BUSINESS FUNDING

By: Monte Zwang

Every business needs money at one time or another. The process of obtaining financing can be daunting and the chances of success limited if it is approached in a disorganized or haphazard way. Lenders are conservative critters; however it is important to understand that it is their job to lend money, and they are happy to do so if their risk is reasonable. The chances of obtaining a business loan are greatly enhanced if you adhere to the following procedure.

KNOW WHAT YOU NEED

Understand how you intend to use business financing, how much funding you need and how you intend to repay the loan. Be able to communicate this clearly and confidently with prospective lenders.

UNDERSTAND YOUR CURRENT SITUATION

If you are an existing business, are you profitable, and does your balance sheet have positive equity? What does your credit look like? Have a clear understanding of any existing liens and lien priority. Know your credit score and answers to derogatory credit issues (liens, judgments, slow pays, collection actions) before presenting your application. If there have been credit, profitability or equity issues in the past, present a credible argument as to why these issues have been resolved or how this loan will change this situation.

KNOW YOUR OPTIONS

All lending is critiqued from a risk standpoint. Certain levels of risk will qualify for certain types of financing. The level of risk is reflected in the cost of the financing. The more secure a lender's money is, the less it costs you. Get creative. Financing takes many forms, and is available from a wide range of sources.

Standard (conventional) bank financing usually offers the best interest rates, however it is the most difficult to qualify for. These loans appear as a long-term liability on the business balance sheet. Conventional loans are available through banks and other lending institutions and can be guaranteed in whole or part by the SBA.

Revolving Lines of Credit are another form of business financing. This type of loan is secured by accounts receivable or inventory and is available from a bank or an Asset Based Lender. Credit cards are a form of revolving line of credit. An Asset-Based Line of Credit (ABL) is considered alternative financing and is available to borrowers who are too highly leveraged for a bank.

Real Property, Equipment Leases and Notes are another form of business financing. In these contracts the collateral for the loan is the property or equipment itself. When there is no outstanding balance owed on the asset, the property or equipment could be used in a Sale-Leaseback transaction. Here, the asset is sold to the lender for cash, and the borrower leases the property from the lender until the loan is paid.

Landlords can be a source of financing. It is not uncommon for a landlord to contribute dollars or rent concessions to the development of a tenant's space. For this loan, the landlord may require a Percentage of Gross Sales Clause in the lease as repayment. Extended vendor terms for purchase of product may provide short-term operating capital loans.

In the event that additional credit strength is required, loan guarantors or borrowing someone's credit may help the borrower qualify for less expensive financing. Be flexible. Your final package may be comprised of several lending solutions

PRESENT A CLEAR AND UNDERSTANDABLE PROPOSAL

Lenders need to know who you are personally, professionally and financially. The lender needs to evaluate Income Tax returns (Corporate and Personal), financial statements (income statement and balance sheet) and a cash flow projection. The balance sheet has to look a specific way. The Current Ratio should be at least 1:1, and the Debt to Equity Ratio should be at least 4:1.

Be specific as to how the money is going to be used and how it will be paid back. Lenders want to know what is securing their debt. Lenders evaluate the quality of the collateral, and want to insure that it is adequate to secure the debt in case of default. A secondary source of repayment is required prior to granting standard financing. The personal guarantee of the borrower is often required. In some situations, a lender may seek secondary collateral. Secondary collateral is simply some other asset in which you have equity or ownership, i.e. equipment, property, inventory, notes.

Business funding is not difficult if the borrower is creative and realistic. Know how much money you need and how you are going to use it. Be prepared to defend your needs and anticipate the lender's questions. In the event that a lender cannot grant your request, perhaps it is the way a loan is packaged. Find a lender who is willing to make recommendations that will help you find financing. A good lender will tell you quickly if they can help you or not. If an intelligent and organized package is presented, a timely response is warranted.

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