

## How to Get A Business Loan

Applying, receiving, and using funds from a business loan is very different than getting financing for a mortgage, a car loan, or any other borrowing most people experience. With a mortgage or car loan, you make the purchase and submit the required payments. With a business loan, however, products or services must be sold in order to generate the funds to make loan payments. This means that customers have to be satisfied with their purchases, and employees must perform their responsibilities. In some businesses, customer payments may be late or not received at all, which may cause a shortage of cash and limit your ability to pay your loan. The dynamics surrounding repaying a business loan involve so much more than the typical consumer loan.

During my long business career I have received several business loans. Fortunately, I have had the benefit of being familiar with the lender role in my capacity as a director of one loan fund and a staff member of another. In addition, I have consulted with hundreds of entrepreneurs seeking financing. My experience as a borrower, lender and consultant has provided me essential insight into what is really important for a borrower to understand about business loans. Here are 5 tips for crafting a successful strategy for obtaining and using loan funds for your business:

### 1) Know Your Financing Needs

Too often, I see entrepreneurs underestimate or have no sense at all of their financing needs. This is usually a result of these common mistakes:

- **Having unrealistic financial projections.** The most difficult part of developing financial projections is estimating sales, particularly for a new business. A new business does not have a sales history to rely on in building the case for revenues, and consequently entrepreneurs project sales based on a variety of financial models (i.e. those of similar businesses, breakeven, best-case/worst- case scenarios, gut feelings, etc.). More often than not, these projections are overly optimistic and paint a financial picture that does not reflect an adequate amount of money required to make the

business succeed.

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Even in the case of existing business owners who are seeking loans, revenue projections are often inflated to an extent that the financing need is understated. ***The thing to remember about developing projections is: be conservative in estimating your revenue, and estimate your expenses assuming things will cost more than you might expect.***

- **Being too concerned with requesting an amount that will appeal to/ not scare the lender.** This leads entrepreneurs to craft business plans (including financials) that are focused on anticipating and addressing what will impress the lender, rather than describing what the business actually plans to do. Obtaining a loan under these circumstances is a recipe for disaster because the plan has no real connection to the business, and the entrepreneur has no idea whether the business will produce what is needed to repay the loan.

Receiving a loan for your business is a major obligation and commitment. You have a lot on the line (your credit, collateral, business, etc.). As such, YOU are the first person who needs to be convinced that the business has a realistic chance of producing the results required to meet the debt obligation. ***Your loan request should be based on what you actually plan to do in your business. Know what your financing need is, understand your financial projections and your plan to attain them, and then execute the plan.***

## 2) Preparing for a Loan Starts When Your Business Starts

Many entrepreneurs start to prepare a loan application 30-60 days before they need the funds. In actuality, however, preparation for financing should begin the day your business starts - even if you are not seeking a loan when you start your business.

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At some point in the life of your business, more than likely, you will need outside financing. In order for a lender to evaluate your loan request, he/she will need historical financial records, sales history, tax returns and other evidence that demonstrate the performance of your business.

With this in mind, entrepreneurs should have in place record keeping systems for sales, financials, taxes, etc. as soon as they open for business. ***The more information you have that is organized and actually depicts what has transpired in your business, the better your chances of securing the financing you need.***

### 3) Tax Returns with no Profit Limit Your Borrowing

No one likes to pay taxes. However, consistently filing tax returns showing minimal or no profit may make it difficult to get the loan amount you need. Lending institutions view your tax returns as a reliable indicator of how your business is performing. If your tax returns show the business is not generating a profit, lenders will likely be concerned about your business' ability to generate sufficient cash to repay the loan.

***The bottom line: Minimize your business' tax liability by utilizing all deductions and credits you are entitled to. However, do not handicap your borrowing capacity by under-reporting income and profit.***

### 4) Make Sure Loan Terms Work for You

The terms you agree to (payment amount, number of months, interest rate, etc.) are what you are expected to meet. ***Make sure you agree to terms that fit within the capacity and time frame of your business. Attempt to negotiate terms that meet the needs of your business.***

## 5) Communicating with Your Lender is Crucial

Nothing bothers a lender more than a borrower who will not return phone calls or acknowledge emails. The key to maintaining a good relationship with your lender is to communicate. Borrowers tend to avoid communicating with their lender when problems arise - but that is exactly the wrong response. ***Lenders are successful when their borrowers are successful, and they want to help you in any way possible. Make your lender aware when important business issues or challenges arise.***

As an entrepreneur, your ability to access business loans when needed is a great asset. Follow these 5 tips for success, and you will be able to secure the financing your business needs!

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