Express – February 4, 2015

**GETTING A SMALL BUSINESS LOAN: Are you a good risk?**

For those wishing to access a small business loan, your first point of contact with a lending institution is likely to be the loans officer whose job it is to assess your application and finesse it for approval. Where the bank's business mantra is to err on the side of caution, you must sell yourself as an ideal applicant; that prospective client whose loan proposal anticipates every question, satisfies every concern and makes it easier to present a solid application for approval. So, what are these questions and concerns?

**What is your business?**

You may have just patented the World's Best Widget but if your loans officer needs to read your proposal with a science tome in hand, you've presented a failed application. By the same token, you may be looking to expand your event management business but if you've only provided the loans officer with enough information to fill a thimble under the assumption that the nature of your business is well-known, you've also presented a failed application. Be explicit as to your business model so as to decrease the chances of being rejected out of hand by a loans officer who found too many gaps in your submission.

**Who are you?**

For many small businesses, the owner is the chief cook and bottle-washer. This turns the application process into a personal one where your individual value is weighed. The bank looks to your personal credit, your skills and experience, and the intangibles of your demeanour and self-presentation. Should this be your situation, ensure that your financial records are in order as your business will not be viewed on its own but as an extension of you. Consider this more personal slant to your company application in a positive light and don't underestimate the contagious power of your own enthusiasm.

Regardless of any perceived weaknesses (for example, you may have fifteen years experience in insurance but you're now about to enter into a new field and open up a hair salon), a loan proposal always looks and sounds better when presented in a confident and enthusiastic tone. Your positive demeanour should be present in all written and oral correspondence, even if in reality they're your last hope and the application process has been challenging to you.

**How much money do you need and what are you going to do with it?**

Whatever the requested dollar amount, it is certain that the bank will not progress your application unless their loan will join the personal funds you have already invested or are soon to invest in your business. Capital injections tell the bank that you are willing to stand behind the enthusiasm you've projected, the profits you've estimated and the business model you've said will surpass all competition. The bank should not have to demand this capital injection of you. A loan applicant should recognise this as a requirement to evaluating a proposal as **"good risk".**

After you've presented a desired loan amount, you should now be able to account for the proposed usage of every dollar. If you cannot, the answer to whether your business is worth the risk comes closer to a 'no'. The inability to properly respond to this most basic of questions – how will you use our funds? – reflects poorly on your organisational skills and shows a lack of professionalism. It's one of the easiest hurdles to cross but many a small business owner has entered a bank without this information at the ready.

**When and how do you plan on repaying us?**

It is at this stage where the loans officer separates the wheat from the chaff. To ensure you'll be milled, and not rejected, your historical and *pro forma* operating statements should demonstrate the necessary cash flow to cover debt service as well as provide for the continued profitable running of the business. Be careful to avoid two extremes, the first being to paint too unrealistic a picture in your projected cash flows and the second being to present a statement which shows that your business profits will be used in their entirety to repay this bank loan. Sound market research will allow you to more accurately define these flows.

Should you have the funds to hire a consultant to prepare a professional set of financials, remember that as chief cook and bottle washer, the bank will still expect you to be knowledgeable about every detail. Those projections are only worth as much as your ability to explain them and every line item, particularly in your projections must be justified.

**What is our recourse if (when) something goes wrong?**

All the questions above lead up to this. You may have wowed the banker with your skill and experience, your sizeable capital injection, impressive market research and some realistic cash flows but if your business model does not provide for the means to assure sufficient assets to pay off the loan balance in the event of default, this will still be a failed application.

Collateral lessens the risk that the bank will be out-of-pocket should things go awry if your widget gets recalled or your event management firm buckles under the competition. Therefore, you're not just selling the value and marketability of your business, but you must show the value and marketability of your collateral. Be prepared to offer several ways in which the bank can be repaid should the worst happen. It is your job as business owner to focus on the positives but it is the job of the loans officer to prepare in the event of your failure. Don't be insulted. Work with them to allay their fears and in so doing prove to them that they've latched on to a good risk.

The difficulty many business owners face in meeting this collateral requirement is well-documented and should it prove to be a deal-breaker between you and your loans officer, you could approach lending institutions which focus on small business loans and are more willing to rely on cash flows as sufficient cover.

**To approve you is our pleasure**

Remember that banks are in the business of lending money and your loans officer would normally rather accept than reject. Bolstered by the knowledge that you will be presenting to an audience pre-disposed to assist you, it is clearly a wasted opportunity to enter that office unprepared. Too many prospective borrowers approach lending institutions for financing without having taken the time to prepare clear, concise and organised documentation. You can set yourself apart from the outset just by going into your initial meeting with a written summary. Improve on your positive first impression by quickly responding to any questions asked with documented information. This will not only satisfy specific concerns but act as reinforcements to your aura of professionalism and define you as that ideal applicant. Loan approved.