Facts About Small Business Loans

The increasing pressure on banks to create a return for shareholders is clearly at odds with taking risks that could result in losses or regulatory difficulty. Banks are risk managers, not risk takers. They must be as certain as possible of creditworthiness before extending credit to a business: bankers are acutely aware that it takes 10 to 20 times more effort to collect a bad loan than it did to make the loan. Clearly the principal keys to getting a bank loan is strong management reflected in the financial performance of the firm, good communication skills, and awareness of the expectations of the institution.

1. **You will need good credit.** If there are any problems on the report that can be remedied before meeting with a banker, do so. A lender may be able to make exceptions if you can document that a negative report was due to circumstances beyond your control. Include a detailed written explanation with supporting information in your financing proposal. However, if the report shows that you are irresponsible and you have not demonstrated a willingness to repay obligations, the lender will be unable to make a loan.

2. **There is no such thing as 100 percent financing.** You are going to have to put some money into the business and the more the better.

3. **A bank will require you to personally guarantee the loan** even if you are incorporated. There is no way to avoid putting personal collateral at risk. If necessary this could include your house.

4. **Some businesses are easier to finance than others.** Since over 60 percent of all small business start-ups fail within 5 years, lenders know that the odds are against a new business being around long enough to repay a loan. An existing business is easier to finance if profits are sufficient to repay the loan. Also, many sellers are willing to hold some of the financing. Franchises are generally easier to finance than independent start-up businesses.

5. **The process is not quick.** If you must have the money to open by a certain date, make your loan application as far in advance as possible.

6. **There is no such thing as a grant.** We have never heard about anyone - anywhere - who got free money from the government to open any type of for-profit business.

7. **The Small Business Administration does not lend money.** The SBA does have a guaranty program that is designed to provide more security to lenders so that they will lend money to small ventures, which would be too risky for a regular bank loan. SBA guaranteed loans are made and processed by a bank, with the SBA guaranteeing up to 80 percent of the loan. Interest rates and repayment terms are negotiated between you and the lending institution. SBA does limit the interest rate the lender can charge and there is a small guaranty fee. Ask a business counselor with your local SBDC for additional information on SBA programs.