

### Better Banking Relationship Vital in an Economic Downturn

The COVID-19 pandemic has put many small-to-medium enterprises (SMEs) under unprecedented pressures, forcing many to defer loan repayments and seek funding support, while grappling with severely diminished cash flows.

Here are some key questions to ask yourself as the business owner(s) in developing strategies, so you can more effectively engage with banks and other lending institutions as necessary: -

#### Managing Cash Flow

- *How much money is coming and going over the next 6, 12, 24 months?*
- *From where is it coming?*
- *With what certainty?*
- *What are your backup plans in case of shortfalls?*

#### Financial Decision-Making

- *Can you convey cash flow implications of decisions?*
- *Do you have contingency plans when current expectations don't pan out?*
- *What is your risk exposure considering current cash flow forecasts?*
- *It is sometimes helpful to ask: "What if we don't do X?" Think through the implications - It's often insightful.*

#### How Accountants Can Smoothen the Process

Joe Formichella, head of small business banking at Bendigo Bank – Australia's fifth-largest retail bank – says the role of accountants in assisting SMEs to access finance can't be underestimated. "Ideally, we want business customers to connect with their accountant very early on to let them know they're looking to borrow money."

"We would hope the business customer and accountant would conduct due diligence around the purpose of the loan, the business's ability to service that loan, and what additional time they'll need to be able to repay the additional debt."

The most appropriate loan products for a business customer – whether it be bridging finance, working capital facilities, or for other borrowing needs – are discussed at the time the customer meets with the bank's relationship manager. Every customer and every business are different, so it depends on the life cycle and maturity of the business when they come to a bank. **It's important to come prepared with a business case and plan detailing the loan's purpose. It needs to make sense for the business, and for any additional funding to deliver a net benefit to the business.**

#### Preparation of Key Financial Projections

Lenders first need to ensure a business is viable, which requires understanding its financial performance history to identify a trend.

***Generally, this requires providing two-to-three years of financials, including the applicant's current balance sheet, profit and loss, and cash flow statements. Newer applications may need to include more up-to-date financials to demonstrate a continual performance trend.***

The lender needs a good idea of the ability of the customer to continue to generate a level of financial performance to support existing debt or additional debt. The bank needs to also understand the quality of management and their performance – the decisions they have made to continue to improve their business and returns.

The bank will be looking for at least a 12-18-month projection on what the future state of the business will look like to ensure any additional debt can be serviced, over and above existing commitments.

### Looming Cash Flow Crunch?

Bendigo Bank conducted an intensive business customer calling program to try to better understand the impact the current crisis is having on businesses' operations. They found that most SME's were experiencing quite a bit of frustration and stress.

It is recognised that the spike in loan and tax payment deferrals by businesses, together with the surge in applications for JobKeeper, does present a looming problem, as most assistance measures are only in place until late September this year.

The big question is - are we setting ourselves up for a potential cash flow crunch after September; and how are businesses, banks, and governments going to mitigate the risks of that cash flow crunch? This is now commonly being referred to as the potential "debt-cliff" period – early planning now is vital.

Businesses should begin considering whether they will be able to meet all their [cash flow requirements](#), including deferred loan repayments, come late September, and if possible, start to take action to help them through that impending crunch period. **We can provide you with a useful *Deferral Summary Schedule* for you to undertake an initial analysis of your position. Click on this link to get a copy of the [deferral schedule here](#).**

***CBSW can assist you in preparing for discussions with your bank and the preparation of three -way forward projections for the business under alternate scenarios. Please contact us for an early discussion where you feel you are or will need assistance.***

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