

How To Get A Small Business Loan

Sooner or later most small businesses need to get a small business loan, whether to get the operating capital for business startup or to finance an expansion. But whether you're approaching a bank or a friend for a small business loan, the lender will have the same expectations.

You can greatly increase your chances of successfully securing a small business loan by being prepared to meet those expectations.

Put yourself on the other side of the desk for a moment. If someone asked you for a small business loan, you'd want to know exactly why he or she wanted the money and what the chances were that he or she would repay the loan in full and on time.

So the key to getting a small business loan is preparation. First, gather together the documents that will help persuade the lender that a small business loan is necessary and that you are a good risk. You will need:

A business plan - The business plan show the lender not only why you want a small business loan but what you plan to do with the money.

Cash flow projections - What's the first question any lender has? Will you be able to repay the loan. Your business's cash flow projections give lenders concrete financial data that they can use to assess this risk.

A statement of your personal financial status - A list of your personal assets and debts to give the lender a fuller financial picture.

To get a small business loan, you may also need these documents:

Past business tax returns - If your business is established and you have past business tax returns, it's a good idea to take them with you. They'll give the lender a better idea of how your business is doing financially.

A credit rating report - Basically, you establish a credit rating by buying things on credit and paying back the money you owe. Your loan repayment history plays a big part in establishing your credit rating, but all your "credit" dealings make up the history that's used to determine your credit rating.

It's not necessary that you include a credit report with your small business loan application; it's easy enough for potential lenders to check your credit rating. But if you don't know what your credit rating is or suspect your credit rating is tarnished, you may want to get one.

You can get a credit report by contacting one of the three credit reporting agencies in Canada, TransUnion, EquiFax Canada, or Northern Credit Bureaus. To receive your free credit report, you will need to mail or fax one of these companies a request along with copies of two pieces of I.D.

The credit report you receive several weeks later will include information on what to do if you find errors in the report. If you have a poor credit rating, you will want to take steps to repair your credit rating before trying to get a small business loan.

Now that you have all the documents you need to get a small business loan in order, how do you actually persuade the lender to give you a small business loan? Continue on to the next page for tips on making a winning small business loan presentation.

The next step in getting a small business loan is to persuade the lender to give you a small business loan. You need to prepare in advance to make a winning small business loan presentation.

Start by considering the lender's point of view. You want money. But he or she is most interested in the answers to these two questions: "What are you going to do with the money?" and "Are you a good risk?", and to make a winning small business loan presentation, you need to come up with the "right" answers to these two questions.

Answering the first question means being fully conversant with all the details of your business plan and being able to point to the relevant financial statements, charts or graphs that will help convince the lender that you need the amount of money you're asking for to do what you want to do.

Answering the second question means having already given some thought to the credit risk you represent to the lender and being ready to address his or her concerns.

To get a small business loan, be prepared to tell your potential lender:

What collateral you have - Collateral refers to the tangible assets that you are willing to put up to secure the loan. These assets might be equipment, a house, a car - something of value that you own. If you fail to repay the loan, then the proceeds from the sale of the assets is used for repayment.

How much money you're personally willing to put into the business - Being willing to risk your own money shows the lender that you're committed to the enterprise.

Your expertise and/or experience in your chosen field - Because the success of your business is dependent on this to some degree, any potential lender will want to know more about you. Be prepared to talk about yourself when you apply for a small business loan - your background, your expertise, and even your aspirations.

Your chances of getting a small business loan will be greatly improved if you have all your documents in order and are prepared to assuage the lender's concerns about loaning you the money. Think of it as a presentation to an important client or customer, and you'll have a better chance of success.