Ideas For Small Business Financing

A reader asked me about last week’s column, “Dean why didn’t you mention the SBA as a source for financing? That’s a good starter question. Today I will share a few ideas that I give CEOs that are looking for financing.

First, what about SBA loans? A good place to begin. But to clarify, the SBA does not lend money. It provides guarantees to a bank that if a person does not repay a loan the SBA will pay a major percentage of the loan back to the bank. All banks can make SBA guaranteed loans but most have restrictions on what types of loans they are willing to make. And remember, the SBA only wants to guarantee loans to people who are likely to repay the loan. All SBA loans are made to individuals for a business. The individual is personally liable to repay the loan.

Before going out looking for money remember a few tips:

1. When you need a loan establish a personal relationship. Loans are about trust, and trust starts with familiarity. Invite your lender to your place of business. Impress the lender with your product samples or services. Take advantage of their experience and contacts by asking for help on non-banking issues. Ask him/her to join your informal business advisory board. You may even learn more about your business from your lender.

2. Know your numbers. Every business loan has terms and conditions. Be sure you understand them. Learn about a balance sheet, a profit and loss statement and cash flow projections.

3. Whatever you do:
   - Don’t fool yourself. Know your weaknesses.
   - Know your break-even point.
   - If you are bad with numbers hire a good bookkeeper or accountant.
   - Do not bankrupt your business because you are too proud to admit that you need help.
4. Come prepared with a good business plan. A SCORE mentor can help with this. What should you say when you meet with a lender?

- Describe your background, experience and education.
- Stick to the facts. Be truthful with the lender. Confidence in your ability and integrity is very important.
- State how much money you require. Never ask “how much can I get?”
- Outline what you plan to do with the money. Using the cash to replace lost income is not a valid reason for a loan.
- Define how the business will generate the cash flow required to pay back the bank loan.
- Tell the lender how much of your own money you are investing in the business. Most lenders require your share to be 25-30% which includes investments you have already made.

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