

WHAT LENDERS LOOK FOR IN START-UPS

Lenders that are pro-business and pro-entrepreneur, enjoy meeting with individuals that are pursuing a dream of owning and operating their own business. Lenders understand through experience the challenges new start-ups face and typically will work with a borrower to craft a loan package that makes sense for both the borrower and the lender.

Borrowers should be prepared to bring a Personal Financial Statement listing their personal assets and liabilities. Lenders look for equity positions in assets such as real estate, equipment, inventory, investments, etc. This equity may play an important role in the lender's decision to grant the loan as well as determine an appropriate rate based on risk. In addition to the Personal Financial Statement, lenders will typically require at least two year's of Federal Income Tax Returns.

Lenders will want to obtain a credit report on the borrower, as well. These items provide valuable information to the lender as to the credit-worthiness of the borrower.

Borrowers should also be prepared to provide a business plan for their start-up. A business plan will include a resume' indicating the level of experience or other preparation the borrower has conducted to qualify for the type of business venture involved. The plan will show a multi-year projection for sales and expenses of the business including what sources were used to estimate these figures. It will be important to know if the new business will become the only source of income for the borrower once the business is started.

In other words, be prepared to "sell" your idea to the lender by being well prepared. Before the lender can determine the loan package, including whether the loan might qualify for Small Business Administration programs, they must first be convinced of the viability of the venture. The more effort a borrower puts into assembling a loan presentation, the more likely the borrower and the lender alike will conclude whether the business will be worth the risk.

Article prepared by:

Larry Refsland, Bank Manager, EVP, Western Bank Cass Lake