

Information note for SMEs applying for a Loan or Credit from Banks

The Credit Review Office helpline number is 1850 211789 if you would like to discuss any points on this information note

1. Introduction

The good news is that Banks cannot exist without Customers. The core business of Banks is to take deposits from some customers and to lend to others. However, they do have to ensure that the money they lend out has a good chance of being repaid. These days, our Banks are more risk averse than they have been in the past.

Your relationship with your Bank is very important. It is a two-way process that both parties need to work at, to establish and maintain. If your Bank thinks your interactions with the Bank are irresponsible, uncooperative or not transparent, either now or in the past, it will impact on the Bank's decision-making and on how they will respond to your requests for assistance, including requests for new loans or other forms of credit.

As in most things in life and in business, it is much better if there are no surprises. In terms of your relationship with your Bank, it is better if you are proactive about explaining any changes in your financial affairs before your bank feels the need to raise any concerns that they may have. For example, you should routinely keep your Bank up to date when financial accounts become available for your business; and advise your local Branch or Business Centre of any significant changes which may affect your future trading position, in particular your cashflow.

How you interact with your Bank to maintain this relationship has also changed over the past few years. Given the increasing role of technology, bank decision making in recent years has become more centralised. It is unlikely that we will return to the banking model where local managers have a close relationship and knowledge of communities, businesses and farms; and take local decisions on loan applications.

Banks have changed the way they service the small business and farm lending markets for loans of up to c€100,000. Many SMEs will initially approach their Bank's local Branch or Business Centre, where someone there will advise them on what to do next - this may mean referring SMEs to specialist, centralised lending

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teams. Another option is for SMEs to go directly to the Bank's online or telephone banking platforms.

The online and telephone channel is increasingly the case for accessing relatively small loans and overdrafts. Your Business will be treated in the same way as every other business which applies for a new loan. Your business will be assessed based on your financial position and past banking behaviour, and not necessarily based on the owner's character or length of relationship with the Bank.

To access finance, Borrowers will have to assume they are speaking/ providing data to people and systems that are remote, and only have access to information on your business which was previously held on the local bank branch's records, or that you have proactively provided.

So simply put – if you don't tell them, they will not know about anything which is new and important about your business. Assume nothing. You may have been a good customer of your Bank for many years, however this may count for little as Banks now all follow a very process-driven assessment of loan applications which relies on key information, credit scores and financial analysis.

Preparation is key, and most of all you need to make sure that you have up-to-date financial information available to support your application. This means having management accounts, cashflow forecasts and detailed lists of creditors and debtors. Bear in mind that if you don't know these details of your business, you can't credibly know 'what happens next'; and it is highly unlikely that any Bank will also step into the unknown, and take any risks of their loan not being repaid.

If you have not already done so, make sure you tell the Bank anything which affects your business performance in the past; and more importantly any changes into the future which will affect the business's ability to repay the proposed loan. This may be positive or negative information, but it is important that you make full disclosure of any relevant facts.

For example, if you have self-invested, by using cashflow from the business, it is unlikely that Banks will be aware of this unless they are told how much was invested, in what, and by how much extra cash the investment will generate into the future.

Debt Servicing Affordability – Debt Service Requirement.

At the end of the day the Bank will make a decision on your loan, primarily based on the amount of cash your business will generate to cover the repayments on existing,

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and the proposed Loans to all lenders. This is referred to by Banks as the Debt Service Requirement or DSR.

-You can roughly work out the DSR by taking the most recent Profit and Loss figure from your Financial Accounts, and adding back the Depreciation charge. This will give you the cash figure to cover repayments. (remember to add in any income from new investment or ventures not captured in your most recent accounts).

-You should then go to the internet to search loan calculators to input the amount, repayment term, and the typical interest rate for the proposed loan. (note that banks 'stress' interest rate by c2% higher to ensure that you can still afford the loan on an upward interest rate shock).

-Dividing the available cash by the amount of the loan repayments should produce a result well in excess of 1.0 for the proposed loan.

-You will then need to do the same calculation for the proposed loan and any existing debt commitments to ensure that you can service the debts of your business. Banks will take this into account when assessing their loan application.

You have Rights on how your loan is handled.

There are some protections for SMEs under the Central Bank's Lending Regulations for SMEs, which sets out how applications for loans/credit should be responded to by the banks, and also how your loans should be managed by the bank

<https://www.centralbank.ie/regulation/consumer-protection/consumer-protection-codes-regulations>

The Main protections are:

- Banks are required to give you an answer on your loan application within fifteen working days of your application. They are allowed to 'stop the clock' if additional information is required from you to make their decision, or inform you if decision will take longer than 15 days
- If your loan application is declined, you should be told the reason for the decline in writing, and this may also be followed up with a phone call. If your loan is declined be sure that you read all of the letter, as some SMEs miss vital information by not doing so.
- If you have made a loan application to your Bank and feel that it has been wrongly declined, or you feel the terms and conditions offered are too difficult, you can appeal the decision. Your first appeal should be directly to your Bank, who have dedicated teams to deal with appeals.
- If this appeal is unsuccessful the Credit Review Office is here to help. (www.creditreview.ie, lo-call 1850-211789). Frequently, we can use our lending

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expertise to assist you in making a better loan application which Banks will accept.

It is important to know that appealing a declined decision which you disagree with, to your Bank or the Credit Review Office, will not prejudice your Bank against you in the future. You have a right to appeal and it is normal practice for businesses and banks to have to deal with appeals – they go with the territory of being a bank. Both the banks and the Credit Review Office appeals processes are quite simple to initiate.

2. How to become your Bank's favourite customer

- To ensure that the money banks lend out is repaid within the agreed timescale, banks like credible and up to date information. Banks dislike lack of information, or out of date data, or facts which do not agree with plans and financial projections which they have previously been given.
- Banks like Customers who operate their current account responsibly. They do not like unauthorised overdrafts, or overdrafts which exceed their agreed limits. Banks hate bouncing cheques, and these are all recorded on your bank records - a black mark when you next look for credit.
- It is a good practice for SMEs to record their maximum and minimum balance on their current accounts each month; and how much turnover has gone through the account each month. Your Bank already knows this, and it is used as part of their lending decision making. It will also match the annual turnover on the Bank account to the Sales number in your Management and Financial Accounts. If there is a difference, the Bank will need to know why.
- If you have an overdraft, it is normally one of the terms and conditions that the current account will swing from overdrawn into credit during the year. If it doesn't swing into credit, Banks will look at the minimum debit balance as 'hard core' overdraft debt, and may ask you to convert this amount into a term loan.
Unlike the overdraft, a term loan will require monthly repayments, which will impact on cash flow. In addition, the bank will also usually reduce the overdraft limit by the amount of the term loan.
- Banks do not like it if you have not delivered on previous projections, without good reason. It calls into doubt your ability to deliver on future projections. If you fell short of previous plans to a significant degree and there are reasons for this happening, then these reasons should be explained to the bank in the application, including the impact they had on the financial projections. It is much, much better to tell the story up-front, rather than being asked to explain after you have made your loan or credit application.

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- Banks like being given financial information on your business when it is available. Examples are up to date financial accounts; management accounts, cashflow forecasts and detailed lists of creditors and debtors. Bear in mind that if you don't know these fundamental details of your business, it is unlikely that a Bank will take the risk of their credit not being repaid.
- Banks like knowing the background to key events, in the past and future, affecting the business's ability to generate the cash to repay loans. Examples are the cash freed up from repayments on other loans which are now repaid, or that are due to be repaid over the near term; significant new orders (or lost orders), which will affect future cashflows; cash income from any new investment in the business.
- Banks dislike having to try to assess a loan application with financial accounts which are out of date, and/or a lack of any management accounts or cashflow projections which shows how the business will generate the cash to repay existing and the proposed loans. You are going to have get Financial Accounts prepared in any case for the Revenue Tax Clearance Certificate – they may as well be prepared promptly.
- Know what your own credit score is, because your Bank will already know this. You can find this at www.icb.ie; and at the Central Credit Register established by the central bank www.centralcreditregister.ie

Credit Registers – Information that will be accessible on your Credit History

Banks and other lenders generally send information about borrowers to a central database that is operated by a credit reference agency or credit register. This information includes what credit agreements you have made and your history of repaying them. It is used to generate a *credit rating* or *credit score*, which indicates whether your credit repayment record is good or poor. The database is available for lenders to consult to see if potential borrowers have ever defaulted on loans. The aim of the system is to help lenders to assess the ability of borrowers to repay any future debts.

The main credit reference agency for individuals in Ireland is the [Irish Credit Bureau \(ICB\)](http://www.icb.ie), set up in 1963 which compiles a private database of information supplied by its [members](#), which are the main financial institutions, including some credit unions.

The Central Credit Register is a new secure system for collecting personal and credit information on loans operated by the Central Bank of Ireland, Since 30 June 2017 lenders, including banks, credit unions, and any other lender that provides consumer loans of €500 and above, have been submitting personal and credit information on those loans to the Central Credit Register. Consumer loans include credit cards, mortgages, overdrafts, and personal loans. Since 31 March 2018 business loans have

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also been recorded. Other types of loans such as Hire Purchase and Personal Contract Plans (PCP) will be added from 30 June 2019. It is now compulsory for lenders to access the Central Credit Register when considering a credit application of €2,000 or more. You can [request your credit report anytime](#), free of charge, subject to fair usage.

If you repaid loans as arranged, missed payments, had unpaid payments, or even made an application for credit – all these transactions are now entered into your central credit record.

- Banks don't like poor credit scores. Some lenders, such as leasing firms which operate through motor and machinery dealers may reject, immediately, applications with poor credit records. This can happen when potential borrowers are on the Motor Dealers' premises, and can be embarrassing for all concerned.
- If you are a new business, build a good credit record by starting with a small loan and paying this off as arranged. This will help you get larger loans in the future when required.
- If you have a poor credit record from past events, there may have been a good explanation for them. Banks will listen to credible explanations as to how the future loan servicing will be better than the past.
Examples are the impacts on SME income of past, non-recurring, illnesses of key people; the impact on businesses and farms from failed (but now resolved) buy to-let property investments; the financial strain of putting children through third level education; or over-ambitious, self-investments in the business.
- If you think your credit record is incorrect, the best place to start to have it amended is with your lender. It is important the information is corrected at source, that is, on your lender's records, because incorrect personal information may continue to be submitted each month if an error is not corrected at source. You can start the process of amending information on your Credit Report by contacting your lender with details of what you believe the correct information is. You should provide any extra information that you may have in support of your request.

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3. Applying for Credit

Having assessed all funding options open to your business, and having 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 own 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 small businesses, you should meet and go through the business plan and application with your accountant and/or financial adviser.
- Smaller businesses (loans under €25K), such as micro-enterprises, sole traders or start-ups may not have access or funding to pay for financial advice, and should seek advice or assistance from their trade bodies or government agencies such as Local Enterprise Offices attached to each local Council area www.localenterprise.ie

It is critical that you prepare the 'right' documents and information for your bank, and that you get it right first time - it becomes more difficult to get credit if you have had a refusal. Documents typically required are listed in the table below.

Documents	Description
An up to date Business Plan or proposal	The banking and accounting trade bodies have jointly developed a <i>Business Plan Guidance</i> helpsheet which will ensure a strong business plan can be developed. https://www.bpfi.ie/wp-content/uploads/2014/10/CCABI B PFI Business Plan Guidance 2014.pdf The Business Plan should include certified/audited accounts, management accounts for the intervening period, and cash flow projections.
Tax Clearance Certificate	
Up to date Asset/Liability profile of the business and owner(s)/promoter(s)	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.
Collateral or Security	Details of the proposed collateral/security available to support the credit request

As indicated above it is essential that you have developed an up to date business plan or proposal that is appropriate to the scale to 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 BPFI helpsheet listed above covers all the key elements of a good business plan.

The discipline of preparing a structured business plan will also assist business owners and promoters in developing clear business strategies and demonstrating their knowledge and understanding of their business. It is important for you, as the

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Business Promoter, take real ownership of the business plan on an ongoing basis, and not to view it as a procedural exercise - just to satisfy the bank.

4. Supports for SMEs

There is a broad range of state agencies and industry bodies that can provide supports and/or advice to SMEs. These have all been captured in an online guide www.supportingsmes.gov.ie which will help you find out which supports could possibly fit your business.

In addition to government supports, there are a number of industry and representative bodies which can also help.

Industry and Representative Bodies	
Organisation	Website
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 and Payments Federation of Ireland	www.bpfi.ie
Irish Hotel Federation	www.ihf.ie/
IntertradeIreland	www.intertradeireland.com/