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## **The Inside Look At Business Loans**

*—By Helen Branham*



When Shakespeare's Polonius advised: "Neither a borrower nor a lender be," he couldn't have been addressing a small business owner. For many entrepreneurs, securing a loan is a must in order to start up, expand or stabilize one's business. What many business owners don't realize is that successfully securing a loan need not be a dark, unfriendly maze.

There are clear steps and guidelines for those entrepreneurs who want to win the brass ring — a loan to put their business on track. While the process of applying for a loan isn't quite a carousel ride, it can be eased by knowing answers to some key questions up front.

### **What do banks require?**

Most banks have little flexibility and require the following:

- A good credit score –scores of 680+ (some go down as low as 640)
- For existing businesses: two of the last three years should show a profit
- For start-ups: 30 percent equity investment, experience in your industry, an excellent business plan, and collateral is preferred

If you're looking to apply for a loan, be sure to start by getting a copy of your credit report and finding out your credit score. Visit [www.annualcreditreport.com](http://www.annualcreditreport.com) to request a free copy of your credit report or [www.experian.com](http://www.experian.com) to order a copy of your Experian credit score.

### **Why write a business plan?**

A good business plan can help you think through your marketing, operational and financial plans, determine if the business will be profitable and worth pursuing, and help create a roadmap to follow to prevent unnecessary expenses.

As you research your plan, use this as an opportunity to get feedback and ideas from others. A business plan outline can be accessed on Urban Solutions' website at [www.urbansolutionssf.org/finance/business\\_planning.php](http://www.urbansolutionssf.org/finance/business_planning.php).

### **How big a loan do I need?**

Do your research and meticulously calculate your business costs. Many entrepreneurs underestimate their construction costs by as much as 30 percent. When you create your cash flow projection, consider both a conservative forecast and an aggressive one.

- A conservative forecast can show you how much money you'll need to live on.
- An aggressive forecast will show you how much money you'll need for inventory/personnel if sales take off.

### **What are the common pitfalls and how do I avoid them?**

- Signing a lease before you have a loan — unless there's a clause "this lease is contingent on a tenant securing a business loan for \$x," do not sign until you have secured the loan. You can sign a letter of intent to lease and you can negotiate the lease, but don't sign the lease.
- Showing losses on your tax returns to minimize tax payments — banks want to lend to profitable businesses, so be sure to honestly report your business income on your taxes. Don't be fooled into thinking you'll save some money by being creative on your return — this could come back to haunt you later in more ways than one!

### **The bank turned me down, now what?**

- Find out why you were declined — don't be shy about asking this question. You have every right to know! Plus, you might be able to address the bank's concerns. Perhaps they're looking for more equity, a guarantor, a smaller loan amount, collateral or another partner.
- Ask the banker for any suggestions of lenders who might approve you — while one

bank's terms might be inflexible, bankers are often aware of other avenues for potential borrowers to pursue.

- Visit a small business support organization — several nonprofits, such as Urban Solutions, offer free technical assistance and advice to struggling entrepreneurs.

### **An Undercapitalized Opportunity**

Michelle Schechtman and Dana Geffner had a very successful artisan supply business when they came to Urban Solutions for help. In this case, success meant popularity — all the buyers at trade shows couldn't get enough of Pachamama's globally produced, hand-crafted items. But in fair trade, producers need to be paid in cash up front. While Pachamama's products were flying off the shelves at fair-trade shows, the business continued to be in a deficit and couldn't keep up with the gap. This was a perfect example of a business in danger of being undercapitalized.

“We knew Pachamama had all the makings of a successful model,” explains Schechtman. “We needed to understand how we could use additional funding to capitalize on our successes.” Urban Solutions assisted Schechtman and Geffner with setting realistic financial projections and packaging a loan application, which sent them on their way to building up their business.

So next time you're looking for business advice, don't go to Polonius. Borrowing money can often be a good and necessary way to get your entrepreneurial dreams grounded in reality.

Helen Branham is Small Business Services Director at Urban Solutions. For more information how Urban Solutions can help your business. To contact Branham for assistance in securing a loan for your San Francisco-based business, call (415) 533-4433, ext. 13. .