

Lender Overview: Spotlight on Banks

Banks offer a variety of loans ranging from short term and operating loans to mid-to-long term credit to suit customers' financing needs.

What is Bank Lending?



Short term and operating loans such as overdrafts and lines of credit provide access to extra funds and better day-to-day cash flow control. Mid-to-long term credit options including term loans, commercial mortgage and equipment leasing can help expand business, modernize equipment or increase production capacity.

What are the types of Bank Lending options available to small business owners?

Banks offer various lending products and services to suit a business owner's financing needs based on different requirements and aspects of eligibility. Banks are able to offer a very broad range of products such as overdrafts, lines of credit (secured and unsecured), credit cards (unsecured), term loans (unsecured), equipment leasing (secured), commercial mortgages (secured), and Canada Small Business Financing loans (secured). The services they provide include one-on-one, in-person support services, business and strategy advice, and connections to reputable companies to assist with other business needs such as employee benefits or human resourcing.

Within these lending options, what are some of the criteria that is important to consider?

Banks will want to understand three key things: (i) the business, (ii) the intended use of the financing and (iii) the state of your personal financial situation. These are important components of a strong business plan and demonstrate a small business owners commitment to their product or services as well as a positive indicator of success when obtaining financing.

Business plans should include:

- A financial proposal including start-up costs, working capital, a cash flow forecast, and a pricing strategy
- Information on the overall picture of the company, including the management structure, product/service being offered and markets
- A marketing plan

What should a small business owner consider when evaluating options?

When evaluating financing options, a small business owner will want to consider their business needs. Banks can then help link the best financing option to the small business' financing needs. Some considerations are:

- How much funding is needed?
- How long the funds are needed for?
- What are the funds needed for?
 - o Managing day-to-day cash flow?
 - o Increasing machinery and equipment capacity?
 - o Purchasing new property?
- What returns can be expected?
- What is the business' repayment capacity?
- What security can be provided?

“ The most important thing for any small business owner is to think about cash flow. Cash flow is the life of a business and banks will certainly be interested in the cash flow projections of the business. They'll want to know about pricing strategies, and go to market strategies. Banks are here to help small business owners succeed and work with you step-by-step to help you grow your business.
– Neil Parmenter, President & CEO of Canadian Bankers Association ”

What are some of the misconceptions about Bank Lending options?

Misconceptions: Banks will deny my financial application, Banks only do financing, Banks are looking to sell me products

Reality: According to Statistics Canada, the approval rate for debt financing requests by small businesses in Canada is 87%

Reality: Banks have many non-financing products and services as well as financing services to support both start-ups and growing businesses.

Reality: Banks focus on customer relationships and offer advice on non-financing and financing options in addition to traditional bank lending products

Can you provide some advice on how a small business owner should get started when looking for financing?

Whether getting started or growing a business, small business owners should understand what they are looking for.

- Develop a business plan that includes a financial component to determine the type and source of financing needed, and identified the stage of the business (start-up, expansion)
- Visit bank websites to view their various lending products. Shop around for an option that best suits the business' needs
- Determine the business requirements that align with the business strategy

Did You Know?

>25 domestic and foreign banks offering various lending products and non-financial services to small business owners

85% overall approval rate in Ontario for debt financing from a financial institution