

COMMERCIAL FINANCE MARKET: STATE OF PLAY

Have you experienced the stress, frustration and sheer lack of understanding of your business, when you have applied for finance? It seems hard, lengthy and just plain complicated.

In today's economic environment it is more important than ever to ensure you give your finance application the best chance of success. With some of the bank's current credit appetite for lending to SMEs patchy at best you will typically only get one shot at funding with a bank so you need to make sure it is your best shot.

Having operated as finance advocates, working with businesses just like yours for the past 12 years, we believe, based on our experiences, that funding applications typically hit trouble due to the following

1. Poorly prepared and presented funding request
2. Poor quality supporting information
3. Bank has poor credit appetite for your industry or business
4. Lack of appropriate collateral / security offered
5. Poor representation by the broker or not using an broker where appropriate
6. Lack of understanding about your industry and the true value of the business

FUNDING REQUEST

History has taught us that brokers who have no commercial banking experience and are looking to introduce clients to banks with commercial finance needs do a poor job. This is typically not their fault, rather a case of minimal experience introducing commercial deals, as they don't see them regularly, have no understanding of how the commercial bank credit process works and what their requirements are.

Banks need to be doing a better job of educating their accredited brokers on the commercial banking platform itself, how it works, how the credit process works and what information to provide.

Conversely if brokers do not have sufficient experience in introducing commercial finance deals then they need look at bringing in an expert. This applies to accountants as well as they need to ensure that the brokers they are using for their clients are capable of finding them a tailored solution in the commercial finance space.

The other main piece of the funding request puzzle is that the broker should actually be preparing a funding proposal on behalf of the client that details, at a minimum, who the client is and what they are looking for.

Rather than leaving it to the banker to decide how the deal should be structured the broker should be taking as much control of the process as much as possible to ensure a good outcome for their client. A written and detailed funding proposal goes a long way to making this happen.

SUPPORTING INFORMATION

Based on our experience, when we were working within the banks, the funding request would typically start with a face to face meeting with the broker and client. This was typically the easier part of the process as next came information gathering and understanding what the client was actually looking for.

Brokers would send information in, which was typically disorganised, in poor condition and in most cases incomplete as to what the banker had requested. This only serves to lengthen a credit process for the client and given the poor state of the information does a disservice to the client as the bank starts to question the ability of the client and their advisers to provide meaningful and accurate data in a timely manner if the bank does provide funding assistance.

Organised, accurate and complete information delivered in a timely manner will assist a clients funding request.

CREDIT APPETITE

All of the banks are different. We know everyone says they are the same, however in reality they are different in their credit policies and credit appetites.

For example if you have a financial planner as a client that needs funding there is no use talking to Commonwealth Bank unless they are aligned to Financial Wisdom, TFSA or Count. Conversely some banks have limited appetite for property development deals currently.

Understanding your clients business, their industry and their financial position is key in determining which banks to introduce the client to. A broker should be running an efficient process by talking only with the banks that the client's position will suit and not the total market. A broker can determine this by knowing what type of deals each bank is interested in funding and also as importantly what they are NOT interested in funding.

COLLATERAL / SECURITY OFFERED

Some banks are open in their positioning in the market that they are only interested in property secured deals.

So if you have a taxi license owner that requires funding to acquire additional licenses then the broker needs to be able to navigate the market to find the right bank for that type of deal. Ease in navigating the market comes from knowing the banks positioning on different types of deals to shorten the field and the process for the client.

It should also be part of the brokers role to inform the client of the banks typical security requirements for different deals so that there are no surprises during the process and the client knows what the banks are typically looking for as security whether that be residential or commercial property, directors guarantees, general security agreements over business assets etc.

GOING DIRECT

A number of business owners tend to go direct when searching for a new banking partner. Whilst this may work for some, for most business owners the experience can be poor. This may be due to the time it takes to search across the banking market, meet multiple bankers and manage the information process themselves or not knowing how the banking market works and what banks will suit their business, industry and collateral security position.

If the business owner is dealing with the right broker then the process can be outsourced to a capable party who will manage the process for the client and deliver an outcome that is in the client's best interest.

SUMMARY

In summary the commercial finance market is complex. All the banks are different from a lending appetite basis and it pays to know which bank is interested in funding your industry and what assets they will require to secure any lending.

You need to ensure you engage the right broker, one with commercial banking experience preferably, so that they can effectively manage the process on your behalf, freeing you up to manage and grow your business, and deliver an acceptable outcome.

WHERE TO FROM HERE?

If this report resonates with you and you are an adviser or business owner then please contact Harold Hall on 0401 522 601 or Shaun Ryan on 0407 330 620 for a confidential no obligation chat to find out how we may be able to help you.

ABOUT LEXINGTON ADVOCATES

Lexington Advocates is a finance advisory business that specialises in sourcing the most appropriate funding for business owners. We work on behalf of clients and always act in their best interest.

For more information please visit us at www.lexingtonadvocates.com.au