

Information Note for SME's

How to Apply for a Loan

What Every Small Business
Needs to Know

Summer 2020

Credit Review

INTRODUCTION

This Information Note provides practical information that will assist SMEs in accessing credit from Banks.

First impressions matter. It is important for SMEs to make the best possible case when applying for credit from financial institutions. Banks assess each business application on a case-by-case basis on their own merits and make decisions to approve the finance based on their own credit risk policies.

- 1. How to improve your chances of getting a Bank loan for your business**
- 2. Applying for Credit – the detail**
- 3. Business Plan – embrace this key component**
- 4. Credit Declines and Withdrawals**
- 5. Support for SMEs - you are not alone**

1. How to Improve Your Chances of getting a Bank Loan for Your Business

a) It mostly comes down to Cash

Can your business generate enough cash to repay any proposed Loan over the period requested?

Do not approach your Bank without being able to answer 'Yes' to this question.

You must be able to show your business generating this free cash from its past track record; or that a new business or productivity innovation can credibly generate new free cash in the future to make the proposed repayments.

b) Fail to Prepare – Prepare to Fail!

The key is having up-to-date Financial Accounts showing where your business is coming from; and a Business Plan and credible cashflow projections to show its likely future - and that the cash will be there to make the repayments. Obviously the bigger the business, the more detailed these plans need to be. Micro and Small businesses can get useful guidance from the Local Enterprise Offices, or templates from Bank websites.

Other information required includes listings of the Debtors and Creditors, and a tax clearance certificate from The Revenue. You will also need to provide details on any security that can be offered as collateral.

c) Work with your Bank

Banks love up-to-date information on your business. Keep them informed of any material developments - new information, or changes affecting your income or cost base. The better informed they are, the more confidence they will place in your business.

If you encounter a rough patch, it is always better if you tell your Bank first, before they discover the problem from your bank accounts. They will do their best to help you through any difficulties.

d) Get Agreements in Writing

Get any new arrangements or concessions from your Bank in writing – you might need to rely on this documentation in the future. Remember, the person you are dealing with today will probably move on over the next couple of years – ‘if it’s not down in writing, it didn’t happen’.

- e)** When you have successfully obtained a loan from your Bank there are a few actions needed to maintain a good relationship, so that any further requests for credit will be viewed favourably. These are requirements each Bank sets for each Borrower, however they are not always clearly communicated to Borrowers.

In the small print in your Bank statements, there is an offer by the Bank to conduct an annual review of your lending. This is a requirement on the Banks under the Central Bank’s SME lending regulations. The small print places the onus on the Borrower to request such a Review. If you don’t, this may be held against you in a future loan negotiation, or if you encounter difficulties and are seeking assistance.

If you have obtained an overdraft from your Bank, it will expect the account to return to credit for some part of the year (typically 30 days in credit across the year). Again, this is rarely communicated clearly, but will be adversely viewed in future loan negotiations if not achieved.

2. Applying for Credit - The Detail

Having assessed all funding options open to your business and decided that you wish to formally apply for credit from a bank, the first step is to ensure that you can clearly demonstrate a thorough understanding of your business and its current and future financial position.

It is also essential to ensure that all the relevant documentation, accounts and projections are ready and accurate. For established and medium sized businesses, you will be expected to have the relevant information readily available.

Smaller businesses such as microenterprises, sole traders or start-ups may need assistance to put documentation together and may not have access or funding to pay for financial advice. If not, they should seek advice or assistance from Government agencies such as Local Enterprise Offices' (find yours on www.localenterprise.ie)

It is critical that you prepare the '*right*' documents and information for your bank. Set out below is the key documentation that is typically required by the bank in considering your application.

Table 1: Documents and Information Documents Description

Documents	Description
An up to date Business Plan or Proposal	<p>We have provided a simple business plan later in this Information Sheet. The bigger the business, the more detailed these plans need to be.</p> <p>Micro/Small business, can get useful guidance and assistance from the Local Enterprise Offices, or Banks' websites.</p>
Financial Information/Projections	<p>This should include (where available)</p> <ul style="list-style-type: none"> • Auditor's statements for the previous 3 years trading period or appropriate annual financial statements • Up to date management accounts and cash flow statements to reflect the current trading period • Up to date aged list of creditors and debtors • Financial and cash flow projections for minimum of 1 year and underlying assumptions but ideally for period for which funding is sought • Details of all sources of funding. This information is critical. The bank will need to see what proportion of funding will be provided by the borrower. Normally around 30% is required.
Tax Clearance Certificate	From Revenue
Up to date Asset/Liability profile of the business and owner(s)/promoter(s)	<p>This should describe the assets; their original cost and their current value as well as any borrowings and income from these assets. The Bank will also want to understand the backgrounds and experience of the principals involved in the business.</p>
Collateral and Security	Details of the proposed collateral/security available to support the credit request.

If your loan request is below €100K, it is likely that the Banks will ask you to apply by telephone, or on-line.

Application contact details can be found on each Bank's websites.

For larger lending, normally, you will have a dedicated Relationship Manager at a branch or business centre. You should arrange to meet him/her in order to complete the Loan Application. At the meeting the Relationship Manager will inform you if the bank has any additional requirements in relation to supporting documentation and information.

Your Relationship Manager is the person who typically makes your case to a central credit committee within the bank which decides whether to lend or not. It is critical that the Relationship Manager really understands your business. This is why a well written application supporting the discussion you have with your Relationship Manager is so important as it can be used for reference when he/she is making the case internally.

3. Business Plan

As indicated above it is essential that you have developed an up-to-date business plan or proposal that is appropriate to the scale of your business and credit requirements – a simple microenterprise will require a simple business case; a larger more complex business will require a more extensive business plan and projections.

The discipline of preparing a structured business plan will also assist business owners in developing clear business strategies and demonstrating their knowledge and understanding of their business.

It is important for you, the promoter, to take real ownership of the Business Plan on an ongoing basis, and not to view it as merely a procedural exercise to satisfy the bank.

If you are a larger business, or if you can afford to, you should seriously consider involving a professional external business advisor, such as your accountant or reputable management consultant. Involving external, professional expertise can help business owners get a different perspective and uncover potential 'blind spots' that people within a business don't see.

Smaller businesses such as microenterprises, sole traders or start-ups may need assistance to put documentation together and may not have funding to pay for financial advice. If not, they should seek advice or assistance from Government agencies such as Local Enterprise Offices' (find yours on www.localenterprise.ie).

Main Headings that should be used for the Business Plan

Name of Business and Contact Details	Also include legal status -sole trader; -partnership details; or Limited Company
Executive Summary	A brief description of what your business does. Key points on its recent trading history Its outlook for the future
Business Owners and/or Directors	Who you are? How well you know this business (experience)? How well you have managed this business (track record)?
The Business	More in depth description of the business Main Current and Prospective customers How many days credit do you give on sales? Key suppliers and your relationship with them How many days credit are you allowed on purchases?
Products, Services, Customers and Marketing	Core products/ services? Who are your local/ national competitors? How do you present your Brand to the market?
Staff Details (optional)	How many Staff? Any key Staff – detail role and pay?
Business Assets	Fixed Asset details (include any self-investment projects which may not be on the Balance sheet) Any property leases –duration; - rent and review periods. Current Asset details Stock – (include details of any obsolete or unsaleable stock) Debtors (include listing with dates of invoices) Details of any Directors Loans
The Project - If you are looking to finance an asset	Details of the purchase price How much of this price is the Bank being asked to finance (normally max 70%)? How much additional cash is the project expected to generate? How much additional cash will new asset require to run?
Request for Finance	How much is needed? For how long? -Normally no longer than the expected life of the asset - Property loans between 7 and 15 years
Financial Information	Last 3 years' financial accounts Cashflow forecast for at least 12 months ahead All current loan liabilities listed -Lender -Amount outstanding -Term Remaining -Collateral Security pledged

4. Credit Declines And Withdrawals

In circumstances where an application for credit is declined, the lender must, under the Central Bank's SME Credit Regulations for Business Lending to Small and Medium Enterprises, explain clearly to the SME why the application was declined.

If you have a Relationship Manager, you should discuss the reasons for any decline with them. If you have applied on-line and can't find anyone to speak with in the Bank, then you should contact the **Credit Review Helpline on 1850 211 789 (Monday to Friday - during business hours)**.

Applicants may seek a review of the decision to decline an application for credit or to withdraw an existing credit facility through the bank's internal appeals procedures. At this stage you may have further information which could address the Bank's reasons for decline.

Small businesses who have applied to banks may also apply to **Credit Review**, for an independent review of the Bank's decision not to lend.

Credit Review was established by the Minister for Finance. It provides an independent assessment of the viability of the lending application. For more detail on Credit Review, including eligibility criteria and how to apply, please visit the website at www.creditreview.ie

5. Support for SMEs - You Are Not Alone

SMEs are the lifeblood of the economy, and there are many State bodies here to help you. Information on what Government supports may apply to new and existing SMEs, in your area can be found at

www.supportingsmes.ie

Assistance is also available from the Websites of Industry and Representative Body Organisations:

Small Firms Association (SFA) - www.sfa.ie

Irish Small and Medium Enterprises Association (ISME) - www.isme.ie

Chambers Ireland (and affiliated chambers) - www.chambers.ie

Irish Farmers Association - www.ifa.ie

Banking & Payments Federation Ireland - www.bpfi.ie

CCAB-I (Consultative Committee Accountancy Bodies Ireland) - www.ccab-i.ie

Irish Hotels Federation - www.ihf.ie

Intertrade Ireland - www.intertradeireland.com

Contact Credit Review to discuss any aspect of your application.

📞 **1850 211 789**

✉ info@creditreview.ie

Credit Review has many information sheets for Small Business and Farms. These can be found in the Resources section of Credit Review website www.creditreview.ie/resources/

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