



“IT IS ONLY WHEN SMES REQUIRE FINANCING THAT THEY REALISE THE EMPHASIS FINANCIAL INSTITUTIONS PLACE ON A BORROWER’S CREDIT PROFILE. BY THEN, THE SME MAY HAVE DEVELOPED SOME INHERENT BAD HABITS LIKE LATE PAYMENTS TO SUPPLIERS THAT IMPACT THEIR ABILITY TO ACCESS CREDIT.”

– Eric Tham, managing director, group commercial banking, UOB Group

place on a borrower’s credit profile. By then, the SME may have developed some inherent bad habits like late payments to suppliers that impact their ability to access credit,” adds UOB’s Mr Tham.

WHITHER CREDIT REPORT

A credit profile is basically a document which contains information about a person or business’ credit history. The problem is that in the case of SMEs, particularly micro SMEs or those that have only been very recently set up, the line is often blurred between the *towkay*’s own expenses and that of the company’s.

“One simple but effective method to guide owners of young companies towards a proper credit profile is to separate their business receipts and expenses into a business account instead of co-mingling them with their personal transactions. In this way, these SME owners would be able to build and maintain a track record of operating cashflow that banks look at when evaluating their financing requests,” says Eric Ong, head of emerging business, global commercial banking, at OCBC Bank.

A credit report provides crucial information that helps lenders decide if they want to do business with a company. Thus, consistency in the way that the company handles its finances is ultimately key in helping maintain a strong credit score. “This includes simple things like paying your bills on time. For young companies without any track record, personal credit scores will also be a fundamental component lenders look at when approving loans,” adds Mr Ong.

Other things that go into a credit report include information and records on matters such as litigations, bankruptcy filings, repayment to vendors and other banks.

It is worth noting that one’s credit report is not cast in stone, notes CIMB’s Mr Yong. “As the company’s credit profile needs to be up to date, it takes into account the consistent and positive efforts in which the SME had improved its credit standing by rectifying problem areas or mitigating past negligence.”

EASE OF TAKING A LOAN

Much has been done to ensure that loans are tailored to the needs of SMEs. Indeed, there are many different credit types ranging from revolving to non-revolving lines of credit, and secured credit to unsecured lines of credit. However, some credit products are more suited for certain types of SMEs, and the choice of credit products offered by a bank are largely dependent on a company’s years of business, company profile, financing needs, type of collateral if any, and repayment ability, notes UOB’s Mr Tham.

For example, a small term loan with a short loan tenor like the government-backed micro loan is suitable for a small business set-up that requires working capital support but has no collateral to offer to the banks.

BY MINDY TAN

PRESENTING YOUR BEST SIDE

SMEs need to realise the importance of creating a credit profile early on in a business’ life and building financial resilience

DESPIITE it being such a key aspect to running a business, banks agree that small and medium-sized enterprises (SMEs) in general are not well-versed in the importance of creating a credit profile early on in a business’ life. The situation becomes particularly dire for young or micro companies. “In general, most SMEs are more concerned about how to grow their business and to clinch their next business deal. Less priority is being placed on building their financial resilience,” says Eric Tham, managing director, group commercial banking, at UOB Group.

Says Yong Jiunn Run, head of commercial banking, CIMB Singapore and acting CEO of regional commercial banking, CIMB Group: “Some SMEs are not well versed at all when it comes to what actually goes into their business credit profile and how the information in the report is being applied in their credit judgements.

“SMEs need to understand what credit providers are looking out for and also realise that it is within their control to establish a healthy credit profile by, for example, inculcating a good credit culture and practising prompt repayment to creditors.”

When issues such as cash flow or working capital management take a back seat, the SME in question may be in for a rude shock when the time comes that they do need to obtain financing.

“It is only when SMEs require financing that they realise the emphasis financial institutions



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For a trading company that requires working capital support, the bank is more likely to offer a trade financing facility against the underlying trade transaction.

On the other hand, a project financing loan based upon projected cash flow of a project may be more applicable to a mid-size company seeking financing for its overseas projects. As such loans tend to be larger in loan quantum and longer in tenure, the company's track record and financial strength will lend support for such loans to be accorded, says Mr Tham.

The government-backed micro loan programme (MLP) offers loans of up to S\$100,000 for local SMEs with 10 or less employees. The MLP was further enhanced in 2014 – the risk-sharing proportion taken on by the government was raised from half to 70 per cent – for companies less than three years old. According to Spring's figures, approximately 2,000 enhanced MLP loans have been made as at July 2015, since its introduction in 2014.

The OCBC Business First Loan for instance, was launched in April last year as the first-of-its-kind collateral-free loan that provides companies aged six months to three years with expedited access of up to S\$100,000. According to the bank, it has since registered 50 per cent quarter-on-quarter growth in terms of loans disbursed since May 2014.

Of the companies that take up the Business First Loan – of which 40 per cent of its borrowers are between six to 12 months old – the largest chunk (28 per cent) are in wholesale trade and about 22 per cent are in business services according to a survey of 400 startups and existing small business owners with turnover of up to S\$5 million, conducted last year.

About 50 per cent of respondents said that they require funding to kick-start their business growth. Of these, eight in 10 need the money within the first two years of commencing business operations. Most of them need just up to S\$100,000.

It is not just startups and micro SMEs that banks are targeting. DBS, for instance, announced in August that SME owners can now apply for up to 11 types of loan products – business loans, import and export financing and even business credit cards online – with no signatures required.

To further reduce time spent filling these forms, the application forms have been redesigned with simple, jargon-free language, and the number of fields to be completed has been reduced by 76 per cent, to expedite the application process.

DBS also linked its back-end system to Accounting and Corporate Regulatory Authority's (Acra) database to pre-populate loan application forms. According to DBS, the bank receives an average of 1,500 micro-loan applications a year.

This virtual loan application initiative is the latest in a slew of initiatives by DBS to bring greater convenience and value to customers through digital banking.

Says Lim Chu Chong, regional head of SME banking at DBS: "We have adopted the human-centred design discipline and redesigned the entire loan application process, enabling SME owners to apply for loans while on the go. We are constantly innovating and looking to improve the customer experience, making banking for SMEs simpler, smarter and more social."

BEYOND LOANS

The banks are quick to stress that SMEs need not wait till they require financing to develop a relationship with a bank.

"The key to developing a good business credit profile is to have other companies, such as banks report favourably to the credit agencies," notes UOB's Mr Tham. "It is therefore essential to establish good banking relationships early. Even if the company may not require financing at the moment, good banking relationships are safety nets for the company in the case of unforeseen difficulties."

Adds Kenneth Tham, head of commercial clients Singapore, Standard Chartered Bank: "What we recommend to SMEs is: Work with a good bank right from the start of your business. For instance, it can be as simple as channelling your transactions through a corporate bank account with us. As your business expands and financial needs evolve, the bank would already have a good understanding of your business, and is in a good position to advise on the most suitable products or solutions for you." ■

"As a young tech startup providing one of the first cloud-based electronic proof of delivery solution on a global platform, we were fast gaining traction and soon found ourselves at a point where we needed quick access to funds in order to expand our team."

"Even with a healthy financial status, we faced several challenges in securing a business loan as a startup. However, thanks to OCBC's Business First Loan, which offers very flexible repayment terms and more importantly welcomes startup companies like us, we could secure our first business loan that helped us to quickly expand our team and continue to compete on a global scale."

– Goh Toh Lee Dason, co-founder, business development, at Detrack Systems

Detrack Systems was one-and-a-half years old when the loan was disbursed.

"We started our journey with a small working capital, but now we have grown to become a US\$1 million paid-up share capital company in a short span of time. We now have a turnover of US\$1.5 million and counting. We are impressed by not only OCBC's service but also the valuable suggestions that we received from them since we took up the Business First Loan."

– Babul Hussain, director at Volga Recycling Resources

Volga Recycling Resources is an importer and exporter of agro-commodities, building materials and recycling materials. The company was two years old when the loan was disbursed.

"Yoga Kula Pte Ltd is a boutique yoga studio that was incorporated in 2013. We were and still are the only hot yoga studio that is located in the northern side of Singapore. Our intention is to bring high quality, yet affordable yoga classes to the residents in northern Singapore."

"We are proud to say that this year, with the help of Spring and OCBC, we are able to expand our business and to set up another outlet in Bukit Timah. Here, in Bukit Timah, we use the same strategy – lowering startup capital and operational cost by paying for only what the students need. The money that we received from Spring-OCBC was very timely as we could use it to pay for the huge sum of rental deposit and rent payments. This allows us to have reserves in our company that we believe is important in running of businesses."

– Faith Ong, founder of Yoga Kula

Yoga Kula was two years old when it received its first loan.