

How to Successfully Apply for a Small Business Loan

You have decided to Take the Leap and start your own Business. You have a great idea that you are hugely passionate about, the long days of planning and producing your product are not a concern for you as you are going to be working for yourself, creating something new, unique and you believe the market is ripe and the profits will be significant. Exciting Times.

Now What?

You're likely going to need to borrow some money. You're asking yourself – How am I going to do that? The answer to this question is that you are going to have to start to think like a lender, anticipate the questions that the lender will need answered. Here they are - the 5 C's of Credit

1) Character

The factors considered here are your business experience, your credit history and your education. If your credit score is poor, you need to know why. Is it explainable? If your own experience is limited, do you have a mentor that will coach you through the tough times? Education comes in many forms, some is from a classroom setting, but equally important is what you have been able to learn on your own. Character is the most important of all the "C's".

2) Capacity

The factors here are your business' ability to generate the profit to pay back the loan and whether there are any alternative sources of income that could make payments if required. The lender will review the projected cash flow. What research did you do to determine your projected sales? How detailed did you study expenses? Have you defined how you arrived at your sales and expense projections? Were your assumptions reasonable?

3) Collateral

This is the backup plan. If the business does not generate the profits, what can be sold to repay the loan? Does the collateral lose its value rapidly? For example computers can be expensive to buy, but they do not hold significant value when resold as used equipment. Alternatively if part of your plan requires you to own land and building in a stable economic area then this collateral would likely be considered strong.

4) Conditions

The factors here deal with restrictions applied to the business to improve the probability of successful loan repayment. Typical conditions would be a restriction on capital purchases. Capital purchases require funds, if all the cash is going towards buying new equipment there may be not cash available to make the loan payments.

5) Capital

This is the amount that the business owner is investing in the business. Ultimately if you are not investing in the business why would the lender? Typically a lender would look for your risk capital to be 35% of the project. There are a number of federal and provincial programs that partner with lenders which have the effect of reducing the amount of Capital invested by the business owner. That's another topic for another day.

Community Futures is a community-based economic renewal initiative funded by the Government of Canada and directed by local volunteer boards. Our main objectives are to help rural Canadians start or expand a business and to help sustain and improve communities and their local economies

Community Futures Parkland provides entrepreneurs with small business loans up to \$150,000. Loans are available for new business start-ups, business expansion, or to stabilize an existing business.

You can find us at <http://cfmanitoba.ca/regions/parkland/> or call 204 546 5100.