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Six mistakes business owners make when taking out a business loan

A small business loan can be invaluable when you're establishing your business or when an unforeseen setback occurs, but you don't want a loan to be short-term gain and long-term pain.

Here are six common mistakes businesses should avoid when it comes to commercial finance.

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Mistake #1: Not getting the right loan

A thriving business requires enough capital to meet expenses, expand and invest, but it's important to know why you need the funds and what loan best suits that need.

Do you need to cover short-term cash flow shortages, for example? A line of credit could help, where you can access funds up to a pre-approved limit, and only pay interest on the outstanding balance.

Maybe you need new equipment? In this case, ask your mortgage broker about an equipment loan, where the asset is used as security while you make your repayments. This can potentially help make the loan easier to secure.

Mistake #2: Not having a business plan

Lenders want to understand your business's operations and how it will make money – in other words, that your current and future cash flow will cover the repayments of the loan.

A strong, well-considered business plan demonstrates your goals and how you plan to reach them, and shows you've thought through all the details. When you can clearly explain your business model, products, services and target audience, lenders will be in a better position to tailor a financial product to your needs.

Mistake #3: Not having thorough, up-to-date financials

Precise, current financial records allow lenders to understand your business's exact position. If you can't provide sufficient information, they will either reject your application outright, or ask you to spend more time preparing the necessary details.

Before approaching a lender, get your books up to date and prepare reports such as balance sheets, profit and loss statements, recent business activity statements (BAS) and tax returns, cash flow projections, and debtor and creditor reports.

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Depending on the size of your business, you may also need to provide information on your personal financial status.

Mistake #4: Not paying attention to interest, fees and hidden expenses

It's crucial to understand and calculate the full cost of a loan before committing to it. Apart from interest expenses, there are likely to be application fees, administration fees and contract or appraisal costs. These will be incurred regardless of the size of the loan, so you might find it worthwhile to discuss increasing your borrowing amount with your broker to cover those costs.

Mistake #5: Not checking your credit record

Is your credit record clean? You should find out, because lenders are certain to check it when assessing your application. This can have a big impact on the interest rate you're offered.

Ask for a copy of your credit file from a [reputable credit reporting body](#) and go through it carefully to make sure all the information is accurate. If it's not, take steps to correct it before starting the loan application process.

Mistake #6: Not shopping around

Having the funds to run and grow your business is important, but make sure you take the time to shop around for a loan that won't create extra pressure in the long run.

A mortgage broker can help you find the right loan and secure the commercial finance that's most suitable for your business. It will also ensure you avoid making these six common mistakes.