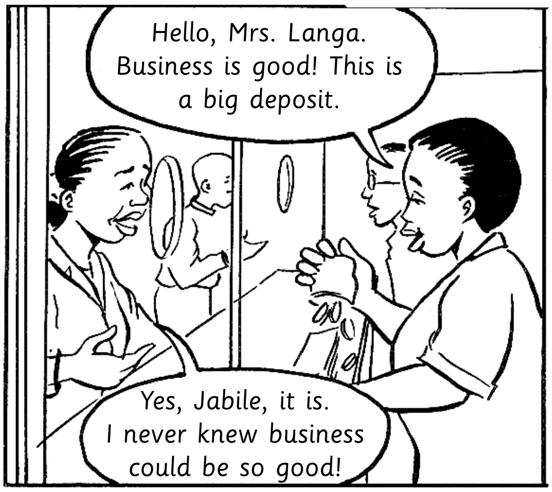
You and your Bank



As Mam'Langa's business grows she develops another very important relationship - with her bank.

There are many useful services that a bank can offer a small business, and there are many advantages to developing a strong relationship with your bank.

☛ Carrying a lot of cash on you can be dangerous. Putting your money in a bank will keep it safe.

☛ The bank will pay you interest on the money in your account. The more money you have in your bank account, the more interest it will earn, and the more it will grow.

☛ Pay your accounts with a cheque, instead of carrying around large amounts of money. To save time (and, remember your time is precious) you can also arrange to transfer money directly into another business' account.

☛ Putting your business money into a bank account helps you to keep control of it, and to keep it separate from your own personal money.

☛ The bank statement you receive from your bank each month helps you to see what money went into your account and what went out.

☛ By using a bank account you develop a banking 'track record'. The bank can see how you manage your money, how much comes in and how much goes out. This can be very useful if you want to borrow from the bank (a loan or an overdraft), or if you want to get credit from another financial institution.

How to choose your bank

♦ Choose a bank that is close to where you work or live.

♦ Choose a bank that respects you as a valuable customer.

♦ Choose a bank that offers the facilities you need. For example:
- does it have an ATM?
- can it transfer money to other banks?

♦ Compare the fees they charge with the fees charged by other banks in your area.

♦ Does this bank offer good customer service? (Ask other people where they bank and if they are satisfied with the service.)

How to get a good 'track record' with your bank

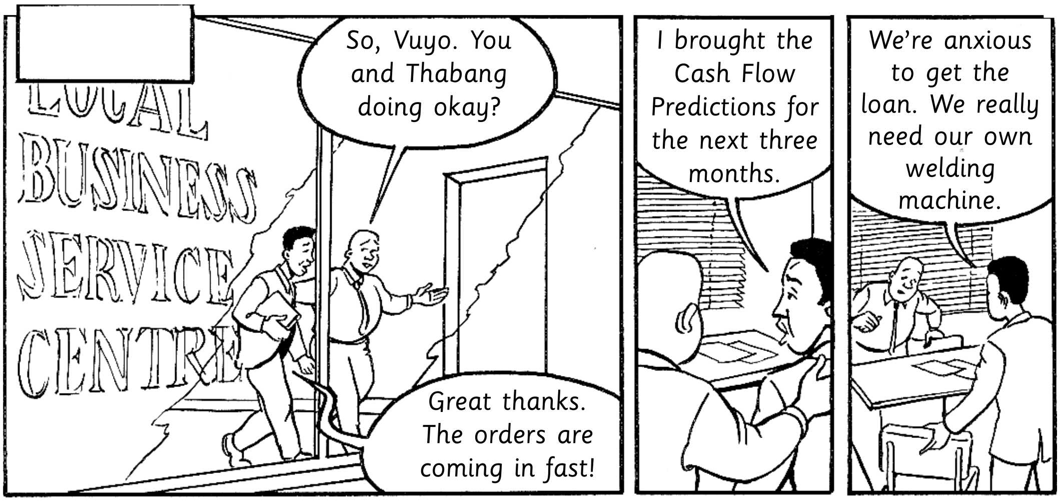
♦ Always make sure you have money in your account, or stay within your overdraft limit.

♦ Always keep enough money in your account to pay any cheques you write, bills or accounts you pay, or money you spend.

♦ Always pay your instalment purchases on time every month.

♦ Always talk to your bank if you have a problem - they will help you.

Getting a Loan



Most businesses need some money to start. If you can't raise the money you need from your savings or by borrowing from your family, you can approach a lending institution for a loan.

There are basically two types of lending institution: those that ask for security (guarantees) for the money they lend you - like banks, the Small Business Development Centre (SBDC), and Seed - and those that do not require security - like Get Ahead Foundation, The Nations Trust, and South Cross Business Development Trust.

Both of these types of lending institution require the same information before they grant you a loan. They want a well researched and well presented Business Plan that covers all the points that we have been through in the previous chapters.

The lending institutions that do not require security for their loans usually give smaller loans, and they are most interested in helping very small businesses.

Where to get help

The Department of Trade and Industry (**the dti**), through its enterprise development arm, Ntsika Enterprise Promotion Agency, supports Business Training organisations throughout the country. These organisations offer a wide range of services, like training and advice, to help small, medium and micro businesses to start up and to grow.

You can also speak to other business people in your area, ask for information at your community centre, or contact your local business chamber.

How to go about it

The best way to apply for a loan is with the guidance of an advisor from a local Business Training organisation.

The advisor will help you to think through and to plan all aspects of your business, and help you to prepare your Business Plan.

The advisor can also help you to choose the lending institutions to which you apply for a loan. The advisor will know which lending institution is best for the type of business you want to start.

If there is no Business Training organisation near to where you live, you will need to phone or write to the lending institutions in your area. Ask them to send you all their information on applying for a small business loan, as well as their Business Plan and Loan Application forms.

Follow the steps we have been through in this book and write up your own Business Plan in as much detail as you can. It is always useful to get someone with experience in writing Business Plans and in applying for small business loans to look at your plan and your application. Once you are satisfied that your Business Plan is the best it can be, send it to the lending institution.

If your application is thorough and your business idea looks feasible, the lending institution will most probably invite you for an interview to explain your Business Plan. They will then let you know if your application has been successful.

Check List
When applying for a loan, you need:

☛ An Application Form from the lending institution.

☛ Your Business Plan. (The lending institution may have a Business Plan form of their own that you will need to follow. The sections of the form will be similar to the Business Plan you have worked through in this book.)

☛ Your business Cash Flow Prediction. (This is very important information for the lending institution. They usually want a Cash Flow Prediction for 12 or 24 months.)

Remember that it takes some time for the lending institution to make a decision about granting you a loan.

Advantages and disadvantages
Getting a loan may be the only way you can start your business, or it may help you to achieve your business goals sooner.

But remember that borrowing money costs you money. You will have to pay back the money you have borrowed, and you will have to pay interest on it as well.

Different lending institutions will charge different amounts of interest for the money they lend you, and they will have different requirements for how you must pay the money back. Find out how much interest they will charge and how they want the money paid back before you finalise your Cash Flow Prediction. Most lending institutions will want you to pay back the loan on a monthly basis, so you will need to have this expense in your Cash Flow Prediction.

As a general rule, if you plan to borrow the money for one year, you can expect to add at least one quarter of the money you borrow as interest. If you plan to borrow the money for two years, add half of the loan amount as interest.

Check List
Before applying to a lending institution:

☛ Find out whether they fund new businesses or existing businesses.

☛ Find out what types of businesses they prefer to fund.

☛ What interest rate they charge for lending money.

☛ Over what period of time you must pay back the money they lend you.

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