

Business Loans

A Tool for Business Growth

A business loan is a tool for business growth. In this article we want to change the way you look at business loans. Rather than looking at 'lender requirements', let's start by thinking about what you should "require" of your business before applying for a loan. Once you have met *your* requirements, you are ready to seek the financing you need to grow your business.

- Documented business need - Your business loan has a clear purpose that will result in greater profits and improved cash flow, which will be used to service debt. You are not looking for a 'quick fix' to cash flow problems whose causes you do not know. You can document this need with:
 - *Financial and cash flow projections* – We have all heard the analogy 'you have to know where you are going before you can get there.' Projections provide a financial road map for your business. There will be detours, roadblocks and changes on the trip, but if you keep an eye on the map and the road signs, you will stay on course.
 - *Realistic expectations* – Your projections are realistic and you can explain the sources of the projected growth. You are setting yourself up to succeed and achieve the projections – not to fail.
 - *Accurate financial statements* – Your financial statements are accurate and you understand them. You know how your business compares to others in your industry and you know how the loan will affect your financial condition.
- Personal relationship with Lender – You want to know that your lender understands your business and knows how you manage your business. You also want to know how your lender manages and works with his/her clients. You don't wait until you need a loan to build this relationship, because you know it takes time to establish trust and understanding. You establish relationships with at least two potential lenders long before you need a loan and when you are ready to apply, you know where to start.
- Collateral – You understand the value of the property or assets that you are pledging to secure the loan.
 - You know about liquidation value. The bank will consider your assets at the value it will receive if sold on the steps of the courthouse or at auction. You know:
 - Real estate is valued at 80% or less of the appraised value or cost, whichever is less. For instance, if you have just bought property for \$200,000, an appraisal of \$400,000 doesn't make it worth that amount.

- Equipment is valued at 60% or less of the appraised value or cost, whichever is less.
 - Your inventory has little value to the bank even though it is very valuable to your business operations.
 - Accounts receivable are used for lines of credit and only valued at 70% or less. You also know that these loans are expensive, time consuming and only include receivables that are current.
 - You understand the impact of inadequate collateral - if the lender cannot recover its loss through the value of the liquidated collateral, it will come after your personal assets which can hurt your credit and may even force you to file for bankruptcy.
 - Now that you have a good relationship with a couple of lenders, you ask them about their policies on liquidation values. You are strengthening your relationship while managing *your* risk.
- Credit – You know your credit score and you know what is on your credit report. You are working to improve your credit. You know about the credit agencies that help you repair your credit. As you establish your relationship with lenders, you openly discuss your credit and the steps you are taking.
 - Capital/Equity – You believe in your business. You invest in it personally and you reinvest your profits. You know you cannot grow and reach your goals on debt alone. You understand that business debt is a tool and not a substitute for your own capital or equity.
 - Guarantees – You know about and understand the different guarantees
 - *Personal Guarantees* – All lenders require personal guarantees and you are ready for that. After all, it is your business and you believe in its success. You use your loan requirements to help you evaluate and identify *your* risk so you are comfortable guaranteeing the loan.
 - *SBA and other guarantees* – You know about the guaranty programs that are available for small businesses. You have identified a good lender who offers these programs. These are more tools to manage your risk.

We know that meeting lending criteria can be a **pain**, but by meeting your guidelines you are not just providing documentation but you are evaluating what is best for you and the future of your business.

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