BusinessPlus+ Newsletter

Issue – July 2020

Effective Banking Relationships for Business

In these times, there is a compelling need to deal effectively deal with Banks. Even before the COVID-19 Pandemic hit, some businesses were having difficulty getting funds for conducting the business, often having applications for new funds declined and calls by Banks for existing facilities to either be reduced or refinanced.

Commonly, Banks now need additional information (business forecasts - 3 Way Reports, statement of selective financial indicators & more) for loan applications; the days of only submitting historical and current year financial statements is over.

Business owners need to be able to clearly and compellingly articulate why their lending proposition should be supported by the Bank. This needs to occur with every communication with the Bank including new loan submissions and loan structuring review meetings.

To assist Business Owners in preparing for a bank presentation, all the following questions should be considered.

These are by no means extensive and should be considered as a guide to assist with loan application preparation.

1. *Can you pay the Bank back? **The Serviceability Test**.*
2. *Does the business generate **enough operating cashflow** to cover the interest and principal reduction with room for a possible interest rate increase?*
3. *Do you know the **quality of the cash flow** – is the finance required to fund growth or is it because of weaknesses in the business model or operations?*
4. *Required to cover a cash shortage due to **changes in financial performance**?*
5. *Do you have fast growth indicators that signal that **sales turnover growth is detrimental to cash**?*
6. *Do you have the **right mix of short- and long-term funding**?*
7. *Does the business have **liabilities that might jeopardise the Bank's po**sition ie income tax, GST, key suppliers with substantial outstanding balances due to them?*
8. *Do you have well prepared budgets and cash flows that **substantiate the business feasibility**?*
9. *Are there **external environmental factors and industry trends** that might adversely or positively impact on your profitability, for example, competitors, regulation, emerging markets?*
10. *Are your **working capital levels appropriate** and trending reasonably?*
11. *Can the business **demonstrate future viability and growth** to support its funding requirements?*
12. *Does the business **generate a reasonable return on capital employed** for its shareholders?*
13. *Do the Directors have a **clean credit history** and the business a clean trade credit history?*
14. *Does the business have **enough equity funds** for operational working capital & growth?*
15. *Does the Bank have **adequate (or excessive) security**?*
16. ***Is there an active market for your business**- if it needs to be sold as a going concern or worst case - it needs to be liquidated?*

Australian Banking Association Update – 8 July 2020

As customers approach the end of their six-month loan repayment deferral periods, Australia's banks will implement a new phase of support to assist customers to get back to making their repayments.

In this next phase, bank customers who can restart paying their loans will be required to do so at the end of their six-month deferral period. In the long run it is best for the financial wellbeing of individuals, families and businesses to return to full loan repayments and pay off their debt.

Bank customers with reduced incomes and ongoing financial difficulty due to COVID-19 will be contacted as they approach the end of their deferral period, to ensure that wherever possible they can return to repayments through a restructure or variation to their loan(s). **If these arrangements are not in place at the end of a six-month deferral, customers *will be eligible for an <u>extension of their deferral for up to four months</u>*. Customers will be expected to work with their bank, during this extra time, to find the best solution for them.**

A deferral *<u>extension of up to four months will not be automatic</u>*, it will be provided to those who genuinely need some extra time. Many bank customers may need less than four months to either restructure their loan or get back into full repayments.

Banks will work with customers to find the best options to restructure or vary their loan.

Options may include: -

- *Extending the length of the loan*
- *Converting to interest only payments for a period*
- *Consolidating debt*
- *A combination of these and other measures*

If, during or at the end of any deferral, customers continue to be severely financially impacted and are unable to make repayments, they will be assisted through their bank's hardship process to determine the best long-term solution for their individual circumstances.

In relation to credit reporting, for customers who recommence repayments on their existing loan or enter into a new repayment arrangement, **their credit report will not be impacted, provided they meet the new repayment arrangements.** If you are granted an extended deferral period approved by your bank, your credit report will not be impacted.

Providing you professional direction

Our liability may be limited by a scheme approved under Professional Standards Legislation.