



Bank Financing, Root Canals and Appendectomies

By Rory Rowland

When your tooth hurts, you reluctantly go to the dentist. When you get sharp pains in your lower abdomen, you call the doctor. And when your business needs money, you go to the bank. While root canals and appendectomies are best left to medical professionals, this article should be able to help you get better and faster bank financing. One of the first things a banker will want to know when you sit down and ask for a loan is, why? Why do you want and/or need bank financing for your business? The second thing the banker will ask is what do you plan to do with the money?

These are two of the most important questions to which your banker will want good answers. If your answer is that your business is profitable and you want to open another shop, that is great as bankers love that kind of success. If one of your answers is oops, things haven't gone so well this year and you need operating money, you will probably get a sympathetic look, but not a check in your hand.

Be Prepared: The Business Plan

Before you head out the door, the first thing you need to have is a solid business plan. The easiest way to create a business plan if you don't already have one prepared is to purchase some business plan software. These programs walk you through the process and allow you to fill in the blanks. For example, Business Plan Pro from www.paloalto.com is a good planning tool to help you get your business plan started. A banker will not consider your request seriously unless you have a complete and detailed business plan.

Another good Web site for business planning is www.businessplans.org. This site gives you a variety of resources to start the process of creating a business plan. Business Plan Software is also a good site because it includes free examples, free templates, outlines and sample plans and tips for how to write a business plan. You can find these at www.brs-inc.com and can even download the software from the Web site.

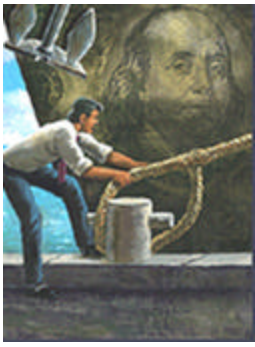
Again, if you don't have a business plan and plan on visiting the bank soon, you are going to need one. You won't get very far in your business without a business plan.

Another business plan resource is your local Small Business Administration office. You can find the SBA in your Yellow Pages or on the Internet at www.sba.gov. If you feel more comfortable formulating your business plan with a live person who won't cost you an arm and a leg, contact SCORE - Service Corp. of Retired Executives. You can find this organizations on the Internet as well at www.score.org. A retired executive who volunteers to serve with SCORE may help you put your business plan together.

To help you navigate the waters a bit more easily, you may want to find a mentor - someone who has been there and done that. Mentors can be other business owners from your area or rent-to-own operators in other parts of the state or region. Ask if they have obtained financing for their businesses and if they would be willing to help you. This can be a great way to get additional information about the financing process.

The Bank's Business

Once you have your business plan prepared, your neighborhood banker will want to know what you plan to do with "their" money. Yes, they consider it their money. Bankers have three concerns when they loan you their money:



- Will they make money on the deal?
- How will it improve their bottom line?
- And yes, will they get their money back?

For obvious reasons, bankers are attached to their money. However, when you borrow money, these items are not really your concern. Your interests lie in how soon you can get the banker's money and put it to good use - that and keeping the payments as low as possible so you can use it longer. In between lies the compromise between the banker and you.

Here are some of the questions the banker will want answers to before you are loaned any money:

- Is your business growing and is that why you need the money?
- Is your business cyclical? This is important for a payment structure.
- What is your credit history? If your company is new, how will it be capitalized and who is backing the company?
- Have you been successful before in this type of business?

Bankers love success stories, and bankruptcies in your past scare them to death. This is very important; without some success in this business, you will not get financing.

- Has the business had credit problems?
- What is your customer base and how often do they do business with you? What are the tangible assets of the business and can the bank use them as collateral?

Bankers also will want to know about the size of the down payment or your contribution to the cause. They believe that the greater the involvement on your behalf, the greater the likelihood of getting repaid.

- How Big is Your Payroll?

If your answers meet the satisfaction of the banker, you are on your way to obtaining bank financing.

Another important thing to remember is that just because one bank doesn't loan you the money, it does not mean anyone else won't. Learn from the process. Harvey McKay, author of *Swim with the Sharks without Being Eaten Alive*, tells the story about how he obtained financing for his first business. He would get rejected, ask why and then use the information to improve his business plan. He wrote that after 18 rejections, he had a pretty good business plan.

It's All In The Numbers

Once you have your business plan together, what other information will you need to bring with you to the bank?

Jim Jaklevic, vice president of Brotherhood Bank in Shawnee, KS, says he needs to see a copy of the company's most recent financial statement. Jaklevic says that when a client has a business plan and orderly financials, they are off to a running start. Organized information is critical. Tax returns from the past three years are important - both personal and business tax returns. Bankers want to see the financial performance of the individual and of the

business. Have them ready when you walk in the door. You will also need to have a cash flow analysis of the business. If you provide good financial data with an effective business plan, you are well on your way to receiving serious consideration for a loan, says Jaklevic.

Craig Nichols, senior vice president of First National Bank in Overland Park, KS, says he wants to see detailed projections on the numbers. "What will happen with the financing? How will it impact the future of the business? How will your financial statement look in two to three years with the new financing?"

Another important item the banker will want to see is the cash flow analysis of the business. The cash flow analysis basically consists of total income for the business, minus expenses, minus debt service and then your lifestyle. The more conservative you are, the better you will look to the banker. Questions that might be asked include: Do you have the resources to weather a rough road? Can you handle a financial setback and still repay the loan? Cash flow analysis will help determine your financial stability.

Education is a Two-Way Street

Nichols says he also looks at whether the business owner understands the business. "Someone off the street with no experience is not the type of client banks are looking for to lend money. We are looking for business relationships that will enhance the bank and help the client. We are experienced in lending money; we want the business partner to be experienced in using the money wisely," he says.

Dan DeVasto, CEO of Wolf & Co. PC, a Boston-based accounting firm, advises that before approaching a bank for financing, he makes sure he has every relevant scrap of data on his client: a mission statement, list of products and services, outlook for the industry and a description of the competition. Typically, he approaches a bank with a 15- to 25-page spiral binder detailing this information. "The key is to have the banker thoroughly understand the business," says DeVasto.

It is also just as important that you understand a little about the lending institution you go to. Do your homework before approaching a particular bank. A great source of information about a bank and how receptive it is to business loans is local accounting firms. Bankers network furiously and CPAs are among the people they court most ardently because CPAs' clients are a promising source of new business. Thus, the first step is easy: contact your CPA or start a relationship with one. "We absolutely actively seek out CPAs," says Hattie Hamlin, a vice president at Crestar Bank, a regional institution headquartered in Richmond, VA.

Also, find out who makes loan decisions at the bank. Ideally, the local loan officer who now understands your business is the decision-maker. That leaves latitude for personal judgment. However, merger mania has grown many banks into impersonal Goliath's. Loan decisions that once were made by individual bankers at the local level - people who knew their customers well - may now be made by computers programmed for automated credit scoring.

In other words, loans are approved or rejected based on a strict formula that takes into account factors such as a client's income and number of years in business. In too many cases, the loan-approval process has become formulaic, anonymous and committee based. You are not going to be served well by a bank that does not take a personal interest in you, especially if you have a credit history that is less than stellar. Inquire about the bank's lending formulas. What will the bank accept as collateral? Most banks accept a company's

inventory as collateral on a loan; some also accept real estate holdings. Determine what percentage of the collateral's value the bank is willing to lend against. Will it advance 70 percent of the value of inventory or 80 percent? And what is the bank's lending limit? If you represent a fast-growing client, a \$50,000 loan ceiling may quickly become too small.

Personal Guarantees

Then there's the question of personal guarantees. Many business owners balk at backing up loans with personal guarantees because it puts their homes and cars at risk should the business fail, but bankers want to see a level of commitment. For example, how much are you willing to risk before they risk too much? The banker wants to be a partner in the loan, but not the holder of the entire loan.

Alternatives to Banks

If banks seem reluctant to meet your needs, look to alternative sources of financing. As mentioned earlier, you may want to contact the Small Business Administration. The SBA's loan regulations are immensely complicated, so you'll need to approach a bank that has experience in this area. To find one, go to your state or district SBA office or visit the SBA Web site (www.sba.gov). You might also look to industrial finance agencies, venture capital firms or high-risk asset lenders, among others. Check with the state CPA society as some states have a committee on alternative financing sources.

Another source could be "angels" or private investors (venture capitalist firms) who back your company right from the beginning. The amount of control angels want varies. Some are very hands-on, others are not. You can combine venture capital contributions and bank financing, if necessary, to get your business off the ground. However, make sure you reveal this source of funding to your banker. Denver-based DataMerge Inc. provides a number of interesting Web links through its home page at www.datamerge.com. DataMerge's Financing Sources Databank is a national database of alternative lenders and equity investors, including profiles of their lending policies or investment criteria. The company also offers loan proposal software.

Again, when approaching a banker, the SBA or a venture capitalist for financing, you need to be organized, prepared to answer questions. You will also need to explain what you want the money for and how you will use it. If you have a clear game plan and a track history to show you know what you are doing, then you are well on your way to obtaining the bank financing your growing business will need. And it shouldn't require medical assistance.