

# WHERE IS MOST OF THE FINANCING FOR START-UP BUSINESSES OBTAINED?

Personal Savings	54%
Friends and Family	19%
Commercial (Bank) Loans	11%
Current Earnings (Positive Cashflow)	9%
Venture Capitalists	4%

Source: The Small Business Encyclopedia, 1992.

Established businesses should depend on SALES to support business operations and cover expenses. Start-up businesses and expanding businesses often need to look for outside funding sources to support growth. In either situation, it is important to consider:

How much money is needed to start or expand?

What do you need the money for?

How much money is available from savings or business profits?

How much money do you need to borrow or seek from investors?

Can you satisfy the Four Cs of borrowing?

**Cash**

**Collateral**

**Character**

**Credit**

## **A STRATEGY FOR GETTING A LOAN**

Your first step is to select three or four banks to apply for the loan, emphasizing those who would be most interested in your business. The second step is to meet with a loan officer who has the authority to make the decision about the loan. The goal is to deal directly with the officer who will make the decision, in order to develop the personal give-and-take necessary for any long-term business relationship. Small banks can be very satisfactory for small businesses because the chief loan officer usually has strong influence on the final decision made by the loan committee. So it is important to deal with the decision maker and when that is not possible make sure you are working with a bona fide loan officer who can represent your case effectively. In order to represent your case, you must have presented it to the loan officer in an effective manner.

### **HOW TO PREPARE A PRESENTATION FOR FINANCING**

A good presentation for financing is really a well thought-out, intelligently presented business plan. Why is it necessary to prepare a business plan for getting a loan? Bankers are cautious about making loans to young and small businesses because of the limited history to evaluate, the shortage of collateral to secure the loan, and the uncertainty about the future. A good presentation can rarely convince a loan officer to make a questionable loan, but a bad presentation can deter him from making a workable loan. In borderline situations, a good presentation can tip the balance, because it demonstrates to the experienced loan officer that the business owner grasps the management requirements for running an effective business, not only at the present time, but for the foreseeable future.

### **THE THREE BENEFITS OF PLANNING**

A good business plan shows a clear definition of your marketing strategy and sales plan, your profit plan and your cash flow plan and will clearly map out the your goals and objectives for the year. It answers the following questions: Does the marketing strategy make sense? Is the sales plan attainable? Does the profit plan indicate that the game will be worth the effort? What will your cash requirements be, (as best as you can estimate them), and is the borrowing need within your financing capability?

The second benefit of planning, if done well, will be to enlist the banker's support as a member of your financial team during the course of the business year.

Thirdly, the plan serves as a backbone of management control. You may have to adjust goals and objectives because of what the profit plan has indicated or according to what the cash flow plan shows. Now the owner has cash-flow versus actual, profit plan versus actual, and other critical variables you want to monitor. Deviations can lead to remedial action in order to get the business back on track, along with modifications in the plan. This is also an ideal format with which to go back to the bank later for modifications in financing. Experienced loan officers know that the actual financials never go according to plan. They want business owners who are on top of changes. If the owner goes back for more money because the requirements were underestimated, but with a modified plan

to be presented in advance of the additional needs, there is likelihood something can be worked out. If the owner goes back in the midst of the cash crisis needing money yesterday, he or she is saying, "I was caught by surprise, I didn't anticipate what was happening, I didn't have the financial control to arrange my requirements in advance...please bail me out!"

## **GETTING STARTED IN THE LOAN PROCESS**

The SBA Loan Programs are designed to assist qualified small businesses obtain their financial assistance from a lending institution (bank) with the support of a Federal. These loans will originate from commercial lenders, non-bank lenders, or certified development companies. The SBA guaranty transfers part of the risk of borrower non-payment, up to the amount of the percent guaranteed, from the lender to the SBA. ***The SBA does not do direct lending. The business must approach a lender, satisfy lender requirements and the lender approaches the SBA for a guaranty.***

Since the commercial lender actually provides the funds, the key for any small business applicant is to first understand the requirements and options of the lender and then work with them to provide the necessary papers and assemble the application. The format for most loan applications is fairly standard. A lender is principally looking for where the business has been, where it is, and where it is going (in financial terms) once the loan funds are combined with the assets that the applicant already has.

Once the application is completed and submitted to the lender, it will be reviewed for its credit and management merits. The lender then makes one of three decisions: A) Approve the loan entirely by themselves (Internal Bank Loan); B) Approve the loan subject to a Federal SBA Guaranty, in which case the Lender will send it to SBA for an independent review and determination; or C) to decline the loan both internally and in participation with the SBA.

For a lender to choose the SBA guaranty option, they have to analyze the application, determine its credit merits, determine that they can not approve the loan internally, and certify to the SBA that they would only make the loan if SBA provides a guaranty. Therefore, a lender also has to understand SBA's policies and requirements because they don't want to forward an application to SBA that will not meet the agency's standards nor do they want the protection of the guaranty in jeopardy by incorrectly administering the loan.

When a lender's request for a guaranty is approved by the SBA, the Agency imposes certain terms and conditions on both the lending institution and the borrower. The lender subsequently administers these requirements in conformance with their own policies and practices as well as the guidelines separately established between SBA and the lender.

When applying to a lender for an SBA guaranty, the applicant should understand that this is a two step decision process which will take longer than option A above. Since the SBA process is more involved, not all lenders are immediately receptive to using it. The

best way to overcome any hesitancy by a lender towards SBA loans is for the applicant to have all the facts and figures presented clearly and accurately. Of course the applicant should also understand the basics of SBA loans.

When SBA does receive a request for loan guaranty, the lender has already reviewed, analyzed, and approved the credit, subject to SBA's approval. Therefore, the lender is actually asking SBA to concur in their decision that SBA guarantee the loan

## **SBA LOAN PROGRAMS**

Of SBA's four primary areas of assistance: Advocacy, Management, Procurement, and Financial; the Agency is most well know for its financial or loan programs. SBA administers the eligibility and the credit policies for these programs as established and regulated by Congress. However, the requirements and practices occasionally change as the Government alters its fiscal policy and priorities to meet current economic conditions. Therefore, past policy cannot always be relied upon when seeking financial assistance in the current market

Most lenders are familiar with SBA loan programs so interested applicants should contact their local lender for further information and assistance in the SBA loan application process. Information on SBA loan programs, as well as the management counseling and training services, is available from the NV SBDC.

7(a) Loan Guaranty	The 7(a) Loan Guaranty Program is one of SBA's primary lending programs. It provides loans to small businesses unable to secure financing on reasonable terms through normal lending channels. The program operates through private-sector lenders that provide loans which are, in turn, guaranteed by the SBA – the Agency has no funds for direct lending or grants.
Specialized 7(a): LowDoc	Designed to increase the availability of funds under \$150,000 and streamline/expedite the loan review process.
Specialized 7(a): SBA Express	Designed to increase the capital available to businesses seeking loans up to \$150,000 but is currently offered as a pilot with a limited number of lenders.
Specialized 7(a): CAPLines	An umbrella program to help small businesses meet their short-term and cyclical working-capital needs with five separate programs.
Specialized 7(a): International Trade	If your business is preparing to engage in or is already engaged in international trade, or is adversely affected by competition from imports, the International Trade Loan Program is designed for you.
Specialized 7(a):	Designed to provide short-term working capital to

Export Working Capital	exporters in a combined effort of the SBA and the Export-Import Bank.
Specialized 7(a): Pollution Control	Designed to provide loan guarantees to eligible small business for the financing of the planning, design, or installation of a pollution control facility.
Specialized 7(a): DELTA	Defense Loan and Technical Assistance is a joint SBA and DoD effort to provide financial and technical assistance to defense-dependent small firms adversely affected by cutbacks in defense.
Specialized 7(a): Pre-qualification	A pilot program that uses intermediaries to assist prospective minority, women and veteran borrowers in developing viable loan application packages and securing loans.
Specialized 7(a): Disabled Assistance	The SBA has not been provided funding for direct handicapped assistance loans, but such individuals are eligible for all SBA loan guaranty programs.
Specialized 7(a): Qualified Employee Trusts	Designed to provide financial assistance to Employee Stock Ownership Plans.
Specialized 7(a): Veteran's Loans	The SBA has not been provided funds for direct loans to Veterans, although Veterans are eligible for special considerations under SBA's guaranty loan programs.
Microloan Program **	This program works through intermediaries to provide small loans from as little as \$100 up to \$25,000.
504 Loan Program	This program makes long term loans available for purchasing land, buildings, and machinery and equipment, and for building, modernizing or renovating existing facilities and sites.

**For more information and program eligibility requirements, rates, terms and uses, please visit the SBA web site at [www.sba.gov](http://www.sba.gov).**

\*\* There are 2 local microlenders in Northern Virginia:

South Fairfax Business Loan Program (703) 768-1440  
 Available for businesses established by low/moderate income individuals; or businesses hiring low/moderate income individuals. Businesses and/or employees need to be located in Fairfax County Revitalization Areas or in the South Fairfax service area along Rt. 1 between Rt. 495 and Prince William County /Fairfax County line.

ECDC (703) 685-0510  
**Available for businesses established by low/moderate income individuals; or businesses hiring low/moderate income individuals. Businesses and/or employees need to be located in Fairfax County, Arlington, Alexandria or Prince William**