



Can I Qualify for a Business Loan?

Whether you are applying for an SBA loan or a traditional bank loan, there are certain factors that improve your ability to obtain financing. This self-test is designed to assist you in understanding important issues that lenders consider when making a decision on a small business loan.

Do you have a good personal credit history?

Research indicates that good personal credit history is one of the most important factors in identifying borrowers that will repay their business loans. When a lender makes a decision on a small business loan, he/she will consider the personal credit history of the borrower. A bad credit history can be the basis for denial for a small business loan.

a) If you do not have a recent credit report, find out about ordering one by go to the following web site: <http://www.ftc.gov/freereports> You can also contact the individual organizations: TransUnion (www.transunion.com), Experian (www.experian.com), or Equifax (www.equifax.com). If you have credit problems but they can be explained by a one-time incident such as a medical problem, provide specific information, as an addendum to your loan proposal, to a potential lender about the problem and how it has been rectified.

b) If you have filed for bankruptcy in the past 7 years (10 yrs for an SBA loan), or have slow payments, collections, etc. then it may be difficult to obtain financing now. If your poor credit history can be explained by a particular incident, supply information on the situation and how you attempted to repair past credit problems. If you have consistent credit problems, you will need to "repair" your credit history and rebuild your credit track history. Call your local Consumer Credit Counseling Agency for assistance

Do you have enough money of your own to put into the business?

(For start-up businesses)

All loan programs require that the business owner put their own money into the business. This owner equity injection shows that the owner believes in the business enough to risk his/her own money and reduces the amount of monthly debt payments that the business must make. Virtually all loan programs, including SBA loans, will require a reasonable contribution from the owner(s). A good rule of thumb is 20% or more equity injection. The more equity, the more favorably potential lenders will look upon the loan request. **Neither banks nor SBA guaranteed loans provide 100% financing.**

Have you filed your personal/business income and business taxes?

Lenders and government loan programs alike want to see that an individual has met his/her tax obligations for both filing and paying taxes. Many of the loan programs are in partnership with government agencies. These loan programs do not look favorably on individuals or businesses who have unpaid income and/or business taxes. SBA loans required an income tax verification is obtained from the IRS before a loan is closed.

Have you demonstrated that your business has the ability to repay a loan?

(For existing businesses)

If the business is profitable and has positive cash flow, this helps to demonstrate repayment ability of the new debt. If a business is not profitable, it becomes very important to prove how it will be profitable in the near future so that a loan can be repaid. The Small Business and Development Center (WSBDC) advisors can assist you in this process.

(For start-up businesses)

You must demonstrate that the business will be able to repay the loan payments. It is very important that you find as much data as possible on comparable businesses or industry statistics in order to "prove" the revenues you intend to generate and the expenses you anticipate incurring. This is accomplished by writing a business plan. Writing a business plan provides an organized system for researching your business as well as insight into your business to facilitate funding and investment. WSBDC advisors can assist you in this process once you have complete a draft plan for them to review in preparation of your first advisor session. The WSBDC advisor can assist in locating industry research or information once the advising relationship has begun.

Do you have sufficient collateral to secure a business loan?

Business and personal assets can be considered collateral, or a way to repay the loan if the business defaults on the loan. This means that there must usually be sufficient collateral to secure the entire loan. Owner's personal homes and other assets are typical collateral source. Most collateral is valued at an amount less than market value based on a variety of factors. Although the SBA will not deny a loan due solely to the lack of, or amount of, collateral, the more collateral the company/owners has, the more likely a deal will be favorably considered. Unwillingness to pledge assets can be a basis for decline.

Does your business have a positive net worth?

(For existing businesses)

The net worth of the business should be positive. This would include the equity investment made into the business by the owners and the total retained earnings (profit left in the business that can fund future growth). If there are loans from shareholders on the balance sheet and you are able to subordinate these (not pay the shareholders) while you pay the bank loan back, you may consider these loans from shareholders as equity.

Does your business currently have low levels of debt?

(For existing businesses)

Businesses that have too much debt will find that their profits are directed at paying back loans and not building retained earnings in the business that can fund future growth. Consequently, banks and government loan guarantee programs look more favorably at loan requests that do not add too much debt to the business. Banks often look for a debt to net worth ratio of 3 or less (total liabilities divided by equity). WSBDC advisors can assist you in assessing your debt situation and needed actions to make the company viable for getting increased debt to finance growth.

Are you willing to personally guarantee a loan?

Most business owners are asked for a personal guarantee the loan in order to obtain a business loan regardless of the legal structure of the business.

Does your business have managers and advisors capable of leading your business to the next level of growth?

(For existing businesses)

As businesses expand, they need more sophisticated management as it relates to strategic planning, marketing, record keeping, inventory control, personnel, etc. If there are aspects of your business with which you need assistance, we strongly recommend that contact the WSBDC for assistance in developing a plan to address this critical issue.

Do you have experience in running your own business?

(For start-up businesses)

For a new business, it is important for the business owner to demonstrate that he/she has experience in the industry and/or entrepreneurial experience. If you have never owned or operated a small business before it is critical that you develop a team and an advisor network that can demonstrate the ability of successfully manage the company.

STOP: If you cannot answer yes to all the questions above, then you may have difficulties obtaining financing at this time. We suggest that you evaluate the needs of your business and contact your local Washington SBDC office to speak to our knowledgeable staff at www.wsfdc.org or washington@wsfdc.org