

## Financing Tips – “How to improve your chances”

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Chasing money continues to be the biggest drag on small business owner’s time. You’re either chasing customers or getting the runaround by banks. Hopefully, this article will make your search for financing a little easier.

First and foremost, one must understand that all banks and non-banks are not alike. Understanding a bank’s “appetite” for loans can save you a lot of wasted time, energy and frustration.

Let’s begin by looking at the big picture for business financing. In 1980, commercial banks provided approximately 80% of all small business loans. Today, commercial banks handle about 16-18%. What happened?

First of all, as business owners, we understand that differentiation is the key to survival i.e. “you can’t be better than the competition unless you are different.” Well, banks have had a difficult time at differentiating themselves. After all, money is money or is it? Let’s look at the different means of differentiation that are available to banks and non-banks. There are three key areas:

1. Rates: the amount of interest charged and related fees
2. Geography: How large will their geographic lending radius be?
3. Underwriting: What qualifies as an acceptable loan request

Points 1 and 2 are less important. Most bank’s and non-bank’s interest rates are governed by the market. A bank will charge as much as it can until customers object and go elsewhere. A bank’s lending radius differentiates one bank from another but it only matters once you are a customer. It’s a convenience thing but multiple locations means little when it comes to approving your new loan request. Underwriting policies are the key differentiator amongst business lenders. Underwriting policies also cost banks their dominant market share of the 1980’s.

Underwriting, in its simplest form, is the level of risk a lender is willing to take within any industry. As banks declined many “higher risk” or specialized loans, specialty lenders began to spring up: First, if businesses couldn’t find a bank to do something, they may be willing to pay more to somebody who would. Therefore, specialized lending resulted in premium rates, which more than offset potential losses. Second, specialized lenders gained a significant “experience factor” within specialized industries and or loan types. Over time, they became very adept at measuring and controlling risks. As these specialized lenders began to thrive, more and more new competition entered the game until banks were fighting for their lives to stay afloat.

Did you know that no two SBA Lenders are the same? Each lender that participates with the SBA Program has to meet the same “borrower eligibility” guidelines i.e. size of business, for profit status etc. but each lender is allowed to develop their own “Underwriting Guidelines.” Therefore, you could take your SBA Loan Application to five SBA participating lenders (banks and non-banks) and get five different answers. Two may decline the loan but for different reasons while the other three might approve the loan but offer substantially different loan amounts and terms.

At BizMACH, we utilize over 130 national lenders including banks, non-banks and private sources because no two businesses are alike and no one lender has everything our clients need.

We use over 18 different SBA Lenders because only three will do hospitality loans, four will do marinas, six will do restaurants, five use cash flow formulas not collateral formulas in calculating loan levels etc.

Before you approach a lender with a formal request, do your homework. Many junior level bankers (business development people, branch managers) will tell you everything looks great only to have loan committee turn down the request because it doesn't meet any of their underwriting criteria. Call a senior level lender and ask if you could run your request by them verbally so as not to waste their time. Have the following details handy:

1. Tell them exactly what your business sells and who your customer is
2. Is your personal credit good – you will be required to personally guarantee the business debt
3. Are there any liens, judgments or business credit issues that will be discovered during the bank's credit review? Put them on the table.
4. If you own any real estate, write down the estimated market value of each parcel and the existing mortgage balances, including home equity lines or if any of these parcels is currently pledged as collateral for another loan. *Good real estate equity negates many smaller underwriting mis-matches.* Lenders will use as much real estate collateral as they deem necessary to secure their loans so be prepared to offer it up.
5. If there is anything about your business that represents an environmental risk, i.e. underground storage tanks, chemicals, oil drums, etc.) Tell them up front.
6. Has your business revenue trends been stable, increasing or declining?
7. If declining, can you demonstrate that sales levels have turned around? Is there a good explanation for the decline i.e. loss of key account that has been replaced, acts of God, temporary local construction etc. – reasons a banker will view as understandable.
8. From your tax returns – did your company make a profit last – how about the year prior
9. How much do you need – how did you determine the loan amount – why are you confident that you can pay it back?
10. If you are re-financing another loan, have the loan balance and monthly payment available

If the lender is okay with the above information, move to the next step – creation of the business plan:

### **Business Plan Overview**

1. History of company – 2 or 3 paragraphs
2. Products and services offered – 2 paragraphs
3. What advantages does this business offer its customers i.e. location, hours of operation, price, service, product mix, quality, etc.
4. Market served – areas of specialty
5. Competition – one paragraph – how many, what is your advantage
6. Operation overview – key positions – will seller be staying on for a transition period – show you the ropes about buying and stocking the appropriate inventory types and levels?
7. Staffing and hours of operation
8. **Cost reduction and or revenue enhancement** – where are the opportunities, how and when will they implemented

9. Why do you believe your background and experience are well suited to this business
10. One year **month-by-month** projection of sales and expenses
11. Key assumption page highlighting any changes in revenue and/or expenses from historical levels

In addition, you will need to attach copies of the following documents:

Company's last three year's Federal Tax Returns – all pages signed by owners  
Personal Tax Returns for last three years – signed by owners with 20% or more ownership of company  
Personal Financial Statement (assets and liabilities) for each owner  
Interim 2006 Profit & Loss Statement and Balance Sheet within 45 days  
Aging of Accounts Receivable and Accounts Payable as of Interim date  
If sales are seasonal - 12 month trailing sales summary with explanation on any revenue changes  
Copy of executed Purchase Agreement if the request is to purchase real estate or a business