

Can I Qualify for a Business Loan?

Whether you are applying for an SBA loan or a traditional bank loan, there are certain factors that improve your ability to obtain financing. This self-test is designed to assist you in understanding important issues that lenders consider when making a decision on a small business loan.

Do you have a good personal credit history? Research indicates that good personal credit history is one of the most important factors in identifying borrowers that will repay their business loans. When a lender makes a decision on a small business loan, he/she will consider the personal credit history of the borrower. A bad credit history can be the basis for denial for a small business loan.

a) If you do not have a recent credit report, find out about ordering one by calling TransUnion (www.transunion.com), Experian (www.experian.com), or Equifax (www.equifax.com). If you have credit problems but they can be explained by a one-time incident such as a medical problem, provide information to a potential lender about the problem and how it has been rectified.

b) If you have filed for bankruptcy in the past 7 years (10 yrs for an SBA loan), or have slow payments, collections, etc. then it may be difficult to obtain financing now. If your poor credit history can be explained by a particular incident, supply information on the situation and how you attempted to repair past credit problems. If you have consistent credit problems, you will need to "repair" your credit history and rebuild your credit track history. Call your local Consumer Credit Counseling Agency (CCCA) for assistance.

Do you have enough money of your own to put into the business? (For start-up businesses) All loan programs require that the business owner put their own money into the business. This owner equity injection shows that the owner believes in the business enough to risk his/her own money and reduces the amount of monthly debt payments that the business must make. Virtually all loan programs, including SBA loans, will require a reasonable contribution from the owner(s). A good rule of thumb is 20% or more equity injection. The more equity, the more favorably potential lenders will look upon the loan request. **Neither banks nor SBA provide 100% financing.**

Have you filed your personal/business income and business taxes? Lenders and government loan programs alike want to see that an individual has met his/her tax obligations for both filing and paying taxes. Many of the loan programs are in partnership with government agencies. These loan programs do not look favorably on individuals or businesses who have unpaid income and/or business taxes. For SBA loans, an income tax verification is obtained from the IRS before a loan is closed.

Have you demonstrated that the business has the ability to repay a loan? (For existing businesses) If the business is profitable, this helps to demonstrate repayment ability of the new debt. If a business is not profitable, it becomes very important to prove how it will be profitable in the near future so that a loan can be repaid.

(For start-up businesses) You must demonstrate that the business will be able to repay the loan payments. It is very important that you find as much data as possible on comparable businesses or

industry statistics in order to "prove" the revenues you intend to generate and the expenses you anticipate incurring. This is accomplished by writing a business plan. Writing a business plan provides an organized system for researching your business as well as insight into your business to facilitate funding and investment.

Do you have any collateral to secure a business loan? Business and personal assets can be considered collateral, or a way to repay the loan if the business defaults on the loan. Most collateral is valued at an amount less than market value based on a variety of factors. Although the SBA will not deny a loan due solely to the lack of, or amount of, collateral, the more collateral one has, the more likely a deal will be favorably considered. Unwillingness to pledge assets can be a basis for decline.

Does your business have a positive net worth? (For existing businesses) The net worth of the business should be positive. If there are loans from shareholders on the balance sheet and you are able to subordinate these (not pay the shareholders) while you pay the bank loan back, you may consider these loans from shareholders as equity.

Does your business currently have low levels of debt? (For existing businesses) Businesses that have too much debt will find that their profits are directed at paying back loans and not building retained earnings in the business that can fund future growth. Consequently, banks and government loan programs look more favorably at loan requests that do not add too much debt to the business. Banks often look for a debt to net worth ratio of 3 or less (total liabilities divided by equity).

Are you willing to personally guarantee a loan? Most business owners are asked for a personal guarantee in order to obtain a business loan regardless of the legal structure of the business.

Does your business have managers and advisors capable of leading your business to the next level of growth? (For existing businesses) As businesses expand, they need more sophisticated management as it relates to strategic planning, marketing, record keeping, inventory control, personnel, etc.

Do you have experience in running your own business? (For start-up businesses) For a new business, it is important for the business owner to demonstrate that he/she has experience in the industry and/or entrepreneurial experience.

<http://asbdc.ualr.edu/business-information/509-qualify-business-loan.asp>

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