
7. Capital Structure, including internal and external financing?
8. How you will measure business success or failure, how often and when?

You will see from this that it will be closely related to your Cash Flow Forecast, demonstrating the strategies and assumptions that support the Cash Flow Forecast.

Don't make generalised statements. Your statements must be specific and supported where possible with a thorough financial analysis. You might know how to sell or know your product inside out **BUT** you must also thoroughly understand the financials and how they interrelate with whatever action you take.

Now you are prepared

The next step is the sales job on the bank or lender. Again this is where an experienced **NZMBA broker** can help. They deal with lenders all the time and will liaise with the necessary parties including your accountant to make it all happen. They will also tell you if you are over-reaching.

What about the security?

A banker's greatest concern is the actual repayment of the loan plus all interest. You have already demonstrated that. At this point, the banker is putting faith in you because he is ready to approve your loan request. What sort of faith have you in yourself and the business? What are you prepared to give the banker as sufficient security to support the deal? Cash Flow is **not** security. Lenders will look at the written down value of assets in the business. If there is sufficient security there they will usually also take a personal guarantee from directors. This can be limited to the business liability. If there are not sufficient securable assets in the business they will look at personal assets you have access to, such as property, cars, public shares.

You beaut, We got the loan and Now be proactive.

Once you have got the money don't forget about your lender or your broker. Keep them in the loop as often as practical:

- Send them any news clips or new information about the business
- Ask them to come on site once a year or more often if you are really cooking
- Show them your results against your targets and cash flow
- If things are going through a bad patch, talk to your banker &/or broker/advisor. Don't let them find out from your account conduct.
- Send in your annual accounts when complete.