Navigating Commercial Lending

We are here to help. Get on to do what you do best - growing your business.

Please note, we do not provide tax, legal or accounting advice. This guide has been written for general informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. We encourage you to consult your own tax, legal and accounting advisers before engaging in any transaction.

A fast turnaround.

Our understanding of how your finance is structured and the criteria lenders use to assess applications, means we can help ensure the process is as quick and hassle-free as possible.

From application to approval.

We will prepare the funding submission, and we will work with the lender to obtain the most appropriate loan package including structure, terms, rates and fees.

We will then manage the whole process through to settlement.

All this to give you the peace of mind your business has the right funding in place, and leaving you to get on to do what you do best - growing your business.

Commercial funding - how does it all work?

Given our strong lender relationships we also know how lenders work, what they look for and what they need from you.

How does the lender assess a loan application and interest rates?

Commercial lending is assessed on a number of different components. Whilst serviceability is key, the risk assessment includes value and type of security (such as residential, commercial, industrial, specialised and alike); industry type; management experience; age of business; purpose of funds; financial ratios, margins, profitability and trend analysis; bank account performance and credit history; and business cash flow.

Lenders assess serviceability or repayment capacity slightly differently. Some will require up to the past three years of tax based financial statements whilst at the other end of the spectrum some will rely on management accounts or even your last BAS statement. In some cases a cash flow forecast complete with assumptions will be required. They will assess strength of your business to withstand interest rate movements, trading fluctuations and ability to meet principal and interest payments even if your loan is interest only.

One thing for certain, lenders treat ability to repay as paramount in their assessment process. And whilst they hold the ultimate decision whether to approve or not, the most important party in this finance application is you, the borrower - it is important you are comfortable with the ability of your business to meet the financial commitment you are entering.

It should also be noted commercial lenders differ greatly in their risk appetite - some specialise in industry or security types while others exclude certain sectors entirely. Understanding these differences (which are dynamic) is crucial in deciding where to place your finance application. A poor alignment between your needs, your business risk profile' and the risk appetite of a lender is not ideal for your future business growth and success.

How are interest rates assessed and what type of fees are applicable?

Interest rates are extremely competitive amongst lenders and generally the lower the assessed risk, the lower the interest rate, and similarly with value of security offered and comprehensiveness of supporting financial data.

Lenders will charge up-front fees such as a Loan Approval fee, ongoing loan administration fees, and/or limit line fees, and set-up costs such as valuation fees and government duties, and quite often legal costs, documentation preparation cost and settlement fees.

Why is cash flow an important consideration in finance product selection?

A general rule is to match the life of the asset being purchased with the life of a loan.

Loan terms to purchase commercial property will vary between ten and 30 years. And whilst property based security is often required for business loans and will attract longer loan terms, lenders will take into consideration the length of lease remaining on the business premises or license, usable life of fit-out and/ or franchise term.

Typically Chattel Mortgage Finance for purchase of plant and equipment, motor vehicle etc will have a loan term of between four and seven years which equates approximately to the usable life of the item being purchased. This means when the equipment requires replacement it has no residual debt outstanding and the business will be able to again purchase new equipment and access asset finance options.

Working capital facilities offer a range of choices largely dependent upon the security offered.

Working capital overdrafts are generally annually renewed and facilitate the funding gap by providing an overdraft limit that fluctuates with the cash flow cycle of a business - that is the variability caused between the timing differences between purchase of stock, sale of stock and collection of debtors versus payment of creditors. Similarly Invoice Finance is a revolving facility that is repaid in full each time the debtor makes payment and is then renewed upon new invoicing.

Unsecured business loans are typically much shorter in duration and designed for short term working capital needs and whist they provide very quick access to funds they also have relatively quick repayment terms of between one month to a year but usually a three month term, and with fortnightly, weekly or even daily repayments.

What security will be required?

For commercial loans, lenders will usually seek landed security for business borrowings, quite often the owners residence. If the borrower is a company or trust entity, they will also take a General Security Agreement over all assets of the company entity, and a Guarantee from the Directors, Beneficiaries or Unit Holders.

For most purchases of businesses including goodwill and stock, lenders will require property security. For many business owners this will mean a mortgage over their residence. However in the case of approved franchise systems some lenders will provide finance up to 75 per cent of the value of the business.

In the case of Asset Finance (plant, equipment, motor vehicle, green assets) lenders usually secure the Chattel or Lease Finance by the asset itself, although directors guarantees may also be required.

There are also specialised lenders who provide finance for specific purposes such as Insurance Premium Funding secured by the insurance policies themselves, Trade Finance secured by the stock being purchased, Debtor Finance secured by the debtors and of course Unsecured Business Finance which can be completely unsecured or secured by owners guarantee.

Why is the type of security important?

Matching security to the type of finance is important to ensure your risk is correctly weighted and future borrowing capacity not artificially constrained or restricted because of the incorrect use of your assets as security. As an example, utilising property security for a general loan to purchase plant and equipment instead of say a Chattel Mortgage, may mean when the business needs working capital, or to purchase additional property that there is insufficient security available because whilst a property can be used to secure and access equipment finance, it doesn't work in reverse - that is you cannot use the value of your plant and equipment as security for a general purpose or property loan. So while Asset Finance interest rates may not always be as low as property security, access to finance can be the more important criteria.

What financial information is required?

Depending on lender criteria, supporting information can include owners personal asset and liability statement and tax returns, financial statements of the business (either tax based or management accounts, full year or interim, and up to past three years in some cases) and cash flow forecasts.

“We’re here to help make it easier.”

If there’s something you don’t understand or need more of an explanation, please just pick up the phone or email today.

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