

Guide for SMEs in Obtaining Business Loan from Lending Institutions

Part I. The five steps of obtaining business loans

1. **Gather information** - Obtain information on the type of loan you are interested in. If you need any assistance, you can always talk to staff of lending institutions. They will help you assess your individual needs, repayment options and special requirements, and recommend a suitable loan product for you.



2. **Application and assessment** - You are required to submit the required documents so that the lending institution can evaluate your financial position and repayment ability.



3. **Approval** - Upon loan approval, normally you will receive a Facility Offer Letter / letter of confirmation. If you have any queries on the information contained in the letter, you should contact the lending institution.



4. **Receiving the money** - This is known as “loan draw-down” and the approved amount will be disbursed into an agreed designated bank account.



5. **Making repayments** - Your repayments will be debited directly from your designated bank account. For an instalment loan, a direct debit account will be set up with your designated bank account.

Part II. Information required on Loan Applications

Incomplete documentation is the most frequent cause of approval delays. At most lending institutions, the following information may be needed to support your loan request:

- Company information:
 - Company name
 - Registered address
 - Nature of organization (sole proprietorship / partnership / limited company)
 - Business identification type and number
 - Contact Information (phone number, email, etc.)
 - Descriptions of business
 - Number of employees
 - Information on any production plant
 - Organization chart
 - Information on shareholders, beneficial owners and management team

- Financial information
 - Financial statements (audited accounts for limited companies)
 - Updated interim management accounts, including information on:
 - ✓ Annual sales turnover
 - ✓ Paid-up capital and accumulated profits
 - Notice of assessment and demand for tax
 - Mandatory Provident Fund contribution record
 - Payroll record
 - Updated bank statements
 - Banker information
 - Credit facility letter(s) from existing banker(s)
 - Credit exposure and outstanding balance
 - Buyers and suppliers information
 - Business plan

- Security information
 - Security available
 - Types
 - Corporate / personal guarantee

- Personal information of applicant / guarantor(s)
 - Name
 - Position in the company
 - Date of birth
 - Address
 - Hong Kong ID / passport number
 - Nationality
 - Contact details
 - Assets and liabilities / Personal Networth Statement

The lending institution may also ask some specific questions, depending on the type of loan you are seeking.

Part III. Things you need to do for obtaining a loan

Determine why you need the loan

- Although it may seem obvious, your first step should be to determine why you need the loan. If this is a start-up business, will the loan proceeds be used to purchase equipment and inventory, provide working capital, or may be even finance product research and development. Or, as an established business, are you experiencing cash flow problems because the business is under capitalized or are you simply in a seasonally slow period?
- The four most common reasons for obtaining financing are: acquiring or starting a new business; working capital; seasonal peaks; and business installation and equipment acquisition. Although the basic framework is the same, your loan package should be customized to address the reasons financing is needed.

The type of loan required

There are different types of loans for business such as instalment loan and revolving loan.

- An instalment loan requires you to repay the principal and interest regularly, usually monthly. Interest is calculated at a predetermined interest rate as agreed with the Lending Institution.
- A revolving loan is a credit limit granted to your revolving or current account, usually for meeting your short-term funding requirement. Interest is calculated on the drawn amount on a daily basis.

Some common examples include term loans, asset-backed finance, receivables finance and overdraft facility.

Provision of Information to lending institution

This is especially important when acquiring or starting a new business. Updated and sufficient Information on you and your company is vital. The lending institution will also request relevant documents to support your application. You may wish to note the following:

- Financial information - In addition to prior years' financial statements (on a consolidated basis wherever possible), projections for future cash flow and profits should be included. You should also include any

information that will convince the lending institution of the fiscal soundness of your business. When the purpose of the loan is to start or acquire a new business, prior financial data may not exist. In these situations, projections and budgets take on additional importance. They should be supported by sufficient factual information to prove that the goals are credible.

- Industry information - by demonstrating knowledge of pertinent financial information and industry statistics, you will further convince your lending institution as to your credibility.
- Financing plan - You should identify the reasons for the financing request and the amount and repayment terms of the request. Clearly indicate how the loan proceeds will be used. The purpose of the loan request will dictate what other information may be needed in your loan package. When requesting funding for a new business, you should include information on marketing, management plans, industry background and predictions, and pro forma financial information.
- Personal guarantee - it is a common practice in today's lending environment for banks to require a personal guarantee from SME owners. So no matter how convincing your financial information is, do not be surprised if the banks request such a guarantee. Give this request careful consideration, as a default by the business on such a loan may affect your personal assets, as well as those of the business.
- Security - a description of the collateral that will be used to secure the loan; description of equity in the business; financial strength of the borrower; and availability of any cash. If you have assets on hand, you can pledge these assets against the loan facility. A credit limit obtained in this way is called a secured or partially secured loan facility. This facility is usually charged a lower interest rate than an unsecured loan facility.
- An important rule in preparing your loan package is not to hide unfavourable information. Such information should be presented with the details of how you plan to overcome the problem. Full disclosure will add to your professionalism while discovery of undisclosed negative information will affect your credibility.

Part IV. Some friendly tips

- **When would your business need a loan?**

You need to consider your cash flow forecasting and investment opportunity. Remember cash is the lifeblood of your business. It flows in as your customers pay for products or services, and it flows out as you make

payments to suppliers. It is vital that you manage cash flow carefully. More businesses fail due to lack of cash than lack of profits. It is all a question of timing.

- **How much will the business loan cost?**

That depends on how much you wish to borrow, and the time period that you choose to repay it over. Some common additional costs may include: application fees, service fee, unauthorised overdraft penalty, special administration fee, overdue handling fee and interest and early repayment fee, etc.

- **What interest rate will I be charged?**

It is difficult to say what interest rate your loan will attract, as all loans are assessed on individual circumstances. Some relevant factors include the borrower's business, operational and financial strength; type and nature of credit facility, the loan amount and repayment tenor; cost of funds to the bank; the type, quality and marketability of any security pledged and availability of personal guarantees; customer's relationship with the bank, etc.

- **As a SME, could I receive government support?**

The Trade and Industry Department (TID) operates a SME Loan Guarantee Scheme (SGS). The SGS aims to help SMEs secure loan from participating lending institutions for acquiring business installations and equipment; and meeting working capital needs, with the Government acting as the guarantor. All SMEs registered in Hong Kong under the Business Registration Ordinance can apply. The amount of guarantee for an SME is 50% of the approved loan, subject to a maximum amount of \$6 million. The maximum guarantee period is 5 years.

In December 2008, TID launched a time-limited Special Loan Guarantee Scheme (SpGS) which aims to help Hong Kong enterprises secure loans amidst the current global financial crisis. The loans shall be used for meeting the needs of general business use. All companies, except listed companies, registered in Hong Kong under the Business Registration Ordinance can apply. The Government will provide a guarantee of up to 70% of the approved loan. The maximum loan amount for an enterprise is \$6 million (i.e. the maximum amount of guarantee is \$4.2 million). Within this limit, an enterprise may obtain a revolving credit line of up to \$3 million (i.e. Government guarantee up to \$2.1 million). The maximum guarantee period is 3 years. Application is open for six months starting from the implementation date.

Applications of the above two schemes should be lodged through the participating lending institutions, a list of which may be downloaded from TID's website.

For further information / enquiries, please contact –

SME Loan Guarantee Scheme Unit

Phone: 2398 5125 / 2398 5129

Email: sgs_enquiry@tid.gov.hk

Special Loan Guarantee Scheme Unit

Phone: 2398 5125 / 2398 5132

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Important Note: Information contained in this Guide is only for the purpose of general reference and shall not constitute any obligation to any lending institution. SMEs who wish to apply for business loans should contact and consult their lending institutions.

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