

# Small Business Financing

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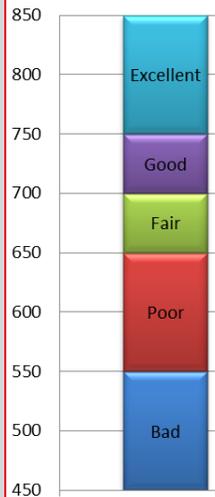
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Small Business  
Development Center  
UNIVERSITY OF GEORGIA

# The Five C's of Credit

## Do You Know Your Credit Score?



## 1. Capacity: How are you going to repay the loan?

**Cash Flow:** Is your business making money? Most lenders require that your net income be at least 1.25 times the proposed debt payments. Here's how to figure:

$$\frac{\text{Net Income} + \text{Depreciation \& Amortization}}{\text{Proposed Loan Payments (Principal + Interest)}} \geq 1.25$$

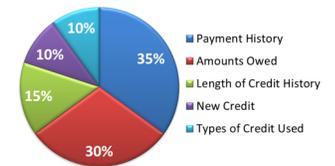
### Payment History:

**Personal Credit**—Lenders usually require a small business owner to personally guarantee a loan. Know your credit score, and protect your credit. Here are a couple of things you can do to improve your personal credit: 1) Pay down debt; 2) Limit the number of inquiries to your account; 3) Pay your bills on time, and make sure you're up-to-date on any loans, including student loans.

**Business Credit**—Are there large debts on your balance sheet? If you have more debts than assets to pay them with, this is a red flag to lenders.

**Other Sources of Income:** Is there another source of income in your household? Lenders will consider other sources of income to be "backup" sources of repayment.

### What Goes Into a Credit Score?



## 2. Collateral: What security can you provide?

Collateral is usually required for small business loans. You pledge an asset as security for the loan. This chart shows the value of various forms of collateral:

Collateral Type	Lender will value at:
House	75 – 80% of Market Value minus Mortgage Balance
Car	Nothing
Truck/Heavy Equipment	50% of Depreciated Value
Office Equipment	Nothing
Furniture & Fixtures	50% of Depreciated Value
Inventory: Perishables	Nothing
Jewelry	Nothing
IRA or 401(k)	Nothing (unless rolled over using a FranPlan)
Receivables	75% of Receivables under 90 days
Stocks & Bonds	50% - 90%
Mutual Funds	Nothing
CD	100%

### 3. Capital: How much money have you invested in your business?

Prospective lenders and investors like to know that you have personally invested money in your business. They also want to know that your business has enough extra capital to handle any unforeseen needs. Most lenders and investors have a specific percentage that they require you to invest in your business, and the range is usually 10 to 25% of the loan/investment amount. Loans for real estate and fixed asset purchases usually require that you pay a certain amount toward the purchase, usually 10–20%.

### 4. Conditions: How are you going to use the loan?

Lenders will require that you provide details on how you're going to use the money, and where you're going to get all the money you will need. This is called a Sources and Uses of Funds Statement:

Sources of Funds		Uses of Funds	
Bank loan	\$500,000	Equipment	\$250,000
Personal cash	100,000	Renovations	200,000
		Furnishings	50,000
		Working capital	100,000
<b>TOTAL</b>	<b>\$600,000</b>	<b>TOTAL</b>	<b>\$600,000</b>

Lenders will also consider the history of your business and the economic outlook of your industry. If your industry is especially sensitive to economic downturns, or your main products/services are seasonal, you will need to show that you can handle productivity and costs to weather unforeseen events.

### 5. Character: Who are you?

Do you have experience in your industry? Have you ever managed a business, or supervised employees? What in your educational and work background has qualified you to run this business? Lenders want to know that you have the credentials and experience to run a successful business. Having good references is critical.

Include in your documentation for the loan a copy of your resume and the resumes of your top managers.

[Your Name] [phone]  
[Street Address], [City, ST Zip Code] [e-mail]

**Professional Profile**  
[Briefly describe your professional background and education relevant to this position.]

- [Relevant skill] • [Relevant skill]
- [Relevant skill] • [Relevant skill]
- [Relevant skill] • [Relevant skill]

**Professional Accomplishments**

[Field or Area of Accomplishment]

- [Achievement]
- [Achievement]
- [Achievement]
- [Achievement]

[Field or Area of Accomplishment]

- [Achievement]
- [Achievement]
- [Achievement]
- [Achievement]

[Field or Area of Accomplishment]

- [Achievement]
- [Achievement]
- [Achievement]

**Work History**

[Job title]	[Company Name] [City, ST]	[dates of employment]
[Job title]	[Company Name] [City, ST]	[dates of employment]
[Job title]	[Company Name] [City, ST]	[dates of employment]
[Job title]	[Company Name] [City, ST]	[dates of employment]

**Education**

[Degree]	[School Name] [City, ST]	[date of graduation]
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**References**  
References are available upon request.

**TIP:**

Part of your documentation for a loan will include your Personal Financial Statement.

**Remember:**

Assets (the current value of everything you own)

**MINUS**

Liabilities (the current balances of everything you owe)

**EQUALS**

Your personal net worth

## Small Business Financing Options

Type of Financing	Description	Use of Funds	Limits	Term	Interest Rate	Fees	Collateral	Source
Debt: Short-term	Asset Based	Working capital (similar to line of credit)	Value of Inventory and Accounts Receivable	Ongoing	Variable: combination fee + rate of 1.5 - 5%		Yes	Asset Based Lenders
Debt: Short-term	Credit Card	All	Variable	Ongoing	Variable: 10 - 40%		No	Banks
Debt: Short-term	Factoring	Working capital	Value of Inventory and Accounts Receivable	Ongoing	Variable: combination fee + rate of 1.5 - 5%		No	Factoring Companies
Debt: Short-term	Home Equity Line of Credit	All	80% of equity in home	Ongoing	Variable		Yes	Mortgage Lenders; Banks
Debt: Short-term	Letter of Credit	International sales	Variable	Single-use	Fixed: 1 - 3% above prime		Yes	Banks
Debt: Short-term	Line of Credit	Working capital	Variable	Renewable	Fixed or variable: 1 - 4% above prime		Yes	Banks
Debt: Short-term	Merchant Cash Advance	Working capital	Variable	Renewable	Variable: 20 - 40%		No	Finance Companies
Debt: Long-term	Commercial Loan	Business expansion	Variable	Usually 7 - 10 years	Variable: 1 - 3% above prime	3 - 8%	Yes	Banks
Debt: Long-term	Commercial Real Estate Loan	Real estate	Variable	Usually 10 - 20 years	Fixed and variable: 2-4% above prime	.5 - 2%	Yes	Banks
Debt: Long-term	Equipment Leasing	Equipment	Value of equipment	Usually 3 - 5 years	Variable: 8 - 20%		Yes	Equipment Finance Companies; Banks
Debt: Long-term	Micro-loan	Start-up costs; Working capital	Up to \$50,000	1 - 5 years	Variable		Yes & No	Microlenders
Debt: Long-term	Personal Loan	All	Variable	Usually 1 - 5 years	Variable		Yes	Credit Unions
Debt: Long-term	SBA 504 Loan	Real estate; Equipment	Up to \$5,000,000 (SBA portion)	Usually 10 - 20 years	Fixed & variable: 2 - 4% above prime	Around 3%	Yes	CDCs/Banks
Debt: Long-term	SBA 7(a) Loan	Working capital; Business expansion	Up to \$5,000,000	Usually 7 - 20 years	Variable: 1 - 2.5% above prime	2 - 3%	Yes	Banks
Equity	Angel Investors; Venture Capitalists	Start-up costs; Business expansion	\$25K - Up	N/A	N/A	N/A	N/A	N/A
Equity	Friends; Family; Self	Start-up costs; Business expansion	Variable	N/A	N/A	N/A	N/A	N/A

# The Business Plan

## Executive Summary

**Opportunity:** Concise explanation of business: product, services, and company; as well as the amount and use of funds requested.

**Management Team:** Summary of key managers and their roles in the company.

**Target Market:** Summary of the size and demographics of targeted customers and how your company meets their needs.

**Marketing Plan:** Paragraph on how your company will reach and retain customers.

**Competition:** Summary of your competitors, both direct and indirect.

**Competitive Advantage:** What makes your company special? How is it different from the competition?

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## Company

**Description:** The date your business was formed, legal structure of the business, and location.

**Owners:** Who owns the company? Are there multiple members or shareholders? What percentages do they each own, and what are their roles?

**Milestones & Timeline:** Describe the history of your business or, if a new business, your future plans in phases.

**Competitive Advantage:** Go into more detail on the industry and how your company competes. List all of the major differences between your company and the competition.

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## Management Team

**Profiles:** Short bios of key management team members, including their expertise, qualified background, and roles in the company. Include any outside resources and advisors. If you're a start-up, sketch the descriptions of the key positions and how you will fill them.

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## Operations

**Critical Functions of the Business:** Describe how products and services are produced, including purchasing and inventory policies. What administrative systems are in place, such as shipping and bookkeeping? Who and where are your key suppliers? What kind of customer service do you offer?

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## Target Market Summary

**Who is your target market?** Be specific. Include demographics, and psychographics (what they like, how they live). Explain industry trends that support your choices.

**Where is your target market?** Where are they located? It's best to start small and expand later. Show the research you've done on your target area, including maps and charts.

**How will you serve your target market?** Are there enough customers to sustain your business? What products and services will you offer them, and how do you know they want/need them? What research have you done on the wants and needs of your target market, and what problems will your product/service solve for them?

**Attachments  
to the  
Business  
Plan:**

**Resume**

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**Personal  
Financial  
Statement**

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**3 Years  
Personal &  
Business Tax  
Returns**

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**Financial  
Statements**

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**Startup Cost  
Estimates**

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**Sources &  
Uses of Funds**

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**Letters of  
Intent**

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**Legal  
Documents**

## Marketing Plan

**Products and Services:** Describe each major product and/or service you offer, including the features and benefits of each.

**Pricing Strategy:** How are your prices determined? Do you base your prices on a markup of costs, or on what your target market will pay? Does your price match the product, and is it consistent with industry prices? Why will customers pay what you are charging?

**Promotion:** How and where are you going to advertise your products/services? Will you use online marketing, and if so, what is your strategy? Do you have a plan for public relations? What promotions and sales will you offer, and what is your strategy?

**Place/Distribution:** Where are you going to sell your products and services? How will the customer receive them, and what options will you offer? Will you sell online? Describe the stores and facilities where your products/services will be sold. Will everything be done simultaneously, or is your plan in phases?

## Competition

What research have you done on your competition, including direct and indirect competitors? What similar products and services do they offer, and how will yours be different? Are there enough customers to go around?

## Financial Projections

Lenders usually request two years of month by month projected financial statements. These will be used to show how much money your company needs, the potential revenue if the additional funds are received, and how the business can repay the loans. Here's what you will need to calculate in order to create financial statements:

1. Sales: Study sales of your competitors, and also take into account the traffic in your intended location. Break sales down by major product categories, and don't forget seasonal fluctuations.
2. Costs of sales: How much will each sale cost you? Count as costs of sales only the costs that can be attributed directly to sales, such as cost of inventory and ingredients.
3. Start-up costs: If you're starting a business, create separate lists for fixed asset purchases, such as furniture and equipment; deposits and down payments; expenses that will be incurred before you open, such as supplies and inventory.
4. Expenses: Calculate your fixed expenses for each month. These can include labor expenses, rent, marketing, insurance, and accounting fees.
5. Other: Decide how much inventory you will want to keep on hand and how quickly you will pay your vendors and collect from customers.

Sample Income Statement	
Sales	100,000
Cost of Goods Sold	50,000
<b>Gross Profit</b>	<b>50,000</b>
Personnel	20,000
Insurance	500
Supplies	750
Marketing	2,000
Total Expenses	23,250
<b>Net Profit</b>	<b>26,750</b>

Sample Balance Sheet			
Assets		Liabilities	
Cash	5,000	Accounts Payable	7,500
Inventory	5,000	Bank Loan	10,000
Furniture	1,000		
Equipment	5,000		
Improvements	10,000		
<b>Total Assets</b>	<b>26,000</b>		
		Owner Equity	
		Retained Earnings	8,500
		<b>Total L + OE</b>	<b>26,000</b>

### TIP:

**Want the SBDC to help with your financial projections? Here's what to bring to the meeting:**

**Two years + YTD Income Statements and Balance Sheets**

**List of your current business debts, including interest rates, terms, and balances**

**Know your credit score**

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## *Our Mission*

**To enhance the economic well-being of Georgians by providing a wide range of educational services for small business owners and aspiring entrepreneurs.**

SBDC Georgia offers no-cost, confidential consulting services to small business owners. Our consultants provide assistance in many areas of business, including marketing, management, strategic planning, and financial analysis. Please contact us if you need assistance preparing financial projections or finding financing for your business.

For more information, visit us on the web at [www.georgiasbdc.org](http://www.georgiasbdc.org) or scan the code below.



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