

Business Loan Basics

Ask yourself these questions:

- How much money do I need?
- What type of lender do I need? (bank, state or federal agency, venture capitalist firm, or other investor)
- What is the lender's minimum and maximum loan size?
- Can the lender meet my present and future needs?
- What types of businesses will the lender finance?
- What collateral does the lender accept?

Lenders use the "Eight C's" rule:

- Credit (must be good)
- Capacity (ability to repay)
- Capital (money going into the business)
- Collateral (your assets that secure the loan)
- Character (you)
- Conditions (economy, finances, anything that will affect your business)
- Commitment (your willingness to succeed)
- Cash Flow (prove the business can support its debt and expense)

Basic questions a lender will ask you:

- How much do you want?
- How will the loan be used?
- How long will it take to repay the loan?
- What collateral do you have to offer?
- How much are you investing in the business?

Before meeting with a lender:

- Call the bank to find out the rules for business loans.
- Is the lender looking for loans of your size and type?
- Ask for a loan application to be sent to you.
- Make an appointment.
- Rehearse your presentation.
- Remember -- your first customer is the lender! Before you sell anything, you have to first convince the lender that your business concept has merit.

Meeting with a lender:

- Dress properly and be on time.
- Bring your business plan, a completed loan application, and any other materials you need.
- Be strong and positive.
- The entire presentation should take 30 minutes. Give an overview or outline at the beginning. Know how you are going to end the presentation.
- Ask your lender to take a tour of your current proposed operation.
- Answer all negative questions with positive answers. Be willing to back up your answers and never lose your temper.
- Find out when you can expect an answer.
- Put any decisions or negotiations made on the telephone in writing.
- Follow up with a thank you letter and a telephone call.

If you loan is rejected:

Ask these questions to the lender who rejected your plan.

- Why was I rejected? Ask them to put the reasons in writing.
- Does this mean I am turned down? Or can I correct the problems and re-submit the plan?
- Should I go to another bank or lending institution?

Business Loan Basics (cont.)

- Should I seek alternative financing (Small Business Administration/SBA guarantee, state loan)?
 - Who should I ask for? Why?
 - Which alternative? Why?

How Much Do You Want Your Banker to Know About You?

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Not too long ago banking, as far as small business owners were concerned, was relatively simple and routine. Their bank was home-based, community oriented and in most cases, the small business owner had a direct personal relationship with the bank. Most decisions concerning banking services were made quickly and easily. Thus, a loan decision could be made very quickly without a lot of paperwork.

Today, the small business owner must keep in close contact with the bank and the loan officers that they are working with for many reasons. The following are just a few of these reasons.

1. The time to borrow money is when you don't need it, thus creating a line of credit that is not chargeable, as far as interest is concerned, until you need the money.
2. Keep your banker informed of changes within your company, as well as the industry.
3. Develop a relationship with the bank that encourages exchange of ideas. Hopefully, your banker becomes a springboard to bounce off new challenges and ideas.
4. If you anticipate cash-flow problems, work out your need for money as far in advance as possible. Do not wait until last minute.
5. Remember, when taking out a balloon loan, you may not be dealing with the same bank or individual when the note comes due. Always keep in mind that there is a possibility that the note will not be renewed because of the new credit policies of a bank that has been bought out, or if your loan officer decides to leave.
6. Do not play games with your loan officer. Always be truthful and as honest as possible. Not only share the good things, but be willing to let the loan officer know you understand the risks involved.
7. When filling out financial information, be sure to make it accurate and complete. Keep in mind that if you provide false information, you could end up in jail even if you repay the loan.
8. If you intend to make this banking relationship long-term, you must remember to pay your bills, especially to the bank, on time not abusing the grace periods that most banks allow. As a small businessperson, you do not like it when the people pay you late.