Seeking Financing For Your Business

Choosing the right financing option for your small business—and figuring out which ones you can get—can feel confusing or overwhelming. Over the past few weeks, I have received several requests for help regarding this topic from small business CEOs and entrepreneurs who are attempting to start a new business.

Therefore, I will devote this column to provide some help and use some great information given to SCORE by Nav Technologies Inc., one of SCORE’s many content contributors. In their 2020 Eguide called “Where’s the Money? 10 Types of Small Business Financing and How to Qualify”, they suggest some key questions to ask yourself as you prepare for seeking financing.

1. **How much do I need?**

How much you need may be different than how much you want, so be sure to crunch some numbers to figure out how much you need to borrow to accomplish specific goals. Also ask yourself what you might do if you are approved for more than you expected—should you take it? If you’re not sure, your accounting professional or a business adviser such as a SCORE mentor can help.

2. **How fast do I need it?**

Some types of financing, including online lending options, can be obtained in just a few hours or a few days. Others, such as traditional bank loans, including SBA loans, can take a month or more to be approved. Many fall somewhere in between.

3. **What are my credit scores?**

Some lenders review personal credit scores, business credit scores, or both. In addition, certain negative information that may appear on your credit reports such as bankruptcy (especially open bankruptcies) or business tax liens could affect your ability to secure financing. Simply knowing your scores is an important starting point, but the more important question is, “How do lenders view my credit scores?”
4. **How long has my company been in business?**

“Time in business” is a common question on loan applications. Some lenders require that your company has been in business for minimum number of years (more than one year is common) before you can qualify. Lenders recognize that younger businesses are higher risk.

5. **How much revenue does my business make?**

A number of lenders will want to know your annual revenue. Some may drill down deeper and look at average monthly revenue, cash flow, and/or debt-to-income ratios. If your business is seasonal or cyclical, lenders may want to review a longer history of revenue. It’s recommended (and sometimes required) that you have a business bank account so that you can easily gather this information and provide the lender with monthly business bank statements when requested.

6. **How quickly do I plan to pay it back?**

Small business financing is often categorized as short term (usually less than 24 months), medium term (often 2-5 years) and long-term (5 years+). While short-term loans may carry higher interest rates, longer term loans may cost more in the long run because the repayment period is longer.

7. **Do I need collateral?**

Some lenders prefer to make loans secured by real estate, equipment or other assets such as outstanding invoices. When you pledge collateral, the lender will use a “UCC filing” to protect its interest in your property. UCC filings appear on business credit reports and, in some cases, multiple UCC filings may affect your ability to get financing.

8. **What is the impact of a personal guarantee?**

If you sign a personal guarantee, the lender can try to collect from your personal income or assets if the business doesn’t repay the debt. Lenders often prefer personal guarantees. The stronger the qualifications of your business (time in business, revenues and/or business credit scores), the sooner you can move away from them.

9. **What’s my industry?**
Lenders may place restrictions on the types of businesses they will fund. Standard Industrial Classification (SIC) codes and the newer North American Industry Classification System (NAICS) codes are used by the government to categorize businesses by industry. These codes typically appear on business credit reports and may be used by lenders to identify the types of businesses they will or will not lend to. It’s not uncommon for the wrong code to be listed so check your business credit reports to make sure your SIC or NAICS code is correct.

10. **Am I ready to apply?**

Businesses often fail to qualify because they fail to complete the application process. Gathering the information you need to apply ahead of time will save you time — and quite often, money.

Dean L. Swanson  
Southeast Minnesota SCORE  
c/o Rochester Area Chamber of Commerce  
220 South Broadway, Suite 100  
Rochester, MN 55904  
www.seminnesota.score.org/  
*Dean is a volunteer Certified SCORE Mentor and former SCORE Chapter Chair, District Director, and Regional Vice President for the North West Region*