



We regularly hear that SMEs are finding it difficult to get bank funding yet banks keep telling us they are keen to lend. So what's going on? Are the banks being too tough or do small business owners just have unrealistic expectations?

Well in fact, both statements are true. There's no doubt that banks are tough with their credit standards, although that's not a bad thing. Clearly many SMEs are finding it hard to get bank support but at the same time there are plenty who are getting positive responses from their banks.

The key lies in understanding how keen your bank is to keep you as a customer. If they want you, they'll do whatever they can to keep you but if you don't tick enough of their boxes, you're not going to get much love.

So here are the top 10 boxes that banks want to see ticked. See how you rate:

| Questions | Yes | No |
|---|-----|----|
| 1. Have you made a profit in each of the last three years? | | |
| 2. Do you have a business plan that includes a succession plan? | | |
| 3. Is your industry considered to have a viable future? | | |
| 4. Do you have a clear credit history? | | |
| 5. Have you met all your obligations to the bank in the last three years? | | |
| 6. Are you up to date with the Australian Tax Office? | | |
| 7. Does your balance sheet show equity to total assets of at least 40% | | |
| 8. Do your earnings before interest and depreciation cover your interest bill by more than two times? | | |
| 9. If you have an overdraft, does it fluctuate between debit and credit? | | |
| 10. Have you been with the same bank for at least three years? | | |

If you answered “yes” to all 10 questions your bank or any other bank will be keen to keep or win your business. You are in a strong negotiating position in the event you have a new requirement. Even if you have no new needs, you should still consider approaching the bank and asking the question: “Can you assure me we are getting the best possible deal reflecting our standing?”

If you answered “yes” to between five and nine questions you may or may not find banks supportive, so a more circumspect approach is required if you have a need for increased support or if your arrangements are shortly due to expire or be reviewed. If you have no immediate need, the natural tendency is to adopt a “if it ain’t broken, don’t fix it” approach. This is not recommended and you would be better off investing time and effort into turning your “no” responses into “yes” responses.

If you answered “yes” to fewer than five questions, you will find it challenging to gain or perhaps even maintain bank support. This is no time for confrontation or threatening to take your business elsewhere – the bank might just take you up on that offer. Rather you should focus your energies on improving the credit worthiness of your business.

A clearer understanding your attractiveness as a customer will enable you to better protect and enhance your interests when dealing with the bank. The adage of “knowledge is power” certainly holds true.



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