

How to get your lender to say yes!

Lenders are in business to lend money to those who they think would repay the principal with an adequate amount of reward, i.e. interest charge, for their service. As part of their decision-making process, they apply various criteria, which depends on the amount, type of loan and status of your business amongst other things. The following describes the information the lenders expect from you for this purpose:

(A) What information does the lender need to review your loan request?

1. Know the purpose of the loan and amount
 - How will you repay the loan?
 - What collateral is available?
2. Have a business plan which answers the following:
 - Management
 - Capabilities
 - Competition
 - Area of expertise
 - Market
 - Where you have been
 - Where you are going
3. Know your business and enthusiastically sell it
4. Keep a complete loan package ready which may include the following (where applicable):
 - three years' business financial statements
 - Current interim financial statements
 - three years' business tax returns
 - Personal financial statement(s)
 - Three years' personal tax returns of owners
 - Aged analysis of trade debtors and creditors
 - Any other relevant information e.g. Statement of personal assets and liabilities

(B) What criteria does the lender use to make decisions?

1. What is the purpose of the loan?
2. Is there a strong primary and secondary source of repayment? (Secondary sources include collateral and personal guarantees)
3. Historical performance and trends which may include:
 - Liquidity Ratios
 - Current ratio
 - Quick ratio
 - Receivables turn
 - Inventory turn
 - Payables turn
 - Coverage ratios - the ability to service debt
 - Earnings before interest & taxes/interest (EBIT)
 - Current Portion of long term debt
 - Leverage
 - Net fixed assets
 - Tangible net worth
 - Operating ratios
4. Evaluation of credit risk and methods of mitigation
 - Lender will evaluate on a worst case basis!

(C) The Five C's of Credit

Character

Protect your personal credit! It's the best proxy for character.

Capacity

Plan
Management
Debt payment ability

Capital

Debt to Equity (how much do YOU have at risk?)
Debt to Assets (financial leverage, does someone else own the assets?)

Conditions

Financial condition of the company
Asset quality
Liquidity
Capital adequacy
Profitability
Condition of the lender and credit market
Condition of other companies in your market

Collateral

Secondary sources of repayment

(D) How can you help your relationship with your lender?

Lenders don't like surprises
Keep your lender informed
You lender is your financial partner
The importance of compliance with your loan agreements
A loan agreement is a contract
Monitor your own performance
Monitor your operational performance
Monitor your financial performance (profit plan)
Monitor cash flow
Provide financial and other information
Plan future borrowing, no fire drills

(E) What to do if the decision is NO?

- Assume that for two to three years it will be difficult to borrow from traditional sources.
- Be precise when negotiating a loan and don't have false assumptions that your loan may have been approved because of some reassuring comment.
- Be realistic.
- Consider alternate financing sources such as vendors, asset based (receivables, inventory, real estate), family, friends, wealthy individuals, venture capitalists.
- Consider joint ventures with suppliers and customers.
- Don't just take no for an answer.
- Get specific reasons for the turndown.
- Get the lender to help develop an alternative strategy.
- Make it a learning experience.
- Network with small business development companies.
- Try the UK loan guarantee scheme.

Summary

- Be prepared with the necessary information.
- Develop a sense of what the lender is looking for.
- Learn to use the entrepreneurial infrastructure.