

## **QUESTIONS A BANKER IS GOING TO ASK**

**WHAT CAN YOU, AS A BUSINESSPERSON, DO TO BETTER PREPARE YOURSELF WHEN GOING TO A BANKER FOR A LOAN? THE FOLLOWING ARE SOME BASIC QUESTIONS THAT A LENDING OFFICER MAY ASK YOU WHEN YOU SIT DOWN AT THEIR DESK AND REQUEST A LOAN.**

### **THE CRITICAL QUESTIONS**

- 1. Do you have a written business plan that explains the type of business with financial projections that show profit/loss, cash flows, cash amount needed and how it is to be spent?**
- 2. How much do you, as a businessperson, have in knowledge or experience in your business?**
- 3. How is your credit and how much personal debt do you have?**
- 4. How much money does the businessperson have to put into the business or how much money do you have already invested in the business?**
- 5. What kind of collateral (personal and business) do you have to support your loan request?**

- 6. How much competition will you be faced with?**

### **MINOR QUESTIONS USUALLY MUCH LESS CRITICAL**

- 7. Do you have personal and business insurance?**
- 8. Do you have services of an accountant?**
- 9. Do you have services of an attorney?**

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### **DO YOU HAVE A WRITTEN BUSINESS PLAN?**

**1. The business plan and the purpose of the loan should make good business sense. For start up funds or for an exiting business it might be for purchasing additional inventory, financing accounts receivable, taking discounts on purchases from suppliers, or purchasing some type of new equipment or machinery. The amount of money you are requesting must be supported by a profit and loss and cash flow projection. If you ask too little, you may find yourself with insufficient capital for your business operations. On the other hand, if you ask for too much money, you may be increasing your likelihood of being turned down by the banker if they do not see that your request is reasonable and based on factual business judgment.**

### **HOW MUCH DO YOU, THE BUSINESSPERSON, HAVE IN KNOWLEDGE OR EXPERIENCE?**

**2. The banker will want to know how much first hand experience, training, and education you have had in the business that you are operating.**

### **HOW IS YOUR CREDIT RATING AND HOW MUCH PERSONAL DEBT DO YOU HAVE?**

**3. The banker will run a credit check and want to know how much personal debt you have. If you are highly in debt personally, you may find yourself forced to withdraw large sums of money from the business in order to service your personal obligations, and in doing so, jeopardize the financial strength of the company.**

**HOW MUCH MONEY DOES THE BUSINESSPERSON HAVE TO PUT INTO THE BUSINESS OR HOW MUCH MONEY HAVE YOU ALREADY INVESTED IN THE BUSINESS?**

4. The banker will want to know if you have sufficient capital and cash flow in order to operate your business properly. This insures the survival of the business, as well as the protection of its assets. If there are losses to the business this jeopardizes the bank's loan to the business.

**TO SUPPORT YOUR LOAN REQUEST?**

5. Collateral owned personally by the business-person which can be assigned to the bank:

- a. Real Estate
- b. Savings Account
- c. Municipal, Government, or Corporate Bonds
- d. Time Certificates of Deposit
- e. Marketable Securities

Collateral owned by the business which can be assigned to the bank:

- a. Accounts Receivable
- b. Inventory
- c. Equipment and Machinery
- d. Contracts Receivable
- e. Real Estate

**HOW MUCH COMPETITION WILL YOU BE FACED WITH?**

6. The banker will want to know if you have taken a marketing survey of the competition in your general area and competition of your local competitors as to their price and quality of the same merchandise or service that you intend to market.

**DO YOU HAVE PERSONAL AND BUSINESS INSURANCE?**

7. Personal insurance is important to the businessperson in order to protect his business if he passes away, and at the same time protect his personal assets, estate and family from creditors. Also your business may require various other types of insurance, such as fire, theft, business interruption, vehicle, and employer compensation insurance.

**DO YOU AS A BUSINESSPERSON HAVE THE SERVICES OF AN ACCOUNTANT**

8. If the businessperson does not have the services of an accountant, many bankers are reluctant to deal with them. There is a strong feeling among many bankers that a third party looking in on the business records, bank records, and operations of a business is necessary in order to obtain an objective evaluation and financial analysis of a business through the presentation of the quarterly and yearly financial statements.

**DO YOU HAVE THE SERVICES OF AN ATTORNEY?**

9. The maintaining of the services of an attorney by the businessperson is like having insurance; the businessperson cannot always forecast when an attorney's services may be required - but when trouble arises, you may need an attorney.

**PERTINENT ITEMS TO BE INCLUDED IN A LOAN REQUEST**

**BUSINESS ACQUISITION AND START UPS**

From Business to be acquired:

- 1. Current financial statement including aging of accounts receivable and accounts payable.
- 2. Income tax returns, last 3 years.

**From Applicant:**

- 1. Business Plan with projections of cash flow.**
- 2. Articles of Incorporation/Partnership Agreement, if applicable.**
- 3. Lease Agreement or option for term of loan requested.**
- 4. Estimates of equipment to be purchased.**
- 5. Purchase Agreement.**
- 6. Personal Financial Statement(s).**
- 7. Personal Tax Returns, last 3 years.**
- 8. Personal Resume(s).**
- 9. Source of Equity.**
- 10. Loan Request Summary.**
- 11. List of personal debt with name and address of lender, account number, terms, original amount and date, maturity date, balance, collateral, and status.**
- \*12. History of Business.**
- 13. Specific Credit Application required by each lender.**
- \* Not Applicable to Start Up Business.**

**BUSINESS EXPANSION:**

- 1. Current business financial statements including agings of accounts receivable and accounts payable.**
- 2. Business financial statements, last 3 years.**
- 3. Business tax returns, last 3 years.**
- 4. Business net worth reconciliation.**
- 5. History of business.**
- 6. Loan request summary.**
- 7. Management resumes.**
- 8. Personal financial statements from all 20% or more owners.**
- 9. Personal tax returns, last 3 years. (Same as above #8)**
- 10. Cash flow projections for at least 1 year with narrative support.**
- 11. Business and personal debt schedule with breakdown showing name and address of lender, account number, maturity date, balance, collateral and status.**
- 12. Lease and/or lease option for term of requested loan.**
- 13. Partnership Agreement/Articles of Incorporation, if applicable.**
- 14. Fictitious Name filing.**
- 15. Estimates on equipment to be purchased or work to be performed.**