CAN I QUALIFY FOR A LOAN
Applicant's Self-Analysis

Whether you are applying for a SBA loan or a traditional bank loan, there are certain factors that improve your ability to obtain financing.

Do you have a good personal credit history? ***YES______ NO______***

Research indicates that good personal credit history is one of the most important factors in identifying borrowers that will repay their commercial loans. Many loan programs require perfect personal credit in order to qualify.

- ► If you do not have a current credit report, order one by visiting Equifax at www.equifax.com or TransUnion at www.transunion.com or Experian at www.experian.com. If you have credit problems but they can be explained by a one-time incident such as medical problems, provide information on the problem and how it has been rectified.

- ► In addition to checking your credit history, it is a good idea to check your beacon score. Beacon scores are credit scores, which are determined through a complex algorithm. SBA and banks use this score to evaluate how likely a borrower will repay their loan. For a small fee, you can obtain your Beacon scores at www.equifax.com.

- ► If you have had a bankruptcy in the past seven (7) years, or have slow payments, collections, etc. then it may be difficult to obtain financing now. If your poor credit history can be explained by a particular incident; then supply information on the situation and how you attempted to repair the past credit problems. If you have consistent credit problems, you will need to "repair" your history and rebuild your credit track history.

Have you filed your personal/business income and business taxes? ***YES_______ NO_______***

Lenders and government loan programs alike want to see that an individual has met their tax obligations for both filing and paying taxes. For SBA loans, tax verification is obtained from the IRS before a loan is closed. These loan programs do not look favorably on individuals who have unpaid income taxes.

Do you have any collateral to secure a business loan? ***YES_______ NO_______***

Business and personal assets can be considered collateral, or a way to repay the loan if the business defaults on the loan. Most collateral is valued at an amount less than market value based on a variety of factors. Although the SBA will not deny a loan due solely to the lack of or amount of collateral, the more collateral one has, the more likely a deal will be favorably considered. Unwillingness to pledge assets can be a basis of decline.

Are you willing to personally guarantee a loan? ***YES_______ NO________***

Most business owners are asked for a personal guarantee in order to obtain a business loan regardless of legal structure of the business.

Have you demonstrated that your business has the ability to repay a loan? ***YES_______ NO________***

(FOR EXISTING BUSINESSES)

If the business is profitable, then there are demonstrated profits to repay some amount of new debt. If a business is not profitable, then it becomes very important to prove how it will be profitable in the near future so that a loan can be repaid.

(FOR START-UP BUSINESSES)

You must demonstrate that the business will be able to repay the loan payments. It is very important that you find as much data on comparable businesses or industry statistics in order to "prove" the revenues you intend to generate and the expenses you anticipate incurring. This is accomplished by writing a business plan. For assistance with writing your business plan, locating industry research or information, contact your local SBDC office.

FOR START-UP BUSINESSES:

Do you have enough money of your own to put into the business? ***YES______ NO________***
All loan programs require that the business owner put their own money in the business. This owner equity injection shows that the owner believes in the business enough to risk their own money. Some microloan programs require only 10% owner equity; other programs require at least 30%. Lenders will look more favorably on a loan request with more equity in the business. **Neither banks nor the SBA provide 100% financing.**

Do you have experience in running your own business? ***YES_______ NO_______***
For a new business especially, it is important for the business owner to demonstrate that they have experience in the industry and/or entrepreneurial experience. If you have never owned or operated a small business before, we strongly recommend that you attend entrepreneurial training classes.

FOR EXISTING BUSINESSES:

Does your business have a positive net worth? ***YES_______ NO_______***
The net worth of the business should be positive. If there are loans from shareholders on the balance sheet and you are able to subordinate these (not pay the shareholders) while you pay the bank loan back, you may consider these loans from shareholders as equity.

Is your business carrying too much debt? ***YES______ NO________***
Businesses that have too much debt will find that their profits are directed at paying back loans and not building retained earnings in the business that can fund future growth. Consequently, banks and government loan programs look more favorably at loan request that do not add too much debt to the business. Banks often look for a debt to net worth ratio of 4 or less (total liabilities divided by equity).

Does your business have managers and advisors capable of leading your business to the next level of growth? ***YES_______ NO_______***
As businesses expand, they need more sophisticated management as it relates to strategic planning, marketing, record keeping, inventory control, personnel, etc.

If you cannot answer yes to all the questions above, then you may have difficulties obtaining financing at this time. Contact your local SBDC office for assistance.

Documents Generally Required

1. Personal financial statements (for all owners of 20% or more) must be joint, if married.
2. If a start-up, a business plan.
3. In the case of change of ownership, a buy-sell agreement, and justification (i.e. benefit of business).
4. If a franchise, a copy of the franchise agreement and FTC disclosure statement.
5. If refinancing, copy of note(s) to be paid off with loan proceeds. (Needed due to the complex debt repayment rules).
6. Copy of the business tax returns, last 3 years.
7. In the case of a new business or purchase of an existing business, source of capital contribution clearly defined and supported by the tax returns of other documents (i.e. not from a borrowed source).