Wise Funding Basics

Understanding SBA Loans, Bank Funding & Business Credit

a Wisebusinessplans™ When Planning Matters publication

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Each section is followed by a resource list offering additional information.

GETTING STARTED

UNDERSTANDING WHAT YOU NEED TO KNOW IS ALMOST AS IMPORTANT AS THE INFORMATION GATHERING PROCESS ITSELF.

"I'm convinced that about half of what separates the successful entrepreneurs from the non-successful ones is pure perseverance." **—Steve Jobs**

We all dream of being something more — more successful, more insightful, more happy. The problem is, becoming "more" usually involves more work. Contrary to popular belief, rather than being too lazy to get rich or get promoted, most people are too tired. According to a Bureau of Labor statistics report, more than 7 million Americans are working two jobs to make ends meet. It's a pretty safe bet that most of those people are too worn out when they hit the bed at night — or in the morning, after the graveyard shift — to do much other than fantasize about how nice it must be to have only one job. Asking those same workers to do extra to get ahead seems more than just unrealistic. It feels cruel.

If you're a part of that group, it may actually feel impossible.

But what if you could let go of all of your "jobs," daytime and otherwise — the freelance work you do late into the night, the early-morning deliveries you make with sleeping children in the car, a fast-food shift after ordering other exhausted people around the office all day — and turn that energy into creating something that stands as a legacy for you and your family?

WHAT IF, INSTEAD OF LABORING TO PUSH SOMEONE ELSE ABOVE YOU ONE MORE RUNG UP THE LADDER IN A CORPORATE SETTING, YOU STAYED UP LATE INTO THE NIGHT WHEREVER YOU WANTED TO, MAKING YOUR OWN BUSINESS VISIONS AND IDEAS A REALITY?

What if, instead of laboring to push someone else above you one more rung up the ladder in a corporate setting, you stayed up late into the night wherever you wanted to, making your own business visions and ideas a reality?

You'd still be working hard, but in doing so, you'd be building something that becomes a reflection of who you are.

It takes a lot of commitment and the strength to persevere. You will be exhausted. But it's the kind of exhaustion that comes with dancing, not the kind that follows a day of defeat.

Home-ownership has been called the cornerstone of the American Dream, but more and more families are choosing to rent, for reasons that include avoiding the hassle of the buying process and the struggle most people suffer through to save up a down payment.

Even knowing they're paying their rent money into a bottomless pit, they keep going, because breaking free has become too hard.

Working for someone else is similar — you get no equity.

Stop paying out hours of your life to someone else for the privilege of making their dreams come true. Stop sweating to build another person's legacy.

Stop renting your career.

We've all read the statistics about so-and-so many small businesses failing in their first year. All too often, that is a result of poor planning and under-finding, coupled with a lack of research and preparation.

Educating yourself on the possibilities and the pitfalls is the first step in sidestepping failure. Read on to learn about one of the first and most important pieces of the business puzzle: Funding.

In this resource guide, we'll cover:

UNDERSTANDING & INFLUENCING HOW CREDITORS WILL VIEW YOU: In order to pass the tests on the way to success, you have to know what you're being graded on. Learn to think like a creditor, and judge your own strengths and weaknesses before anyone else does.

TRADITIONAL LOANS AND SBA LOANS: How are they different? Is an SBA Loan always the better answer for a small business? How do you know which one to choose?

ALL ABOUT SBA LOANS: Everything you never knew that you needed to know.

ALL ABOUT SBA LENDERS: Learn how they think, what they're looking for and how to approach them.

THE TOP THREE BENEFITS OF A BANK LOAN: Learn the upsides of traditional funding. Five Must-Read Tips for Securing a Loan: If you want a bank loan, you must be armed with these Top 5 pointers.

HOW TO MAKE YOUR BUSINESS APPEALING TO LENDERS: Business can be a little bit like dating — you need to know what the person you're hoping to attract likes and doesn't like.

MAKING INFORMED CHOICES: Learn the pros and cons of credit cards, charge cards and secured and unsecured lines of credit for business building.

THE THINGS YOU'VE LEARNED: This discussion-question-style quiz is designed to help you get some thoughts down on paper about the topics discussed and discover areas where you may need more information.

MAKING THE GRADE

UNDERSTANDING & INFLUENCING HOW CREDITORS WILL VIEW YOU AND THE DIFFERENT STANDARDS YOU MUST MEET

Lenders are as individual as any other human enterprise, but great care has been taken to regulate and standardize the industry, ensuring that those seeking funding get a fair shake and understand how they're being judged and reviewed.

In light of that, a basic list of standard criteria used by lenders to assess the potential and risk of an individual or business looking for different kinds of funding is relatively easy to put together:

1. FOR MOST TYPES OF PERSONAL CREDIT, like charge cards, home equity loans or credit cards, business owners will use their own credit to qualify, and that score will also determine the amount of credit extended and the interest rate charged. This process will feel very much like applying for and receiving any other kind of credit. Be sure to review your credit score beforehand, and be aware of any issues before they arise. If you're seeking a home equity line of credit, you must, of course, be aware of the amount of equity you've actually paid into your home, as this will determine the terms of the deal.

2. THE BUSINESS OWNER'S PERSONAL CREDIT RATING also plays a part in qualifying for SBA and bank loans, so don't neglect your individual credit report. Most lending institutions will require a Personal Guarantee (PG) for anyone who owns more than 20% of the business. This means you are personally guaranteeing the funds will be paid back by your business. In the event the business fails, you will personally be responsible and have to pay back the debt. ***Note: Check with your financial institution to see if they report the debt to your personal credit reports, business credit reports or both. Ideally, it is best for the business debt to report only to your business credit reports. This way the business debt does not have an adverse effect on your personal credit report.***

However, business loans – particularly SBA loans – will require the person or company seeking funding to provide a detailed business plan that includes certain key pieces of information, including an overview of the company's concept, a comprehensive review of company strategy in a variety of areas, a breakdown of the use of funding, and financials showing how the company expects to be able to repay the loan. ***(To learn more about business planning, visit www.WiseBusinessPlans.com, or contact us with questions any time at info@wisebusinessplans.com.)***

SBA.gov recommends reviewing and being prepared to discuss the following items when seeking funding:

Equity Investment: Applicants are required to invest a certain amount into their own businesses. This not only creates a more solid foundation for the company, but it also demonstrates commitment on the part of the business owner (also known as skin in the game).

Earnings Requirements: Businesses can't operate without an inflow of cash, and money in hand – not on paper – is required to repay debts, so there must be adequate earnings to support the requested loan amount.

Working Capital: Working capital allows your business to meet its trade and short-term debt obligations. Paying creditors on time ensures the continued health of your business and helps lenders feel confident that you are low risk.

Collateral: Using collateral to secure your loan can help lenders feel more comfortable about your ability to repay the money provided, but many new business owners may not have or wish to provide collateral.

Resource Management: Lenders will want to understand how you plan to make the most of the money you receive and will expect to be given some kind of information on how you'll manage the day-to-day operations of your company to maximize the impact of the investment.

In addition to the criteria listed above, understanding your own credit situation before seeking funding is one of the smartest things you can do to help manage the way a lender will see you when you walk in looking for investors. All SBA Small Loans for $350,000 or less are screened for a credit score (the required Small Business Credit Score, which is on a different scale than a personal score and is also known as a Small Business Scoring Service score, is 140 for an SBA loan). But equally as important, for anyone looking to run a company, is planning. More than just a requirement for getting a loan, a business plan is also the blueprint that defines the identity of your company. If you're not ready yet to make the leap and create a full-length, SBA-compliant plan, do yourself a favor and create an outline that includes the basics before you move forward with any other business building activities. Not only will this help you wrap your own mind around the enormous task of creating a successful company, it will also set you up with the kinds of information you'll need to create a complete plan when you reach that stage.

Defining and understanding your own company – its strengths, its needs, its structure and its niche – will allow you to control, as much as possible, how others view it, as well. This can be invaluable when approaching lenders or potential investors. It means you can set your own narrative.

When the moment comes, and you're sitting across the desk from someone who holds your financial future in his or her hands, you simply can't be too prepared. The more knowledgeable you are, the more confident and effective you'll be as an advocate for your business.

SECTION 1 RESOURCES

To get a copy of your personal credit report:

www.CreditKarma.com

www.AnnualCreditReport.com

SBA Loan Eligibility Requirements:

www.sba.gov/contracting/government-contracting-programs/8a-business-development-program/eligibility

TRADITIONAL VS. SBA LOANS

KNOW THE STRNGTHS AND WEAKNESSES OF YOUR OPTIONS BEFORE MAKING A CHOICE THAT WILL AFFECT THE DIRECTION OF YOUR COMPANY

First and foremost, let's review and define the two kinds of funding and showcase the key points differentiating each, along with their relative advantages. It's then possible to make judgements about which loan type might be best for certain kinds of businesses.

TRADITIONAL BANK LOANS

Most people think of banks first when the word "loan" comes to mind. Banks remain the largest source of small business funding in the country, and they offer some of the lowest rates for those who are able to meet the most exacting of their criteria. But as many as three out of four business owners who apply for traditional funding are turned down. Banks often have very high standards for both business and personal credit scores that must be met, as well as requirements for collateral, strong and clear financial planning and a great deal of personal business equity. The process of applying for a traditional loan takes a great deal of time – often a matter of several months – and meticulous organization.

ADVANTAGES: Banks often have more leeway to customize terms and work with qualifying business owners to create a loan situation that works for the company. Traditional loans also allow the borrower to develop a relationship with the lending institution, which can be beneficial as the business grows. And some conventional loans may offer a greater range of acceptable uses for funds received than a more restrictive, government-backed loan. Also, because recipients of traditional loans almost also have healthy, long-term business histories and are considered very low risk, bank loan interest rates are often lower than those on SBA loans. Some business owners also like that traditional bank funding doesn't involve the government into the running of the business any more than necessary.

SBA LOANS

The U.S. Small Business Administration (SBA) is a federal agency that exists to assist as they work to build strong businesses and thus strengthen the U.S. economy. Loans garnered through the SBA have very low interest rates, often among the lowest available anywhere, but qualifying requires a great deal of paperwork and compliance with the organization's regulations. Applicants are prescreened to review their Small Business Credit Score. However, even start-ups with very little in the way of a business history can often qualify for an SBA loan, provided the business owner takes the time to carefully complete paperwork, review requirements and comply with all regulations. In addition to credit requirements, SBA loans have stringent guidelines for business plans. All SBA- compliant plans must include, among other things, an overview of the background of the business, the qualifications of the principals, the objectives of the business, an organizational plan, a marketing plan, a financial plan with supporting graphs, and loan request and repayment information.

ADVANTAGES: SBA loans are almost always easier to get qualify for than traditional loans, which is a huge advantage for many business owners, particularly those looking to fund a startup without an existing business to use as a launching pad. Lending institutions are also generally more willing to fund an SBA loan because it is backed by the Small Business Administration. SBA loans require much less in the way of an established business history, meaning even those with no business history at all, such as a young entrepreneur with a startup company, may qualify for a loan. And the terms of SBA loans are also often longer than those of traditional loans, ranging from five to 25 years. This makes it easier for growing businesses to pay off the loan. SBA loans don't include balloon payments, which are required by some banks and can be a hard final hurdle to get over.

Which loan type is best for your company? It just depends.

IF YOU ARE:

- The owner of an established company, looking to expand
- Creating a company you expect will grow very quickly
- Someone who feels most comfortable having a strong relationship with your lender
- An experienced entrepreneur with a strong, easy-to-showcase business history

You should consider going for a **bank loan** first, to take advantage of the lowest prime rates and to position your company for easy negotiations in the future, should you require expansion funding.

IF YOU ARE:

- An inexperienced entrepreneur with a concept and a plan, but no business history
- Creating a company from the ground up and looking for some time to establish it
- Someone who excels at organization and has no trouble following rules
- Willing to work within some red tape to get better loan terms under easier criteria

Then you should look into **Small Business Administration** funding.

Since its founding in 1953, the SBA has delivered millions of loans to small businesses across the country. It's definitely a resource that has made an immense difference in the lives of countless business owners.

But deciding whether it's the right choice for your company is up to you.

SECTION 2 RESOURCES

More information on bank loans and traditional funding:

Entrepreneur.com/encyclopedia/bank-loans

Current SBA loan rates:

FitSmallBusiness.com/sba-loan-rates

ALL ABOUT SBA LOANS

THEIR TERMS, APPROVED USES, SIZES, RATES AND TERMS

Small Business Administration, or SBA, loans are provided to the company seeking funding by an SBA partner institution, which is often a local bank. These loans are appealing to banks because the government guarantees a large part of the loan, which reducing the risk on the part of the bank. Should you receive SBA loan funds but fail to repay your obligation, although you may suffer, the bank likely won't: The SBA will pay the lending partner up to 85% of the loan.

However, SBA loans are underwritten following the same rules and guiding principles as regular commercial loans. SBA loans may require collateral and will need the same kinds of personal guarantees from the person or company seeking the loan. But the safety net provided by the SBA means banks feel free to offer longer terms, more funds and less restrictive qualifying criteria for SBA applicants. In doing so, they help support and enrich the economy, which benefits the banks and everyone else.

Note: The specific terms of individual SBA loans are, of course, negotiated between the borrower and the SBA-approved lender. Information given below is simply for reference and educational purposes. We recommend paying a visit to SBA.gov to review the most up- to-date information available directly before seeking funding.

SBA LOAN USES

Most businesses meet the eligibility criteria for SBA loans. However, there are certain categories of company that are not among approved uses for these funds.

These businesses or entities include:

- Non-profits
- Companies that don't do business in the United States, or one of its territories or possessions
- Any company that engages in illegal activities.
- Companies that involve loan packaging, gambling, investment or lending, or multi- sales distribution
- Businesses where the owner cannot be out on parole

Approved uses include:

- Buying land or buildings, or construction to build or expand facilities
- Buying machinery, furniture, equipment, fixtures, materials or other supplies;
- Long-term or short-term working capital, including for purchasing an existing company
- Refinancing certain existing business debts;

For the most up-to-date, complete list of unapproved uses and associations, be sure to check SBA.gov.

LOAN SIZES

SBA loans sizes vary greatly, from a few thousand dollars to as much as $2 million, and SBA does not set a minimum loan amount. According to SBA.gov, the average loan amount in fiscal year 2015 was $371,628. Of course, the size of your SBA loan will be dependent upon many factors, including what you request, but also what your business plan and financials demonstrate you can repay.

SBA LOAN DOWN PAYMENTS RATES AND FEES

Down payments for SBA loans can amount to anything from 10% to 30% of the funding amount. For the above average 2015 loan total — $371,628 — this equates to a down payment ranging from around $37,000 on the low end to $111,000 at the top.

As with any other kind of loan, SBA rates will be different for each loan, based on the amount and the length of the loan term. However, SBA rates typically range from prime +2.25% to prime +4.75%. SBA loans also require guaranty fees up-front, along with servicing fees equaling .36% of the loan total. The guaranty fee is 2.5% on loans under $700,000 and 3.5% above. This fee can be financed.

SBA LOAN TERMS

SBA loan repayment times range from 5 to 25 years, what's being financed and the company's funding requirements. This is attractive to many business owners, particularly those just getting started, because a longer repayment term usually means lower payments and thus more money to funnel into establishing the business. However, as with the rest of the loan specifics, the term will be dependent upon the judgement of the lending partner.

SECTION 3 RESOURCES

An overview of all SBA loan programs

www.sba.gov/loanprograms

ALL ABOUT SBA LENDERS

WHO THEY ARE, WHERE THEY ARE & HOW TO APPROACH THEM

Who are SBA lending partners, and are they all the same? For the most part, they are local banks looking to help small businesses while taking advantage of the loan safety net offered by the SBA. There are actually three kinds of lenders:

General Lenders are simply licensed SBA lenders with commercial lending experience. This is the lowest tier of SBA lending partner, which doesn't mean they are of lower quality than the others lenders, but simply that they have met the minimum requirements.

Certified Lenders get priority processing from the SBA. This means working with one of these lending partners can speed up your loan approval process. In fact, the SBA offers three-business-day turnaround times for processing applications from Certified Lenders. Around 850 lenders are considered certified, meaning they have met additional criteria and have a larger amount of SBA loan processing experience than other lenders. These lending partners have demonstrated an ability to closely and successfully follow SBA procedures.

Preferred Lenders make up just 2% of SBA lending partners. Their process is semi- autonomous, meaning they have proven to be so trustworthy with SBA processes and procedures that they can make decisions without seeking SBA approval first. They have a 1-business-day turnaround time on completed applications. These lenders are very popular with those seeking funds, and they have earned that popularity by working ceaselessly to meet and exceed SBA standards.

WHERE TO FIND YOUR IDEAL SBA LENDING PARTNER

Many websites offer lists and databases for matching business owners with SBA-approved lenders. However, the best place to start – and the most up-to-date resource – will always be the SBA itself. The Small Business Administration has an easy-to-use tool available for business owners looking to connect with lenders. It's called SBA LINC (Leveraging Information and Networks to access Capital), and it can be found at www.sba.gov/tools/linc. **Note:** LINC isn't a loan application, and it doesn't offer any guarantees of funding. But it can match you up with a lender who may be a good fit for your business and its needs right now.

APPROACHING SBA LENDERS AND THE SBA PROCESS

In addition to completing your paperwork and having your financials in hand, three things are key when approaching the SBA lending process and dealing with lending partners:

1. Good planning

2. Meticulous organization

3. Self-awareness

Since a business plan is an absolute, iron-clad requirement for SBA loan qualification, you should have a head start on the first one. And filling out the wealth of paperwork required to apply may be just what many business owners need to truly get organize. But the last item – self-awareness – is so important, yet so rare, that it's worth emphasizing. You absolutely must know the strengths and weaknesses of your concept, your organizational structure and yourself as a business leader before approaching a lender. Seek and remedy anything that could be a concern to a lending partner, or seen as a risk, before you're sitting in front of a potential lender. Only by being brutally honest with yourself can you overcome obstacles before they hinder your funding efforts.

SECTION 4 RESOURCES

SBA LINC Loan Finder

www.sba.gov/tools/linc

Getting Started With a Loan From the Small Business Administration

www.Entrepreneur.com/article/52730

How to Find the Right SBA Loan for Your Small Business

www.BusinessNewsDaily.com/8286-small-business-administration-loans.html

TAKE IT TO THE BANK

TOP THREE BENEFITS OF A BANK LOAN

We've talked about SBA loans and the many ways they've been tailored toward helping small businesses get launched successfully. We've even compared SBA and traditional funding head-to-head to understand more about each option.

Now we'll take a moment to discuss some of the ways that traditional funding can benefit business owners (with a few caveats).

A LOAN FROM THE BANK MEANS THE FULL AMOUNT, RIGHT AWAY

When you receive a traditional loan (or an SBA loan, for that matter), the money is available in your account, just as it would be with your own funds. While this means that you must pay interest on the entire amount, it also means you can take advantage of any benefits related to paying for something outright. While some people content that having the whole amount compares unfavorably to a line of credit, because you are taking on the entire amount as a business debt, keep in mind the percentage of the loan that you actually plan to use. Getting a line of credit, and then using more than 40% of your limit, can have a heavy negative affect on your credit score. Credit cards are revolving debt, and revolving debt, with its changing totals, has the potential to do damage in inexperienced hands.

Loans, however, are installment debt, and the sum you've been given doesn't change over time. Using your revolving debt wisely can help build a good reputation for your business. But using it poorly can create problems before you've even gotten off the ground. If you need a large amount to get started, having cash in hand from a business loan of the appropriate size can be a lifesaver.

HARDER TO GET, BUT OFTEN WORTH IT

Of course, traditional loans are, realistically, most often available to more established businesses. But this, too, can be a benefit. Companies looking to expand or branch off will find that a traditional bank loan brings prime rates and a strong system of support in the form of good relationships with the lender and a more personal understanding of your business and its needs. As your company moves out of its most initial start-up phase, the benefits of an SBA loan or other non-traditional funding begin to be eclipsed by the solid dependability and low cost of a traditional bank loan.

FEWER RULES ABOUT USAGE

One of the last, potentially most useful benefits of traditional funding is that it comes with fewer restrictions on its use. You'll be required to show a very detailed business plan that indicates your expected ability to pay back the money borrowed and demonstrating your reasons for seeking funding. However, once you receive a business loan from a bank, there are fewer restrictions on the kinds of things you can use the funding for than you'll find with an SBA loan. Most banks indicate that their loans can be used for any business need you may have.

SECTION 5 RESOURCES

Compare the approved uses of an SBA loan:

www.Sba.gov/content/use-7a-loan-proceeds

To those of the typical business loan:

www.SmarterFinanceUSA.com/small-business-loan-uses

Bankrate Loan Calculator:

www.Bankrate.com/calculators/business/business-calculator.aspx

KNOW BEFORE YOU GO

FIVE MUST-READ TIPS FOR SECURING A LOAN

It's easy to get excited about starting out on your business-building journey. In fact, you should be excited — enthusiasm is such an important part of creating a company that has life and can move and change with its market. But allowing that excitement to affect financial decisions can lead to mistakes that may be hard to fix later.

When it comes to making decisions about loans and other money-related milestones, keep a cool head, and be a calculator, not a cheerleader.

The following tips are more than just suggestions. They're must-do items that should be checked off your list before even considering approaching a lender, whether you're looking for an SBA loan, seeking more traditional funding — or even looking for an investment from a friend.

REVIEW YOUR PERSONAL CREDIT AND GET IT IN SHAPE

We've already discussed how your personal credit history can play a role in the loan decision process. Reviewing and understanding the factors affecting your own credit score before it's looked over by someone else is crucial. Even if you think — or know — your credit has some bruises, you can't hide your head in the sand. Forewarned is forearmed, and once you've reviewed your credit, you can take steps to repair damage or look into other options. Trust us when we say that waiting for a financial expert to tell you your credit is poor is a bad idea, and doing so won't inspire any extra confidence in your business abilities.

If your credit just doesn't make the grade, look into paying down some of your own debts before taking on new ones for your business. You can concentrate on planning and preparing for a few months while you lower your debt totals. If this isn't possible, or there is a time element involved in your business launch, you may need to seek assistance from friends, family or non-traditional sources of funding.

Remember: The people making the decision about whether or not to lend you money are, first and foremost, deciding whether they can trust you, not your company. Do everything you can to make your trustworthiness clear and your financial risk low. And if you have credit blemishes, but feel your credit-worthiness is otherwise sound, be upfront and talk with your lender in a way that is transparent and that inspires a sense of teamwork. You are, after all, hoping you'll be in business together soon.

KNOW WHAT YOU NEED, WHY YOU NEED IT AND HOW YOU'LL USE IT

Asking for too much funding can scare a lender off. But asking for too little can leave you underfunded and in trouble once your business is up and running. And either situation, when reviewed by the experienced eye of a lender, can make your look like a poor business bet. So it's important to ask for the right amount of funding, and make it clear in your planning and documentation that you know what you're seeking and why you're asking for it.

Don't make an exact tally of your costs and then ask for that amount in dollars and cents. It is Wise to leave yourself a cushion. But don't sum up your funding needs and then just double or triple them, either. Using a small business loan calculator (like this one, at BankRate.com: www.bankrate.com/calculators/business/business-calculator.aspx, or this one at FitSmallBusiness, for SBA loans: www.fitsmallbusiness.com/sba-loan-calculator) can help you understand how much your payments would be for certain amounts and help you get a ballpark estimate about how much loan you can afford. Be sure to back up your calculations with information on how you came up with that amount, including how you expect to use the funds.

HAVE A BUSINESS PLAN IN HAND

Regardless of the kind of funding you're looking to acquire, you'll need a business plan. This isn't a suggestion — it's a non-negotiable requirement for receiving SBA or traditional bank loan funding, and even more common with lines of business credit. Your plan must include detailed financials, information about the purpose of the company, its expected management and staffing structure, and the products or services you plan to provide. You'll also need to show a deep understanding of your market — with updated demographics information and industry research — and a clear path toward repaying the funding you're seeking. In addition, thorough plans include exit strategies, marketing planning and a strong overview of the philosophy and objective of the company. All of this must be packaged in a way that leads the potential lender through the plan neatly and efficiently, without wasting his or her time.

While this is a requirement for receiving most kinds of funding, there are a couple of ways to get loans without a business plan, including from family and friends, or out of your own savings.

However, offering a loved one — or yourself — less respect than a stranger (an important person, but still a stranger) isn't a good way to start a business or continue a relationship. Offering a well-crafted business plan to every single person you approach about funding demonstrates that you will do business with integrity, and that you honor the trust you're asking those people to place in you.

RESEARCH YOUR POTENTIAL LENDERS

Know about who you're asking for funding before you approach them. If you're dealing with the SBA, make a decision about the kind of funding you'll be seeking through them, then research the related requirements in depth. If you're looking to go through a bank directly, review your options and research how they do business. Do they have the lowest rates but the most restrictive criteria? Do they have a reputation for being receptive — or not — to your kind of company or to your industry? Doing the right kind of research to find appropriate potential lenders cuts down on stress, disappointment and wasted time for you and for the bank.

Know Who Your Team Is — And Make Sure Team Members Do Their Homework Starting a business alone is possible, and people do it every day. But having trusted people in your corner can have a huge positive impact on the process. Whether they are actual business partners or just supportive advisors, knowing someone is rooting for you and helping think things through can be make-or-break.

However, it's important to make sure that every single person who may be considered a partner in the funding process is well-prepared. This means every member of the team who may be called upon during the funding stage must know his or her credit inside out and be upfront about problems. Knowing the strengths and weaknesses of your group will allow you to strategically use every advantage at your disposal, while minimizing problem areas.

SECTION 6 RESOURCES

Tips for Getting a Loan:

www.nerdwallet.com/blog/small-business/how-to-get-a-small-business-loan/

8 Things That Could Keep You From Getting a Small Business Loan:

www.BusinessNewsDaily.com/6242-small-business-loan-mistakes-to-avoid.html

BEST FOOT FORWARD

MAKE YOUR BUSINESS MORE APPEALING TO LENDERS

Seeking funding for your company can sometimes feel a little bit like trying to find a partner at a middle school dance. You try to look cool — but not too cool — approachable, but not overly eager. The Lender-Lendee Two Step is sometimes enough to drive anyone crazy. But, as with anything else, there are always steps you can take to make yourself — or, in this case, your business — more attractive.

Clearly define the period of repayment. Include a path to profitability, and thus repayment, in your business plan, complete with a detailed timetable and cash flow. Offer a set of milestones and goals, including a completion date, for repaying your loan. Be aware of your expected profit margin — research your industry and make certain you can meet your mark, then use the resulting cash flow information to inform your budgeting and timeline process. Evaluate any potential obstacles to repayment, and have plans in place to avoid or mitigate them.

Know how much money you need and be prepared to explain why you need it. Demonstrate your understanding of your company and its needs and goals by having a loan amount in mind and sticking with it. Show the expected uses of the loan within your business plan, and give detailed information on how much you expect to spend on different facets of your company. Making a strong case for the amount that you want will make the bank more confident in taking you at your word. And having an amount in mind makes it much easier to provide a timetable for repayment that is reasonable and realistic.

Be prepared to address questions about offering credit to customers. You'll need to understand consumer credit reporting, and its attendant rules and regulations, prior to ever issuing credit to a customer. Demonstrate your ability — and your expected process — to check and evaluate consumer credit worthiness within your business plan and any presentation you plan to make to lenders.

Prepare now for managing your operations, particularly your finances. Research, purchase and learn to use bookkeeping software and other such necessary programs prior to seeking a funding. This will not only help you hit the ground running when you launch or expand, it will also allow you to more easily provide financial details to potential funders.

Package your loan proposal professionally. Assume that your lender will be busy, and provide all of your relevant information, along with your business plan, in an easy-to-follow, professionally packaged format. This can be as fancy as a bound document or as simple as a neat, well-labeled binder. Showing initiative in this way will help impress the seriousness of your loan petition to the lender.

Know your team members. Keep thorough, frequently updated written business biographies of each team member on hand at all times, and be sure to incorporate them into your business plan. Within them, clearly outline each team members experience, background in the industry and business knowledge. These bios are valuable not only to potential lenders and investors, but to you and your team, as you look to fill in knowledge and experience gaps, or utilize team members' strengths more fully.

OTHER THINGS TO KNOW BEFORE YOU GO TO THE BANK

Don't assume you have to work with a larger banking institution. Local banks are often ready and eager to loan money to an expanding company, particularly one that will bring jobs and economic growth to its home community. All banks, of every size, need to make loans to keep the wheels of commerce turning. And local banks can be an excellent source of area financial information and resources. Working with a smaller, are bank will help you create a relationship with your lender, which will be invaluable as your company continues to grow. In light of that, anything you can do to create that relationship before seeking funds — even if it's just through personal banking — will help.

SECTION 7 RESOURCES

Business Loan Application Checklist:

www.sba.gov/content/business-loan-application-checklist

10 Questions to Ask Before Applying for a Bank Loan :

www.Entrepreneur.com/article/227191

MAKING INFORMED CHOICES

THE PROS & CONS OF CREDIT CARDS, VENDOR CREDIT LINES AND SECURED AND UNSECURED LINES OF CREDIT FOR BUSINESS BUILDING

It can be hard to navigate the rocky waters of business financing, particularly if you're just starting out. While loans are the most frequently discussed forms of business financing, they're not the only option. There are several alternative ways to get the money you need to launch or expand, among them simply saving over several years until you have enough capital to work with. But for those who may not have the time or income to save quite that much, credit is an option.

CREDIT CARDS: Credit cards make the business world go 'round — they are an incredibly common funding choice for many small businesses, especially when it comes to operating capital. They can also stand in the gap when other sources of funds, such as payments from customers, are still "in the mail." But credit cards often carry with them high interest rates, and charging more than about 40% of your limit can bomb your credit score. They must be used wisely and paid on time. As a funding solution, consider them short-term, and keep working toward a better option for the long haul. While many people use balance transfers to extend the low-interest period on a card, or find other ways to stretch things, money given on credit will eventually come due, no matter what, and the stress of managing your business in this way — and the lack of a foundation it creates — can eventually undermine your success.

VENDOR CREDIT LINES: Credit lines extended through vendors (those businesses you buy from, such as Office Max, Home Depot, etc.) are truly short-term funding, with balances that come due in full at the end of each billing cycle. Benefits of a charge card include the fact that they often don't have a credit limit, so they can be used for larger purchases. However, those purchases must be paid in full at the end of the 30-to-90 day cycle.

Vendor credit can be a lifesaver when you're waiting for funds to come in and just need to stretch things for a couple of weeks without incurring permanent debt. This kind of flexibility is particularly valuable in the early days of building a business.

Vendor lines of credit and charge accounts are often offered by vendors and others with whom you may need to do business, so understanding them, and mastering the charge, float, pay cycle, can be very useful as you look to grow as a company.

UNSECURED VS. SECURED LINES OF CREDIT: Lines of credit grant you access to a potential sum of money from a bank, while allowing you to pay interest on only the portion you actually use. This may sound similar to a credit card, and it is, but the amounts involved are typically much more than a card limit. Lines of credit are more typical for business funding, whereas credit cards are often considered more personal, but both are both revolving credit products. Lines of credit also often allow for easier cash withdrawal, and the use of checks, unlike a credit card. There are also few restrictions on the ways a business line of credit can be used, unlike some loans.

Credit lines can be secured or unsecured. Secured lines require some kind of funds, property or equity to be used as collateral. If the person seeking the loan defaults on it, the collateral is sold to recover the money owed. This option may be good for a very new business or business owner with very little personal credit history. Unsecured credit lines, just as the name implies, don't require collateral. However, this does mean they will often require high credit scores and strong credit histories. Secured lines of credit typically have very low interest rates, especially when compared to unsecured lines of credit offered to anyone with less-than-perfect credit.

In particular, home equity is commonly used as collateral for a business loan, and the amounts these kinds of loans can provide are often larger than those secured by other means at better interest rates. But a home equity loan puts one of your family's most valuable assets on the line: your personal residence. Think — and plan — carefully before taking on this kind of debt.

SECTION 8 RESOURCES

The Business Credit Lifecycle:

www.WellsFargoWorks.com/grow/business-credit-lifecycle

The Five C's of Credit

www.NerdWallet.com/blog/5-cs-credit/

Basics of Using Credit Cards as Funding:

www.Entrepreneur.com/article/228193

Pros and Cons of Equity Funding:

www.Nerdwallet.com/blog/mortgages/home-equity-line-of-credit

TEST YOURSELF

USE THESE DISCUSSION QUESTIONS TO HELP GET YOUR THOUGHTS DOWN ON PAPER ABOUT THE TOPICS DISCUSSED AND DISCOVER AREAS WHERE YOU MAY NEED MORE INFORMATION OR PREPARATION

Answering these questions will require a computer or pen and paper.

1. List at least three specific, personal things you can do to influence how lenders see you and your business. Are there steps you should take before seeking funding to make your business appear more trustworthy, or to fix damage to your personal or business credit? *Refer back to Chapters 1 & 7 for help.*

2. Think about your business history and your experience. Do you have the right background to confidently seek a bank loan, or is an SBA loan a better fit? List at least three pros and cons for each loan type that are specific to you and your business.

3. Review the resources provided at the ends of Chapters 4 & 6, then list three lenders of each type that might be a good fit for your company. Be sure to include a local candidate and a national one, if possible.

4. If you were required to provide collateral for a secured line of credit, or a bank loan, what could you use? Would other people be affected by your choices? (For example, if you were to pursue a home equity loan and had to default, your family would lose its home.) Review your options for providing collateral, then list the pros and cons of utilizing each. *Refer back to Chapter 8 for help.*

5. Do you use charge cards now? What are some of the difficulties you've experienced as payments come due each month? How did you overcome your budgeting obstacles? Would the system you use for ensuring that you pay your bills now work on a larger scale to support a business? How could it be improved? *Refer back to Chapter 8 for help.*

6. How well do you know your team? Make a list of the people you would consider "team members" for your company. Review your understanding of their business experience and knowledge. Do you feel that you know their strengths and weaknesses well enough to present them to a potential lender or investor? Makes notes for each team member about information you need in order to make the strongest case for the company.

7. Create a business bio for yourself. Then provide it to your team, so they, too, can make a strong case for your credentials if required. This bio can be short and to the point, but you'll want to consider elaborating on it as soon as you can.

8. Consider your business plan. Do you have one? Have you started collecting the kinds of information you'll need to create one? If you do nothing else now, think about the mission statement of your company, and write down a version of this important core item that you can refine as your planning takes shape.

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