

# Chapter 9

**And in conclusion . . .**



*“Folks, I feel as if we’re turning a corner.”*

# Funding Your Business

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With your Business Plan completed, you will be ready to put things in place to open for business. In Chapter Three, we suggested you start a Organization Checklist where you kept track of the details you needed to attend to as you prepared to open. In addition to those details, most prospective business owners will need to use their business plan to secure funding. Sources of loans include:

- Banks
- SBA loans through local banking institutions
- Loan funds managed by local industrial or economic development groups
- Loan funds managed by regional groups such as the Grow Iowa Foundation
- State loan funds such as Self-Employment Loan Fund (SELP); Targeted Small Business (TSB) and Entrepreneurs with Disabilities (EWD). A complete list of State of Iowa Loan Programs can be found on the State of Iowa Department of Economic Development Website.

Funding may also come from private investors. Information on some statewide investor networks can be found on the State of Iowa Department of Economic Development Website and occasionally through local attorneys. Sources of funds may also include:

- Personal or family member investment
- Investment companies
- Angel investors

Many businesses will have to put together a loan package which means that they will have to seek loans from a number of funders. Those funders will often work together to put together the package and funding from each will be dependent on funding approval from all.

You will be asked to put some of your own resources into the business in addition to providing collateral for loans. Some cash injection will be expected. Some funders will recognize in-kind contributions as part of a business owner's investment in the business. It is unlikely that any lender will fully fund your business. There are several reasons. One central reason is that lenders believe that if a business owner does not have a financial commitment to a business that business owner will not take ownership of the business, will not take responsibility for getting the business through the rough times and may be more willing to walk away from the loan if success doesn't come easily.

## **Prepare to meet your banker!**

Perhaps the most important thing to remember when you sit down with a banker or other lender is that first impressions count and the first impression the lender will have of your business plan will be what you say about it. One banker told a group of potential small business owners that he "reads" the business plan by talking to the customer. He said he may read the written business plan for further information and it certainly goes in the client's file, but he said in asking questions and listening to the answers he finds out how much possession the client has taken of his plan.

In preparing to meet the lender, it is helpful to understand the perspective of most lenders. Remember, their reason for loaning money is to earn interest on their money (that is the interest you pay) and to get their money back on a timely basis. The following 5 C's of Commercial Lending helps to understand a lender's look at your credit worthiness and his expectations of getting his money back.

### *Loan Granting Criteria – The 5 C's of Credit*

Five categories creditors used to evaluate your credit worthiness.

**C**haracter – Your honesty and integrity as an individual. This component carries approximately 75% of the weight of the decision on whether or not to extend credit. Your personal past payment practices and your credit history are evaluated to determine as a debtor.

**C**apacity – Two components:

- ♦ Measurement of your capacity to meet your debt/payment obligations
- ♦ Your capacity as a business person to successfully run your business and achieve your business goals

**C**apital – Bank accounts, investments and credit cards are all examined to determine your financial stability and total financial worth.

**C**olleteral – What can you offer as security if you are unable to pay your obligation out of normal business operations? Often for young companies the only available or acceptable collateral may be personal items such as cars, a home, and the like.

**C**onditions – Creditors look at and try to evaluate the impact of economic conditions, trends and the general climate for business on your ability to meet projected sales goals and generate revenue to pay your obligations. In other words, not only past payment practices but current economic conditions and forecasts are weighted in determining your ability to cover any obligations you incur.

### ***Loan Granting Criteria – Business Plan Importance***

*“The Business Plan is not just a justification for a loan; it should detail the plan and criteria for an eventual business success.”*

Does your business plan do this?

What are your goals and objectives, and how are they defined?

### ***Loan Granting Criteria – Other Things to Consider When Applying for a Loan***

1. Approach more than one lender: find the bank that “fits” you, check interest rates, ask about flexible payback schedules . . .
2. Do research about the lender. Learn about the how they do business. All banks are not the same. Listening to rumor is not doing research.
3. Be prepared to defend your loan request.
4. Creative financing may be your option: finance through suppliers, barter for equipment and services, . . . .
5. Be prepared if the banker asks about the equity in your house. Are you willing to mortgage that equity? Funders want to know that you believe enough in your business plan for success that you are willing to “risk” something of importance to you.

### ***Loan Officer’s Questions***

In preparation for sitting down with a lender, you should think through the questions the banker may ask and your answers. It can be helpful to do some role playing with a family member or friend. Identify negatives that the banker may perceive and address those issues in a positive way before the banker has the opportunity to see them as negatives. It is what the news media calls putting a *spin* on the issue. You must be honest and straight-forward. Addressing the issues early will indicate that you have thought through them and developed solutions.

Now that you have completed your business plan, read it and remind yourself of the information you have included in it. Get comfortable with the details and the reasoning behind your decisions.

Be prepared to answer the negative questions as well as the positive ones. Don't be offended when the banker sounds critical. That is his job. He needs to find out everything that could impact repayment of a potential loan.

Dress for success. If you are going for a business loan, then act like a business person. Be positive. Be confident.

Following are examples of questions the banker might ask.

1. So you want to be a business owner? Why?
2. What's your background? How has it prepared you to be a business owner?
3. What are the biggest challenges for a small business?
4. Why do you believe your business will succeed? How do you know?
5. What could cause your business to fail?
6. What type of expansion do you perceive in the future?
7. What kind of insurance do you carry?
8. How are you going to promote your business?
9. What are your strongest attributes?
10. What will you do if we only loan you 80% of your request? (If you have a bare bones financial plan, tell the lender. Give him details about what you have done to keep start-up costs to the minimum and how you will control costs. Be prepared to defend your financials and open to listening to suggestions from your lender.)
11. What market segment are you shooting for?
12. What market research did you do?
13. How are your prices going to compare to the competition?
14. Who are your biggest competitive threats? How will you compete?
15. What are your competitor's charges for the same product/service?
16. What is your production capacity? (How many widgets can you make or get? How many calls can you make per day? What % of contacts will buy? How many hours can you work or sell, etc.?)
17. How will your product or service be unique?
18. Why do you believe there are enough people with enough money who will buy your product or service often enough that you can make a profit?
19. Why do you think we should loan you this money?
20. Amount of loan required and anticipated use of funds?

21. Where will the business be located? Why was this location selected?
22. How much capital do you have and what will you be investing in the business?
23. What kinds of licensing do you need?
24. How will you meet your personal financial needs until your business begins to make a profit?
25. Others have opened the same kind of business and failed. What will make you different?