

## 5 CRITERIA FOR GETTING A LOAN

### 1. EQUITY

- The real dollars the borrower has to invest in their own business. Usually, this amount will show up on the balance sheet of the business as paid in capital, owner's equity, capital stock, retained earnings, partner's contribution, or some verbiage of a similar nature.
- A rule of thumb is that the owner will have to contribute about 20% of the total capital needs (loan) to get a lender comfortable.
- The reason for equity is to tie the owner to the loan and increase the value of the collateral.

### 2. COLLATERAL

- The tangible asset that can be liquidated to pay off the loan in case of default.
- The asset for a commercial loan is usually the asset that is being purchased by the loan for the business or other business-related assets that are not pledged to any debt.
- Personal assets, such as personal real estate, should be considered collateral for a personal loan to contribute to the proceeds of the business.

### 3. CREDIT

- The borrower has to determine a history of paying debt as scheduled and under the terms of the debt. This is the personal credit history of the individual borrower(s) that are responsible for repaying the note.
- A commercial loan will require satisfactory credit history on the borrower and the business. For start-ups, personal credit is used.
- Poor credit is an indication that the borrower may not pay the new debt.
- Character is also involved here: Has the borrower been convicted of a crime? Is the individual current on taxes?
- No credit history usually requires a co-signer so the borrower can establish a credit history.

### 4. EXPERIENCE

- The borrower needs to demonstrate that he/she has the knowledge and ability to carry out the business plan they are going to use.
- A working knowledge of the industry is essential to the success of a start-up business.

### 5. CASH FLOW

- The borrower has to demonstrate with the use of financial projections that the business will produce enough cash flow to pay all expenses and pay the debt back.
- If it is an ongoing business, then the borrower needs to provide at least the last 3 years of financial statements and 3 years' projections.
- For a start-up business projections are necessary.