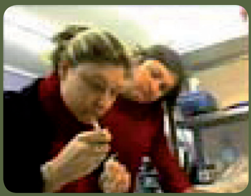
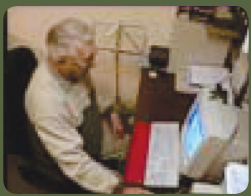



Easy-to-Follow **Banks Assessment Guide** for Micro and Small Businesses

SPECIALIST SERVICES FOR THE SELF-EMPLOYED

Did you know? There are more than 2 million self-employed people in Australia.

When you are in business for yourself you need all the help you can find. At Independent Contractors of Australia we specialize in issues for the self-employed/micro-business person.

To assist we have produced a series of easy to use templates and practical advice covering:

- Business Plans
- Marketing Plans/Audits
- Marketing Research
- Finance
- Promotional Hints
- Contracts

We have also produced a series of short video clips. We've interviewed self-employed people about what they say are the most important things to do in operating your own business. They talk about:

- Cash flow and debt management
- Work–life interface and balance
- Facing difficult times
- And more

You can find all these practical tools and information at:

www.contractworld.com.au

We also keep you up to date on issues for the self-employed.

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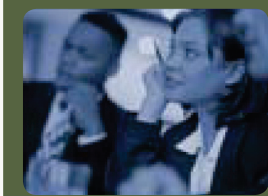
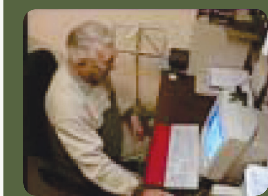
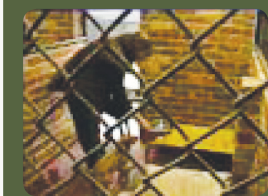

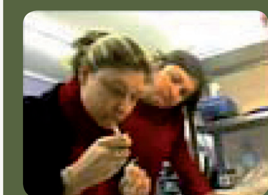

Easy-to-Follow

Guide to How Banks Assess You

for Micro and Small Businesses

Detailed below is a guide to help you understand the key things that banks and finance institutions consider when evaluating a small business.

ICA gratefully acknowledeges the assistance of the Commonwealth Bank of Australia in the preparation of this Guide.

How Banks Assess You

The key things banks/finance institutions consider in evaluating the possible giving of finance to a small business person

CAPITAL = ASSETS - LIABILITIES

- Capital is also known as equity. Your capital position is what the bank uses to measure the financial strength of your business.
- A strong operating position, positive cash flow and retained earnings all help to improve your businesses overall financial strength
- Some questions the Bank may ask you include:
    - What is the capital structure ?
    - What contributions you have made to the capital of the business?
    - What profits have you retained in your business over time ?

Tip: The more information you can provide to your banker about your business the better! Having up to date financials, such as balance sheet, profit and loss and cash flow statements allows the Bank to review your application quickly and effectively. ICA has a number of templates that can help. Download them here.

CAPACITY

- A measure of your ability to pay current and future loan commitments.
- This allows the Bank to calculate the total loan amount you can comfortably repay
- To do this the Bank considers your:
    - Current Financial Commitments (e.g. existing credit cards and loans)
    - Business Net Profit
    - Cash flow position

Tip: By consolidating your lending under one roof you can maximise your lending capacity and you may also obtain better pricing. The CBA has a useful link on this here.

COLLATERAL

- This describes the security that is available to support the proposed and/or current borrowings.
- Loans can be secured or unsecured by various types of assets including residential, commercial, rural or business assets
- In general, the less you provide as security, the higher the interest rate will be that you pay
- There are lending products that are designed to finance the purchase of specific assets such as motor vehicles and other capital equipment for your business. Asset finance has a number of tax advantages for businesses. You should speak to your accountant when considering these investments
- There are also other lending products that are designed for small businesses that do not require security such as credit cards and small overdrafts.

Tip: Remember that collateral does not necessarily need to cover the full loan amount. Banks accept lending applications that are both secured and unsecured by collateral.

What does security mean to a bank?

A bank usually accepts two forms of security, these are either a mortgage over an assets or a promise to pay, such as a guarantee .

A mortgage is a contract between the owner of the asset and the bank. This contract protects the bank until the loan has been repaid by the borrower.

A guarantee is used by the bank to link the debt of the businesses to the owner of the owner of the business. It is usually provided by a director of a company.

A guarantee means that the person giving the guarantee pledges their personal assets to support the company borrowings.

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CHARACTER

- Your experience in your business, your industry and your reputation are key elements that add to the success of your business.
- The bank will consider these when assessing an application for finance.
- Key elements include:
    - Length of time managing your business
    - Industry experience and knowledge
    - Education
    - Credit history
    - Reputation
- Whilst difficult to measure, displaying a thorough knowledge of your business, industry and market will allow your banker to have a higher level of confidence in assessing your application.

Tip: A good idea is to keep your business plan updated and include information that support your knowledge and the strength of your business. The CBA has a useful toolkit available here.

CONDITIONS

You should consider the conditions , both internal and external, that effect your business and its performance. These conditions are also considered by the bank in your application for finance. The following points are a good guide to use when thinking about conditions:

- Internal
    - Your experience in the business
    - Number of Employees
    - Term of credit from suppliers
    - Your accounts receivable (debtors)
- External
    - Economic conditions
    - Barriers to entry
    - Level of competition in your industry
    - Risks of changes in the regulatory environment

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