

Money/Loans

Commercial Financing/ Business Lending

The Business Loan Package should include:

1. Complete business plan
2. Complete marketing plan
3. Financials - (Inception or current Balance Sheet, Profit and Loss Projections, Personal Financial Statement)
4. List of assumptions
5. Three years/36 months cash flow projections based on the list of assumptions
6. Three years of your personal tax returns and business tax returns
7. Sources and uses statement
8. Bank statements and related supporting documents that source owners cash
9. Supporting documentation for the plan - (Letter of intent, Purchase Orders, Research, Articles, etc.)
10. Supporting documentation of available collateral

The 5 Cs of Credit

Lenders have a criteria for determining if the loan should be granted - we call this the "5 Cs of credit."

Cash - How much cash does the applicant have to invest in the business? The lenders typically expect between 20% and 50% from the owner. It is possible to invest as little as 10% with some programs. Usually 20% to 25% is acceptable, however, the more the better.

Collateral- What does the applicant offer to secure the loan? It is common for the lender to secure the loan with assets from the business and real estate. Usually the lender will take a UCC filing on the home you own as security if it is available.

Credit - What is the applicant's credit score? How has credit been handled in the past? The credit report is very important in a lending situation. A credit score of 700 or below may make it difficult to grant a loan. Cleaning up any outstanding credit issue is a priority if borrowing is on your agenda.

Capacity - What does the applicant know about the business or industry? It is important to know and understand the business you are planning to operate. If you haven't run a restaurant, then don't attempt to open one until you have the background. The most successful business owners are the ones who really know the industry. The learning curve could put you out of business quickly. Hands on experience is essential.

Character - What is the character of the applicant? Can they be trusted with the money? An applicant's character is critical. If the lender doubts your ability to ethically utilize the funds they lend, your chances are slim to none on getting the loan. Character relates to business practices, policies, and individual behavior.

One more to consider...

Conditions - What are the local economic conditions in the area? Recessions, industry trends and fads play a role in the lender's decision. In your business plan it is important to articulate the industry, any gaps you have found and describe in your business plan how to resolve those gaps to create a solution. In your presentation to a lender, be sure to make your case as to "why" this business will be successful.