Bank Requirements for SMMES

1. What are bank's main requirements for funding SMME's?

2. Why do banks refuse loans?

3. How can I check I have prepared everything for the bank?

1. Bank requirements for funding SMMEs

a. Banks look for strong evidence of the continued viability of your business.

   This includes:

   - sound business plan
   - strong projected cash flow
   - the entrepreneur's understanding of the business
   - skills to run and manage the business

b. Applicants making a contribution in the form of cash or assets - thus showing a willingness to take risk - stand a greater chance of obtaining debt finance

   i. If the business has business plans drawn up for them by a consultant with little input from themselves, they need to make sure that they can answer any question the bank may ask of them regarding the business plan. In other words, the entrepreneur must have a complete grasp of what is in the business plan.

c. Banks scrutinize the following:

   i. Cashflow and balance sheet to get an idea of effectiveness of financial management

   ii. Management's capability to run the business

   iii. The collateral offered. Collateral is based on risk and provides the bank with security if the loan is not repaid

   iv. Business margins which indicate the ability to repay the loan

2. Reasons why banks refuse loans

1. Applicants may not have the competency required to ensure viability
2. A perception that start-up businesses are risky
3. Inability by emerging business people to offer collateral
4. Entrepreneurs may NOT invest in business plans which are not bankable because of:
    i. lack of feasibility or pre-screening
    ii. poor quality business plans which are often drawn up by consultants with little input from the client
    iii. unsuitable margins
    iv. insufficient security
    v. lack of owner commitment
    vi. character or suitability of the owner
    vii. purpose of the loan not being justified
    viii. inadequate information in the business plan
    ix. difficulty in determining the risk involved.

(Credit: The above information was condensed from an article that appeared in the *Engineering News*, May 14-20 2004, p18.)

3. Checklist for a presentation to bankers

It is a good idea to start the process meeting with an advisor. There are numerous people who can assist you. (list of support service providers)

They can assist you to prepare a proposal for bank finance or to advise you on the information likely to be required.

This checklist has the information, which a bank is likely to require from the applicant, and provides a logical basis for structuring a presentation.

a. Bank finance required

The reason why funds are required

b. How much and what sort of finance is required.

c. History and Background to Business
> When the business was established;
> How the business has evolved;
> Main factors contributing to development.

d. Share Capital and Articles
> Principal shareholders and their relationship;
> Any unusual restrictions in the articles (eg. on borrowing powers or transfer of shares).

e. Key Personnel
> Structure and organisation;
> Age, qualifications, experience, skills of directors, senior management and other key employees;
> Arrangements for management succession (eg. in the case of absence, sickness, departure or retirement of key personnel).

f. Business
> Nature and description of products (if new or technology based a separate technical appraisal may be needed);
> Description of market and estimated demand both short and long term;
> Market research data (eg. From trade associations, market research publications);
> Competitors, their likely strengths, weaknesses and future strategies;
> Competitive advantages for products of business (eg. Innovative design quality, pricing, uniqueness).

g. Management information and accounting systems
> Description of internal accounting systems and nature and regularity of management reporting routines;
> Outline of systems of budgetary control

h. Accounting policies
You need to confirm that acceptable accounting policies are used on a consistent basis.

i. Trading results
Summarised financial information for last 3 years (covering profit and loss, cash flow statement);
Summarised balance sheet at latest balance sheet date.

j. Taxation
> Current status of negotiations with Receiver of Revenue on agreement of tax liabilities;
> Any unusual features or matters in dispute.

k. Current trading
Up to date profit figures from management accounts;
Up to date liquidity figures (ie. Debtors, creditors, stock and bank).

l. Contingencies and Litigation
Any significant contingent liabilities or outstanding litigation;
Details of insurance cover (including any keyman insurance).

m. Profit projections
Projections of future sales and profitability;
Current order position;
Major commercial assumptions and sensitivity of projections to variances from plan.

n. New Projects
Description of any new projects or products;
Impact of new project on profit projections;
Contingencies (eg. To cover setbacks such as supply problems).

o. Cash Forecast
Forecasts of likely cash flows (ensuring that all relevant items are included, for example, leave pay, corporate taxation, bank interest, dividends, etc);
Major commercial assumptions and sensitivities.

p. Borrowings
Details of existing borrowings (showing lender, terms and amount);
Further borrowings required to finance new project;
Required repayment terms and effect on cash flows;
Contingency provisions (ie. Consider the worst possible position)

q. Security
What assets of the business are available for security?
Financial standing of directors and availability of personal security (eg. Life assurance, property).

r. Monitoring
Proposed monitoring arrangements and nature and regularity of financial information to be presented to lender;
Whether periodic financial information is to be prepared and vetted by independent accountants (eg. auditors).