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Financial focus

SHOW ME THE MONEY! STRATEGIES FOR SUCURING A SMALL BUSINESS LOAN

At some point in their life, most small businesses will go to a bank or other lending institution to borrow money for expansion of their operation. Many small business owners, however, initially fall victim to several of the common and potentially destructive myths that concern applying for loans. You should always do your own research.

Myths concerning applying for a loan

For example, first-time borrowers commonly believe...

- Lenders are lined up and eager to provide money to small businesses.
- Banks are willing sources of financing for start-up businesses.
- Loans are obtained by talking the lender out of funds.
- When it comes to seeking money, the company speaks for itself.
- A bank, is a bank, is a bank, and all banks are cold, impersonal institutions.

- Banks, especially large ones, do not need and really do not want the business of a small firm.

Research shows that 67 percent of all small businesses that borrow money get that money from commercial banks. This places banks among the largest sources of credit; and makes them one of the most vital components to small business survival. Understanding what your bank wants and how to properly approach them can mean the difference between getting your money for expansion and having to scrape through finding cash from other sources.



A Mile in the Banker's Shoes

The name for people who simply walk into a bank and ask for money is... Bank Robbers. To present yourself as a trustworthy businessperson, dependable enough to repay borrowed money, you need to first understand the basic principles of banking. Your chances for receiving a loan will greatly improve if you can see your proposal through a banker's eyes and appreciate their position.

Banks have a responsibility to government regulators, depositors, and the community in which they reside. While a bank's cautious perspective may be irritating to a small business owner, it is necessary in order to keep the depositors money safe, the banking regulators happy, and the economic health of the community growing.

Picking a Local Favorite

Banks differ in the types of financing they make available, interest rates charged, willingness to accept risk, staff expertise, services offered, and in their attitude toward small business loans.

Selection of a bank is essentially limited to your choices from the local community. Banks outside of your area are not anxious to make loans to your firm because of the higher costs of checking credit and of collecting the loan in the event of default.

Furthermore, a bank will typically not make business loans to any size business unless a checking account or money market account is maintained. Out-of-town banks know that non-local firms are not likely to keep meaningful deposits at their institution because it is too costly in both time and expense to do so.

Ultimately, your task is to find a business-oriented bank that will provide the financial assistance, expertise, and services your business requires now and is likely to require in the future. Your accountant will be able to assist you in deciding which bank will best suit your needs and provide the greatest value.

Realize the Value of Schmooze

Devote time and effort to building a background of information and goodwill with the bank you choose, and get to know the loan officer you will be dealing with early on.

Building a favorable climate for a loan request should begin long before the funds are actually needed. The worst possible time to approach a new bank is when your business is in the throes of a financial crisis. That is like walking into a funeral parlor carrying a body!

Remember that bankers are essentially conservative lenders with an overriding concern for minimizing risk. Logic dictates that this is best accomplished by limiting loans to businesses they know and trust.

Experienced bankers know that every firm encounters occasional difficulties; a banker you have taken the time and effort to build a rapport with will have faith that you can handle these difficulties.

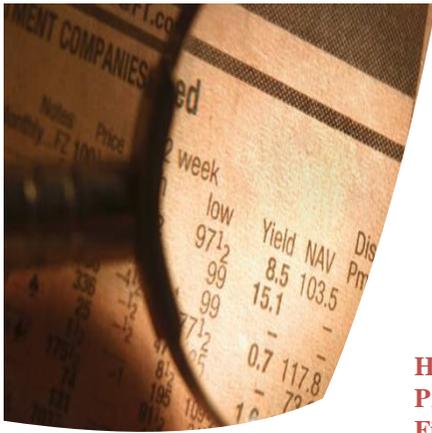
A responsible reputation for debt repayment may also be established with your bank by taking small loans, repaying them on schedule, and meeting all facets of the agreement in both letter and spirit. By doing so, you gain the bankers trust and loyalty. He or she will consider your business a valued customer, favor it with privileges, and make it easier for you to obtain future financing.

Enter With a Silver Platter

Lending is the essence of the banking business and making mutually beneficial loans is as important to the success of the bank as it is to the small business. This means that understanding what information a loan officer seeks, and providing the evidence required to ease normal banking concerns, is the most effective approach to getting what is needed. A sound loan proposal should contain information that expands on the following points:

- What is the specific purpose of the loan?
- Exactly how much money is required?
- What is the exact source of repayment for the loan?
- What evidence is available to substantiate the assumptions that the expected source of repayment is reliable?
- What alternative source of repayment is available if management's plans fail?
- What business or personal assets, or both, are available to collateralize the loan?
- What evidence is available to substantiate the competence and ability of the management team?

Even a brief examination of these points suggests the need for you to do your homework before making a loan request. It is a virtual certainty that an experienced loan officer will ask probing questions about each of them. Failure to anticipate these questions, or to provide unacceptable answers, is damaging evidence that you may not completely understand the business and/or are incapable of planning for your firm's needs.



Make your bank experience easier

Here are a few additional steps to take before applying for your loan...

Have an Accountant Prepare Historical Financial Statements

You cannot talk about the future without accounting for your past. Internally generated statements are OK, but your bank wants the comfort of knowing an independent expert has verified the information. In addition, you must understand your statement and be able to explain how your operation works and how your finances stand up to industry norms and standards.

Line up references

Your banker may want to talk to your suppliers, customers, potential partners or your team of professionals, among others. When a loan officer asks for permission to contact references, promptly answer with names and numbers; do not leave him or her waiting for a week.

Walking into a bank and talking to a loan officer will always be something of a stressful situation. You are exposing yourself to the possibility of rejection, scrutiny, and perhaps even criticism of your business. Preparation for, and thorough understanding of this evaluation process, is essential to minimize the stressful variables and optimize your potential to qualify for the funding you seek.

Keep in mind that many times a company fails to qualify for a loan not because of a real flaw, but because of a perceived flaw that was improperly addressed or misrepresented. Finally, do not be shy about calling your accountant with questions; their experience and invaluable advice will be able to best prepare you for working with your bank.

Write a Business Plan

To present you and your business in the best possible light, the loan request should be based on and accompanied by a complete business plan. This document is the single most important planning activity that you can perform. A business plan is more than a device for getting financing; it is the vehicle that makes you examine, evaluate, and plan for all aspects of your business. A business plan's existence proves to your banker that you are doing all the right activities. Once you have put the plan together, write a two-page executive summary. You will need it if you are asked to send "a quick write-up."

Suggestions and/or comments can be sent to:
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ROSHELL SMITH
EXECUTIVE DIRECTOR

NEXT ISSUE:

SELF EMPLOYED

Investing in your future



When you are an entrepreneur most of your time is spent trying to think of ways for your business to become more profitable. However, most of us do not think about retirement and investment options that can prepare you for the future. Let your money work for you, make smart choices and invest in the future.

