

SCORE[®]

Counselors to America's Small Business

READY TO TALK TO THE BANKER

- **Structuring the Loan Request**
- ▮ **Types of SBA Loans Available**
- ▮ **How to Get the Banker to Say Yes**

SUPPORT FOR YOUR LOAN APPLICATION

The Banker will expect you to provide the following information before he processes your loan.

1. Collateral owned personally by the business person who can be assigned to the bank:

- Real Estate
- Savings Account
- Municipal, Government, or Corporate Bonds
- Time Certificates of Deposit
- Marketable Securities

2. Collateral owned by the business which can be assigned to the bank:

- Accounts Receivable
- Inventory
- Equipment and Machinery
- Contracts Receivable
- Real Estate

Additional Items to be Included in a Loan Request, Business Acquisition or New Start-up

From Business to be acquired:

1. Current financial statement including aging of accounts receivable and accounts payable.
2. Income tax returns, last 3 years.

From Applicant:

1. Business Plan with projections of cash flow.
 2. Articles of Incorporation/Partnership Agreement, if applicable.
 3. Lease Agreement or option for term of loan requested.
 4. Estimates of equipment to be purchased.
 5. Purchase Agreement. (*)
 6. Personal Financial Statement(s).
 7. Personal Tax Returns, last 3 years.
 8. Personal Resume(s).
 9. Source of Equity.
 10. Loan Request Summary.
 11. List of personal debt with name and address of lender, account number, terms, original amount and date, maturity date, balance, collateral, and status.
 12. History of Business.
 13. Specific Credit Application required by each lender.
- (*) Not Applicable to Start-up Business.

Business Expansion:

1. Current business financial statements including aging of accounts receivable and accounts payable.
2. Business financial statements, last 3 years.
3. Business tax returns, last 3 years.
4. Business net worth reconciliation.
5. History of business.
6. Loan request summary.
7. Management resumes.
8. Personal financial statements from all 20% or more owners+
9. Personal tax returns, last 3 years. (Same as above #8)
10. Cash flow projections for at least 1 year with narrative support.
11. Business and personal debt schedule with breakdown showing name and address of lender, account number, maturity date, balance, collateral and status.
12. Lease and/or lease option for term of requested loan.
13. Partnership Agreement/Articles of Incorporation, if applicable.
14. Fictitious Name filing.
15. Estimates on equipment to be purchased or work to be performed.

Six Bombs That May Torpedo Your Loan

- Offer financial projections for only part of the term of the loan. Take your best shot; the government wants to see a projection covering the life of the loan.
- Apply for a loan that's more than three times the collateral you put up.
- Misclassify your product. You must use the correct SIC code from the Standard Industrial Classification Manual that is available in the library.
- Try to use the SBA to bail you out of a bad conventional loan.
- Check the box on the application that says you paid a consultant to help you fill it out. The SBA is very leery of high fee consultants filling out their applications.
- Get your buddy in the state assembly to push your loan through the SBA. It doesn't work. The SBA procedure is highly automated.

SBA LOANS

SBA GUARANTEED LOAN PROGRAM - 7A

SOURCE: From Lending Institutions. SBA Guaranteed

ELIGIBILITY: For-Profit Businesses (Some Exceptions)

RATE: Less Than 7 Years = 2.25%max + NY Prime Rate More than 7 Years = 2.75 max + NY Prime Rate Under \$50,000 Loan, Lender May Charge an Extra Point

COLLATERAL: Personal Guarantee by Owners. Lien on Business or Personal Assets if needed.

AMOUNT: SBA Guarantee = 85%-90% up to \$500,000 Usual Minimum is \$50,000.

FEES: 2% of Guaranteed Portion

OTHER: SBA usually requires owner to inject 1/3 to 1/2 Cash and/or Assets if a New Business

OTHER: Pamphlet "Business Loans From the SBA". Attend SCORE Seminars. See your SBA Authorized Banker for Specific Requirements

SBA SMALL LOAN PROGRAM

SOURCE: From Lending Institutions. SBA Guaranteed

ELIGIBILITY: For-Profit Small Business (Some Exceptions)

RATE: By Negotiation with Lender

COLLATERAL: Personal Guarantee by Owners. Lien on Business or Personal Assets if Needed.

AMOUNT: \$50,000 or Less and 90% SBA Guarantee

FEES: 2% of Guaranteed Portion

OTHER: A New Simplified Short Form SBA #4 is Available to Facilitate This Program

INFO: See SBA Fact Sheet #40-00.04. Attend SCORE Seminars. See your SBA Authorized Banker for Specific Requirements

MINORITY PRE-QUALIFICATION PILOT LOAN PROGRAM

WHAT IT IS: Provides minority assistance in qualifying by providing intermediaries selected by SBA to help prepare and review business plan and pre-qualification loan application. If qualified, SBA will authorize a loan guarantee which is presented to a competitive lender with assistance by the intermediary.

ELIGIBILITY: At least 51% owned by racial/ethnic minority. Must meet 7(a) loan eligibility and size criteria.

INTEREST RATE: Same as 7(a) loans. Maturity also similar.

AMOUNT: Generally the maximum loan is \$155,000

CREDIT and willingness/ability to pay debts. Good credit.

COLLATERAL: Likelihood for success. Must pledge business/personal assets and personally guarantee loan. Loan may not be denied if inadequate collateral is the only negative.

FOR INFORMATION: Contact CDC Small Business Finance Corp. 714-978-1182 or 909-352-5730

SBA LOWDOC LOAN PROGRAM

SOURCE: SBA-Approved Banks. If Approved, SBA Guarantee to 90%

ELIGIBILITY: Approval Based on Character, Credit, and Business Experience. Can be used for Existing Business, Purchase of a Business, or Start-Up

AMOUNT: To \$100,000

OTHER: This is a New Program, Emphasizing User-Friendly Applications, and Rapid Response. Comprehensive Business Plan Not Needed for Existing Business but Needed for Start-ups. Provides Streamlined Application for Loans Under \$100, 000.

INFO: See LowDoc Fact Sheet and List of Approved Banks.

SBA CONTRACT LOAN PROGRAM

SOURCE: From Lending Institution. SBA Guaranteed

ELIGIBILITY: Contractor/Sub-Contractor in Construction, Manufacturing, or Service Industries

RATE: By Negotiation with Lender

COLLATERAL: Assignment of Contract Proceeds, Personal Guarantee by Owners, and Outside Assets

AMOUNT: SBA Guarantee 85% to \$750,000 and to 90% for Loans to \$155,000

OTHER: This is a Short-Term Non-Revolver Loan for Labor and Materials for a Specific Project. Requires Business in Operation 12 Months,

INFO: See SBA Fact Sheet #53 .Attend SCORE Seminars. See your SBA Authorized Banker for Specific Requirements

SBA EXPORT REVOLVING CREDIT LINE

SOURCE: From Lending Institution. SBA Guaranteed

ELIGIBILITY: For-Profit Small Business (Some Exceptions) must be Current on All Payrolls. In Business 1 yr min.

RATE: By Negotiation with Lender.

COLLATERAL: Receivables, Inventory, Letters of Credit, all Under Jurisdiction of U.S. Courts.

AMOUNT: Guaranteed to \$780,000 or 85% of Loan

FEES: Up to 1/4% of Guarantee

TERM: 36 Months Maximum

OTHER: Estimated Cash Flow Statement Required. Monthly Progress Report Required Also.

INFO: See SBA Fact Sheet #51. Attend SCORE Seminars. See your SBA Authorized Banker for Specific Requirements

NOTE: NY PRIME RATE IS PUBLISHED IN WEST COAST EDITION OF THE WALL STREET JOURNAL

THERE ARE NO LONGER LOANS SPECIFICALLY FOR VETS. THERE ARE NO SBA LOANS WHICH TARGET WOMEN. THE 8(A) PROGRAM PROVIDES ADVANTAGES TO WOMEN AND MINORITIES WHEN SELLING TO THE GOVERNMENT, BUT FOR BUSINESSES THAT ARE MORE THAN TWO YEARS OLD.

EXPORT WORKING CAPITAL PROGRAM (EWCP)

SBA's new loan program provides funds for the purchase of goods or services for export purposes or to support the collection of foreign receivables. The new EWCP has a maximum guarantee of 90% and a maximum amount of \$750, 000. The application has been streamlined to allow a faster processing time.

INTERNATIONAL TRADE LOANS (IT)

IT provides assistance to businesses presently engaged or preparing to engage in international trade and to businesses adversely affected by import competition. The maturity on an IT loan is the same as on other SBA loans (from 5 to 25 years). The maximum SBA exposure is \$1,250,000 for facilities and working capital.

QUESTIONS A BANKER IS GOING TO ASK

What can you, as a businessperson, do to better prepare yourself when going to a banker for a loan? The following are some basic questions that a lending officer may ask you when you sit down at their desk and request a loan.

THE CRITICAL QUESTIONS

1. Do you have a written business plan that explains the type of business with financial projections that show profit/loss, cash flows, cash amount needed and how it is to be spent?
2. How much do you, as a businessperson, have in knowledge or experience in your business?
3. How your credit is and how much personal debt do you have?
4. How much money does the businessperson have to put into the business or how much money do you have already invested in the business?
5. What kind of collateral (personal and business) do you have to support your loan request?
6. How much competition will you be faced with?

MINOR QUESTIONS USUALLY MUCH LESS CRITICAL

1. Do you have personal and business insurance?
2. Do you have services of an accountant?
3. Do you have services of an attorney?

DO YOU HAVE A WRITTEN BUSINESS PLAN?

1. The business plan and the purpose of the loan should make good business sense. For start up funds or for an exiting business it might be for purchasing additional inventory, financing accounts receivable, taking discounts on purchases from suppliers, or purchasing some type of new equipment or machinery. The amount of money you are requesting must be supported by a profit and loss and cash flow projection. If you ask too little, you may find yourself with insufficient capital for your business operations. On the other hand, if you ask for too much money, you may be increasing your likelihood of being turned down by the banker if they do not see that your request is reasonable and based on factual business judgment.

HOW MUCH DO YOU, THE BUSINESSPERSON, HAVE IN KNOWLEDGE OR EXPERIENCE?

2. The banker will want to know how much first hand experience, training, and education you have had in the business that you are operating.

HOW IS YOUR CREDIT RATING AND HOW MUCH PERSONAL DEBT DO YOU HAVE?

3. The banker will run a credit check and want to know how much personal debt you have. If you are highly in debt personally, you may find yourself forced to withdraw large sums of

money from the business in order to service your personal obligations, and in doing so, jeopardize the financial strength of the company.

HOW MUCH MONEY DOES THE BUSINESSPERSON HAVE TO PUT INTO THE BUSINESS OR HOW MUCH MONEY HAVE YOU ALREADY INVESTED IN THE BUSINESS?

4. The banker will want to know if you have sufficient capital and cash flow in order to operate your business properly. This insures the survival of the business, as well as the protection of its assets. If there are losses to the business this jeopardizes the bank's loan to the business.

TO SUPPORT YOUR LOAN REQUEST?

5. Collateral owned personally by the businessperson which can be assigned to the bank:
 - Real Estate
 - Savings Account
 - Municipal, Government, or Corporate Bonds
 - Time Certificates of Deposit
 - Marketable Securities

Collateral owned by the business which can be assigned to the bank:

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HOW MUCH COMPETITION WILL YOU BE FACED WITH?

6. The banker will want to know if you have taken a marketing survey of the competition in your general area and competition of your local competitors as to their price and quality of the same merchandise or service that you intend to market.

DO YOU HAVE PERSONAL AND BUSINESS INSURANCE?

7. Personal insurance is important to the business person in order to protect his business if he passes away, and at the same time protect his personal assets, estate and family from creditors. Also your business may require various other types of insurance, such as fire, theft, business interruption, vehicle, and employer compensation insurance.

DO YOU AS A BUSINESS PERSON HAVE THE SERVICES OF AN ACCOUNTANT

8. If the business person does not have the services of an accountant, many bankers are reluctant to deal with them. There is a strong feeling among many bankers that a third

party looking in on the business records, bank records, and operations of a business is necessary in order to obtain an objective evaluation and financial analysis of a business through the presentation of the quarterly and yearly financial statements.

DO YOU HAVE THE SERVICES OF AN ATTORNEY?

9. The maintaining of the services of an attorney by the business person is like having insurance; the business person cannot always forecast when an attorney's services may be required - but when trouble arises, you may need an attorney.

PERTINENT ITEMS TO BE INCLUDED IN A LOAN REQUEST BUSINESS ACQUISITION AND START UPS

From Business to be acquired:

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2. Income tax returns, last 3 years.

From Applicant:

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