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## How to Get A Business Loan



Getting your lender to say yes to your loan request is not difficult if you know what to do.

The key is to understand the decision “triggers” that lenders look for when reviewing your application.

### Understanding the Lender’s Perspective

Let’s get a better understanding of a lender.

Lenders are in business just like you. For them to stay in business they must generate

revenue. Lenders generate revenue by earning interest and fees on the loans they make. So contrary to what you may think, lenders want to approve loan applications.

However, there is one major difference between your business and the lender's business that's important for you to know.

Consider this example. Let's say you have a produce stand and you are selling apples. For a customer to get an apple, they must pay the money before getting the apple. No money, no apple very low risk of not getting paid for your product.

The lender's product is money and here's how it differs from you. When a lender approves a loan, you get their product (money) without paying for it first. The lender only has *your promise to pay*.

### The Risk To The Lender

85% of businesses fail, so the risk of non-payment is very high for the lender.

Therefore, lenders establish your ability to pay (is your business generating enough money? collateral? etc.) and your willingness to pay (your credit history).

Now there are other products that are sold with a promise to pay like automobiles or houses. However, in these instances, if the customer fails to make the payments, the dealership can repossess the car or the mortgage company can foreclose on the property.

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If a lender does not get paid, more than likely it means the money is gone. This is why lenders must determine your ability to pay and willingness to pay.

See: [Want a Business Loan? 5 Tips for Success](#)

## How to Get a Yes from a Lender

Determining your ability and willingness to pay involves several factors such as credit history, collateral, personal financial statement, debt/income ratio, etc., which are part of the loan approval decision.

### Borrower's Checklist

The following checklist focuses on what you should know as a business owner when making a loan application.

1. **Know the amount you need** - Telling a lender you need between \$50k-80k lets him/her know you do not know your financial needs, nor have you thought through your plans for the money. Your uncertainty is a major concern for the lender.
2. **Make Financial Projections Based on Sound Assumptions** - One of the most common mistakes for prospective borrowers is creating sales projections that do not reflect the realities of their businesses. Lenders want to see projections that are based on historical financial performance, your metrics, sales strategy, etc.
3. **Know and understand your numbers** - Businesses are about the money. If the money does not work, the business does not work. Lenders must know that you understand the basic financials of your business (i.e. profit margin, breakeven, cost of goods/service, etc.).
4. **Demonstrate that you have adequate cash to make the loan payments** - Loans must be repaid. If you cannot demonstrate adequate cash flow is available to handle the debt service, you really are not able to borrow.
5. **Readily available and up to date financials and tax returns** - If you want to impress your lender, make these documents, which are crucial to the decision, readily available.
6. **Do not under-report income as a tax avoidance strategy** - Lenders consider tax returns to be more reliable than your financial statements.

Therefore, if your tax returns indicate you are losing money an immediate red flag goes up. And double red flags go up when your financials indicate you are profitable. The inconsistency will make it very hard to get funding.

7. **Know the terms that work for you** - When planning for your financing, assess the terms you need (i.e. number of months, interest-only period, monthly payment amount, etc.)
8. **Build a relationship with a lender before you need to borrow** - It's easier for a lender to assist you if he/she knows you and your business before needing the money.
9. **Understand that You CANNOT borrow out of debt** - Lenders want to see cash flow and profit.
10. **Be truthful/honest** - Do not give your lender a reason to question or doubt your truthfulness and honesty.
11. **Know your business, know your industry**
12. **Prepare now** - Whether you plan to borrow now or in the future, preparation starts now. Make sure you have the business information required to apply for a loan readily accessible.

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