



## Borrowing for an Established Business

### **Step 1: talk to your current banker**

Do not wait until you have an immediate need – this reflects negatively on your management skills

Also, the approval and funding process can take longer than anticipated

Lenders/Banks may have limits for lending to your industry based on prior experience or regulatory restrictions

Keep in mind that there are 2 types of lenders – cash flow or collateral

### **Step 2: provide lender with historical financial reports**

Typically lenders want to see 2-3 years of tax returns as well as current year results

Provide a current personal financial statement – you will probably be required to guarantee the loan

Some lenders will want to see personal tax returns as well

Business and personal credit reports will be checked, so know in advance what is contained in them

### **Step 3: be prepared to explain the amount requested as well as the use of proceeds**

Be sure your use of proceeds coincides with the structure of the loan

This means that lines of credit should not be used to buy fixed assets

### **Step 4: be prepared to explain your historical financial results**

Lenders look for sales/revenue trends, profit margin changes, net income, and cash flow

Lenders also look at the balance sheet to look at working capital levels, leverage, and other trends

Lenders compare your historical financial results to other similar firms in your industry via the use of

RMA statement studies and other sources

Some lenders rely on credit scoring models to assess in full or in part whether loan is approved

### **Step 5: Lender assessment tools**

Primary repayment source is the historical cash flow of the business

Secondary repayment source is the presence of self-evident collateral and/or the overall financial strength of the business and guarantors

### **Step 6: If your request is declined**

If your lender indicates that your request “almost” fits their approval requirements but there are some issues that preclude approval ask if they participate in any/all of the SBA loan programs

### **Step 7: role of the SBA**

SBA provides loan guarantees to lenders to enable them to approve loans that could otherwise not be funded, including:

Loans based on future cash flow

High risk industries

Insufficient clearly-defined secondary repayment sources

Loans that require a longer repayment term than the lender would typically provide

Borrowers with limited personal resources  
Loans to purchase existing businesses  
Loans with reduced/limited equity injection