Getting a Business Loan

AMERICA'S SBDC

WASHINGTON

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Debt financing: Money that you borrow from someone else to run your business.

1. **Long term debt - paid back in OVER 1 year**
   - Equipment, buildings, land, or machinery
   - Matches repayment of the loan and the useful life of the asset

2. Short term debt - paid back in UNDER 1 year

- Money needed for the day-to-day operations
- Purchasing inventory, supplies, and paying employees
- A line of credit is an example

Borrower = you and your business

- How much money is needed to implement your business plan?
- What specifically will you use it for?
- How long will you need it?
- How debt can you afford to take on?

Rick

Lender = loan officer

- Are you and the business a good risk?
- Do we have money to lend in that industry – loan portfolio?
- Can the business pay the money back?

Rick

5 C's of Credit

- Capacity to repay
- Capital or equity
- Collateral
- Conditions
- Character

Traci

Capacity to repay is the most critical of the five factors.

Cash on hand is the King for this C.

- Proof of how you can repay the loan.
- Review cash flow forecast.
- Payment history on existing credit
- Potential other possible sources of repayment.

Capital or equity is your personal investment in the business.

- Indicates how much you have at risk.
- Your contributed should be at risk before the Lender comes in.
- Your capital investment will typically be from 10% to 30% or more depending on the risk.

Traci

Collateral are additional forms of security you may required to provide.

- Pledge an asset you own, such as equipment, building, and your home.
- This a secondary repayment device if you can’t repay the loan.
- A personal guarantee may also be required.

Traci

Conditions describe the intended purpose of the loan.

- Money to be used for what? (working capital, equipment or inventory or other)?
- Industry and local economic conditions that could affect your business.

Character is the:

- General impression you make.
- Your and the business's credit score and repayment history.
- Your education and experience
- The quality of your references.
- Employees background and experience.

Rick

Many lenders refer business to the SBDC because:

*** Owner does not understand their financials.**

The lender expects you to fully understand all the numbers and be able to explain your forecast, cash flow, balance sheet and critical ratios including your assumptions.

Review our video about these statements, but in brief they include the following information.

Rick

Income statement shows:

- The sales forecast, cost of goods and expenses.
- Must be able to explain why the forecast is reasonable

Balance sheet that shows:

- strong ratios compared to the industry for the current, quick, debt to equity

Cash flow forecast by month for year one

- Shows ability meet obligations and repay the loan

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