Part of the Washington SBDC Podcast Series

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Small Business Loan Criteria:

Business loans are more risky for banks than home or car loans

Factors for your success that can be quantified:

1. Credit history (ideally you want over 700): loans are made to those who present the least risk. Past repayment history is the most important requirement for a strong loan proposal.
2. Equity and borrowing are similar to a down payment. The lender wants the borrower to have a financial obligation to the loan. Equity should equal 10-25% of the needed funds for the project.
3. Your experience should be at least 3 years in your industry. The more experience and talent you have shown in the past the lower the risk from the bank's point of view.

The Business Plan (positive cash flow must be attained within 6 months or sooner depending on the banks criteria).

- The plan must be well thought out, researched and written.

- The plan should be a working document that introduces the business in a clear and complete manner, describes the business, the potential market arena, the existing competition, states who will be employed, who will manage, and how the borrowed funds will be used and returned.
- A pro forma financial compilation consists of cash statements, income statements and a balance sheet. Don't forget supporting documents like contracts, draft marketing information, etc. The cash flow projections should become positive and remain that way in less than 6 months.
- Collateral (100% or more of the loan amount) is assets of value that can be pledged by the borrowers as security for the loan. Level of risk from prior factors (credit score, your presentation, net worth, etc.) is what this percentage is dependent on.

Summary: Know your finances before you go to the bank to improve your chances

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Funded in part through a cooperative agreement with the U.S. Small Business Administration.