

Obtaining Financing

WHAT LENDERS WANT



BUSINESS PLAN Describe the type of business or service to be conducted. If buying an existing business, give a complete history. If the business is a start-up, describe planned business entity and operations.

CREDIT answers the question: Does and will the customer pay bills on time? Lenders normally investigate both the company's and the owner's past credit history. Both need to be spotless. If there are blemishes, lessen the impact by warning the loan officer and giving a logical, defensible explanation up-front. No one likes to be surprised with this kind of information.

CHARACTER may be the most subjective ingredient within the formula. It encompasses the lender's perceptions and analysis of the borrower's reputation and integrity, background and experience, and financial sophistication, involvement and persistence. Loans are more likely to be made, even on marginal transactions, if the lender believes in the customer.

CONDITIONS include the industry trends and economic environment and how the business fits within them. If the business is sensitive to economic downturns, for example, how is the borrower managing productivity and expenses? Are there any economic or political hot potatoes that could negatively impact the growth of the business?

CAPACITY represents the customer's ability to repay the loan based on the business' cash flow. Capacity should be demonstrated on historical financial statements (tax returns, Profit & Loss, etc.), and prospective (projections) basis. (Start-up businesses obviously don't have historical information to consider.) Other areas can influence capacity as well, such as the state of the current economy, industry trends and any anticipated industry growth. These factors give credence or add skepticism to the projection viability.

COLLATERAL is a familiar term. As defined by Webster's Dictionary, it is "property pledged by a borrower to protect the interests of the lender." This covers the gamut from the business' operational assets (such as accounts receivable, inventory and equipment) to borrower's real property.

FINANCIAL INFORMATION YOU'LL NEED TO PROVIDE

The financial information provided to a potential lender or investor explains the financial needs of the business and the financial track record of the business if it has been in existence for some period of time. Use generally accepted formats so that the reader can easily understand the information. For start-up businesses, there is no track record, so the information must be presented as projections.

Three years of historical statements, current statements and projections are required to present to the investor or lender. "Current" statements are not over 30 days old. Statements include:

CASH BUDGET: An estimation of the movement of cash in and out of the business, month-by-month, one year in advance. The cash inflow results from personal investments, bank loans, cash sales, and collections from customers purchasing goods and services on account. The cash outflow is the result of the cash payments for goods and services by the business.

INCOME STATEMENT: A statement of profit and loss over a month or a year; measures expenses against revenues.

BALANCE SHEET: The business financial picture on a specific date, usually at the close of the last day of the month or year. The formula is: Assets = Liabilities + Owner's Equity.

STATEMENT OF SOURCES AND USES: A summary of all the sources and amounts of capital being committed to the business and how the various funds are projected to be used.

BUSINESS TAX RETURNS: Sole Proprietors: Schedule C of personal return (Form 1040); Partnerships: Form 1065; S Corporations: Form 1120A, 1120 or 1120S; LLCs: Form 1065 or 1120 for multi-member firms.