

Common Mistakes Made When Applying for a Business Loan

By Darrel Hulsey

Getting a small business loan can be quite a challenge. Even though there is no magical formula for obtaining capital from a lending source, there are a few things one may wish to avoid in order to improve the chances of getting that needed money to start, maintain, or grow a small business.

Waiting Until the Last Minute. Obviously, there will be times when a business owner does have an immediate need for capital and must approach a financial institution at the last minute with a request for money.

However, most requests for capital can be made in advance. At the very least, a last minute request for money may indicate to the lender that the business owner is not planning ahead.

Inadequate Financial Planning. In order to understand the true need for debt and the ability of the business to pay back a loan, financial projections should be completed. Depending on the amount of the request, most lenders will also require a 12 to 36 month look forward. By planning ahead, an owner can insure that both immediate and long-term needs are considered. Proper planning can allow a business owner to be relatively sure about the amount of capital needed and the ability of the business to pay back the loan.

No Business Plan or Business Summary. To properly communicate the key facts

about your business to a potential lender, it is essential that the owner have at least a written business summary, or, depending on the situation, a more detailed business plan. How can one expect a lender to advance capital if there is no clear path for how this business will prosper to a point of being able to pay back the loan?

Not Qualifying the Bank or Lender in Advance. Not all lenders may be interested in loaning money to a particular type of business or lending money on the basis one may need the loan. By contacting the potential lenders in advance, one can get a general feel as to the likely reception of the type and amount of loan that is being requested. The lender will not be able to offer a definitive decision in advance, but one can get an indication as to general interest. Among many benefits, this will potentially save valuable time.

Asking for the Wrong Type of Loan. Once the amount of the capital need is determined, the duration of the need should be equally weighed. One needs to try to match the type of loan requested with the term of capital needed. For example, one does not typically want to finance a long-term asset, such as a vehicle, with a short-term loan, such as a line of credit. Evaluate the type of business loan being sought based not only on the amount of the capital need, but also on the type of loan that works best. Failure to make the right choice can cost from not only an interest standpoint, but from a cash flow perspective, as well.

Being Unfamiliar with Personal Credit Reports. No matter how great the idea or how well the business is performing, the

personal credit reports of the owners will play a tremendous role in whether or not a business will qualify for a loan. All owners of a business should get and review a copy of their personal credit reports prior to applying for a loan so any errors can be corrected in advance.

These are only a few issues that can be detrimental to successfully obtaining a needed loan for a business.



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