Banking: Financing

What can I do to raise money for my small business? Although the process is complex and frustrating, raising capital is the most basic of all business activities. When looking for financing, there are various sources to consider. For most new businesses, the main source of capital comes from savings and other forms of personal resources. There are better options available than credit cards that are often used for financing, even a small business loan. When beginning, entrepreneurs usually look to private sources like friends and family. Generally, the money is loaned at a low interest rate or interest free, which is very beneficial at the beginning. The most common source of funding, not including personal resources, are credit unions and banks who will provide a loan if it is possible to show that your offer is worthwhile. Other sources are venture capital firms that aid businesses in exchange for partial or equity ownership.

For business financing, what kinds of loans exist? You must know the exact amount of money that you need, what your purpose is and how you will repay it in order to be successful in getting a loan. You must convince the lender in a written proposal that you are a good credit risk. There are two basic kinds of loans, although terms vary by lender: Short-term and long-term, maturity periods of up to one year are generally short-term, which include accounts receivable loans, working capital loans and lines of credit. Maturities greater than a year and less than seven years is a typical long-term loan. Equipment and real estate loans can have maturity up to 25 years. Major business expenses such as purchasing real estate and facilities, durable equipment, construction, vehicles, furniture and fixtures, etc. are a few purposes for long-term loans.

When considering a loan request, what do banks look for? The bank official who reviews the loan request is focused on repayment. Most loan officers request a copy of your business credit report to determine your ability to repay.

The lending officer will consider the following issues while using the information you provided and the credit report:

- Have you invested at least 25% or 50% of savings or personal equity into the business for the loan you are requesting? (Keep in mind that 100% of your business will not be financed by an investor.)
- Do your work history, your credit report and letters of recommendation show a healthy record of credit worthiness? This is a key factor.
- Do you have the training and experience necessary to operate a successful business?
- Do your loan proposal and business plan document your knowledge of and dedication to the success of the business?
- Is the cash flow of the business sufficient to make the monthly payments on the1 requested loan?

What do I need to include in a good loan proposal? The following main points should be contained in a good loan proposal:

General Information

- Reason for the loan: the exact purpose of the loan and why it is necessary.
- Amount needed: the specific amount needed to reach your goal.
- Business name and address, names of officers and their social security numbers.

Description of Business

- Describe the type of business you have, its age, current business assets, and number of employees.
- Structure of ownership: describe the legal structure of the company.

Management Profile

- Prepare a short statement that is focused on each principal in your business; give details about education, background, accomplishments and skills.

Market Information

- State clearly the products of your company as well as its markets. Name the competition and explain how you plan to compete in the market. Describe what the business will do to satisfy the needs of its customers.

Financial Information

- Submit your own personal financial statements as well as those of the principal business owners.
- Financial statements: the income statements and balance sheets for the past three years. If you have a new business, provide the projected balance sheet and income statement.
- Specify the collateral that you are able and willing to give as security for the loan.

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