

Got business questions?

Ask SCORE

By: Gray Poehler, Business Counselor

QUESTION: *We want to start a business and have limited financial resources. We have approached several banks without much success. What are my options for securing a business loan?*

Tim C., Naples & New Jersey

ANSWER: *Tim, your problem is not unique. Adequate start-up capital is critical to the success of any business. Most new ventures fail in the first two years due to inadequate cash flow. You say you have approached several banks and come up short. Part of the problem may be that you were not prepared with a proper written “business plan”.*

The business plan is a document that tells the lender or investor three important details:

- 1. A detailed description of your business concept, including how you will market the product or service and who you will market it to, i.e. the customer. Also, who is your competition and what would make the customer choose you over the other guy.*
- 2. A projected cash flow analysis that tells the lender how the loan proceeds will be used.*
- 3. A projected sales analysis that sets specific goals and gives the lender a sense of your ability to repay the loan in a timely manner.*

In essence, you construct a complete roadmap, with benchmarks and a time table describing how you will progress from your beginning status to reach the targets you have set for yourself.

Obviously, the lender will want you to make a personal investment in the business. Therefore, any assets you can pledge to secure the loan will increase your chances and ensure a lower rate of interest. Equity in a home or other property, a whole life insurance policy, savings, IRA or 401k plan should always be clearly documented on your personal financial statement.

Your credit score is of vital importance to the lender. A score of a least 720 is a must if one is to secure a conventional bank loan at a reasonable interest rate. You can check your credit score by contacting the three nationwide credit bureaus: Experian, Trans Union, or Equifax (www.annualcreditreport.com). A credit report will be provided to you without charge once each year. Upon receipt of your report, scan it closely and notify the credit bureau of any errors. They can inform you the proper procedure to correct the problem. Your credit history is established when you borrow money, pay rent or use credit cards. Too many credit cards hurt your credit rating. Late payments also hurt your credit rating.

If your credit score is below 720, there may be other sources for you to consider. The U.S. Small Business Administration, in cooperation with certain area banks, will issue loan guarantees if you qualify. To start, one should determine which banks participate in the SBA loan programs, and begin to develop a relationship. Be sure to first do your homework by following the steps listed above. The bank will give you an indication of interest within 5 business days. If you qualify, the entire process usually takes no more than 45 days.

SBA guarantees 85% of loan amounts from \$25,000 to \$150,000 and 75% of amounts over \$150,000. As a general rule, SBA looks to the borrower to have 20% of their own money invested in the business. Any available collateral will be considered as security for the loan. However, lenders may approve unsecured loans up to \$25,000 under the Community Express Pilot Loan Program. The pilot program is offered in pre-designated geographic areas serving mostly minorities, women and veterans. Other financing options can be reviewed on the SCORE website Business Resource Library by visiting www.scorenaples.org/library and click on “Financing a Business”.

If all this sounds rather overwhelming, it doesn't have to be. SCORE business counselors are available, without charge, to walk you through the process. The Naples SCORE business office is located at 900 Goodlett-Frank Road in the Fifth Third branch bank. Business hours are 9:00 AM to Noon, Monday through Friday. Appointments can be arranged by calling (239) 430-0081 or visit our website www.scorenaples.org and click on “Request Counseling NOW as a First Time Client”; then follow the instructions to fill out a “Request for Counseling form”.

If you would like the answer to your question considered for publishing in this column, please fill out the form located www.scorenaples.org/askscore Please include your name, address and a contact phone number.