

Tips on applying for a loan

Getting a business loan from a bank to start up a new business can seem daunting, especially since banks have tightened their lending requirements as a result of the recent global financial crisis. Most entrepreneurs look to family and friends for loans to get their business started – but getting a loan from a bank is not as hard as it sounds if you prepare properly and present a strong business case.

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Don't leave it to the last minute

Don't put off asking for a loan until the last minute. If you're desperate for a cash injection to see you through a financial tight spot, you aren't approaching the loan as a deal to be negotiated – you're asking the bank to bail you out. This gives the bank the upper hand in negotiations. You don't want to approach the negotiating table disadvantaged by your own procrastination.

In addition, if you're in a tight spot, you're more likely to make a hurried decision or accept the first financial lifeline that is thrown your way. The chances are high that this will not be the most cost-effective decision for your business.

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Prepare your business case

You'll need to convince the lender that your business is viable and has the ability to operate profitably – and profitably enough to pay off the loan within a reasonable period. While this can be difficult if you don't have a business with an established track record, look for other information you can provide. A detailed business plan, your marketing material and cash flow projections will help your case. Show that you have a product or service that people will want and that you have researched your customers and competitors and put forward a strong business case.

Presenting a strong business case will not only increase the likelihood of your securing a loan, it also demonstrates that your business proposition is sound and that the bank won't be exposed to a high level risk when lending you money. This gives you some leverage to negotiate a lower interest rate and reduce your finance costs.

Find out more about [what banks are looking for](#) when you borrow money.

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Know what you're asking for

Don't approach the bank asking for as much money as they're prepared to give you. You should have a very clear idea of how much money you want (including a bit extra for contingencies), how you plan to use the money and when you'll be able to repay the loan.

If you want a loan to buy new equipment, identify possible suppliers and do the necessary homework. Find out the costs (including shipment, set-up and training, if applicable), find out if there are any delivery delays and work out how long it will take before the machinery is turning a

profit. Then work out a reasonable payback period that will not put your businesses under undue financial strain.

Prepare a Plan B. It's also a good idea to show the bank that you've thought of other options. Have an alternative plan prepared and be ready to tell your loan officer how you'd go about growing your business without their help (approaching other banks) or with less money (if they provide a loan for a lesser amount), or even without the loan. This identifies that you are not desperate for their assistance and gives you more power to negotiate.

Read up on the [main sources of finance](#) to help you prepare your Plan B.

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Remember: You're not asking the bank for a favour

It's important to remember that you're not going to the bank with your cap in hand to ask them for a favour. The bank is in business to loan money. A loan is like any other business deal – it's something you negotiate. You will be on the lookout for the best interest rates, and a bank that can offer you a good working relationship and a finance solution to meet your needs. The bank will be looking to assess your ability to repay the loan, and to make money from lending you money, while reducing their risk exposure by asking you to provide security.

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You don't have an "until death do us part" relationship with your banker

Although it is probably easier for you to get a business loan from the same bank that does your business or personal banking, this does not mean you are tied to any particular bank. Some banks are more geared towards business banking, or supporting small businesses, and the little extra effort required to prove your good credit standing or low credit risk to a new bank can be rewarded with lower interest rate loans or additional facilities that your existing bank doesn't offer.

You might prefer to keep all your banking with one bank, but it is a mistake to negotiate a loan without at least being aware of the other options out there. If you know another bank will offer you the loan you want at a certain interest rate, this makes it a lot easier to ask your bank to better, or at least match, the offer from the other bank – or stand to lose your business.

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Do your research beforehand

Don't walk into the bank and simply ask the manager, or loans department, what credit facility or loan option they recommend without doing your research beforehand. New financial options are developed to meet growing customer needs and you might find that there are new products or business packages to consider.

Take a few minutes to browse the business banking sections of the various bank websites to get a good feel for the products on offer – and the likely charges. Then ask your bank to explain the benefits and drawbacks of each of these so that you can negotiate the best finance deal for your business.

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Compare options and costs

A few minutes comparing the exact loan costs, using the various finance options offered by your bank (and calculating the comparative costs of competing banks), will quickly tell you which deal is the best for your business.

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Negotiate

Don't forget to negotiate. Dealing with large numbers and asking for a loan from financial types can be intimidating, so don't forget to negotiate. At the very least, ask if the standard bank interest rate you've been offered is the best rate the bank can give you. You can often get a small reduction in interest rates just by asking.

Since you're applying for your first business loan, you'll probably be asked to provide some form of security or collateral to reduce the bank's risk of losing money. Because the bank's risk is reduced (and the risk you're carrying in your personal or business capacity is increased), you have grounds to negotiate better terms.

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