

How to Obtain Bank Financing

One of the greatest sources of capital and for that matter the most likely source of capital is your local financial institution. Unfortunately, more often than not, banks are not in the business of giving people and businesses money. It has been said that the best way to get money from a bank is to not need it. This is because banks, by their nature, are not risk takers but risk hedgers. Do not look to a bank to be an investor in your new or existing business, but rather to provide a helping hand when it's convinced that the reward (interest rates) outweighs the risk (loss of capital).

The following outlines what you should know and be prepared for in your attempts to secure financing from your local financial institution.

Be Prepared To Convince Your Banker You're Worthy!

1. **Have a solid business plan.** The plan should be clear and concise, easy to comprehend and easy to communicate. The plan should state the following:
 - What your company does
 - What it has accomplished, and what it hopes to accomplish
 - What products and services it sells
 - To whom it sells
 - What challenges and obstacles are facing the company.
2. Existing businesses will ideally have **three years of quality financial statements** that inspire confidence. Your financial statements should:
 - Be prepared by a professional accountant
 - Show profits. If the company is not profitable, be prepared to provide an explanation
 - Be an accurate accounting of the businesses' actual performance; banks do not want to hear about cash
3. Both existing and new businesses should provide **realistic projections** of likely financial performance:
 - For a period of three years
 - Include a Profit/Loss Statement and a Balance Sheet
4. If you have a **new business**, make sure that your projections:
 - Do not show you making money in the first month—banks recognize that businesses do not make money right away.
 - Keep projections realistic; projections showing the business going from zero to a million in one year are discounted and discarded.
 - Benchmark against industry data. Make sure profit margins are consistent and expenses are in line
5. Clearly identify and document how the financing will be used (e.g. equipment, working capital) and how the additional financing will improve your business.

6. Specify how the provided funds are going to be repaid and what the desired terms and conditions are for repayment.
7. **Sell yourself**—banks make loans to the people behind the business, not just the business prospects itself.
8. Identify your **personal financial situation**, which should include assets that can be utilized for collateral.
 - Be prepared to personally guarantee the loan. This may include pledging your house and other assets.
 - Have cash to put into the business with the bank; banks typically require 10 to 20 percent equity if they are providing financing for equipment or acquisitions.

Your Loan Is Approved, But Don't Celebrate Yet

Obtaining loan approval from the bank is only the first part of your relationship with your banker.

1. Thoroughly review all loan documents and understand them before you sign. Consult with your lawyer or accountant if you have any questions.
 - Review the terms.** Make sure the rates, amortization length and the payment structure is what was agreed upon
 - Review the covenants.** Identify your operating obligations as far as cash flow requirements and debt/equity ratios
 - Understand the fees and penalties associated with the loan:** are there prepayment penalties; fees for being out of covenant; what are the costs (legal and otherwise) that you are required to pay to close the loan.
2. **Maintain close contact with your loan officer.** It is a good idea to give him or her progress reports—the bank now has a vested interest in your success and will want to be kept current.
3. **Communicate problems.** Bankers don't like surprises, particularly if the news is bad. Make sure they are one of the first contacted if you encounter any problems.

Sorry, Your Loan Was Denied

Sometimes the bank will say, **"NO!"** If so, remember the following:

1. **Don't despair.** A "No" today doesn't necessarily mean "No" forever.
2. **Don't take it personally** – it's just business.
3. **Be gracious.** Burning bridges is never a smart business decision.
4. **Ask the banker to explain "why" your loan was not approved.**
5. **Don't get defensive,** seek information so that your next proposal addresses and corrects any deficiencies in the denied application.