Funding Helps Entrepreneurs' Dreams Come True

BY BRIDGETTE MARYLAND
Business Pros Newspaper

OPENING A BUSINESS IS AN ENTREPRENEUR'S DREAM THAT DOES NOT BECOME A REALITY WITHOUT FINANCES.

Securing business funding is a preparation process for first time entrepreneurs to explore. The loan request approval depends on how completely the borrower, business, and financial needs are presented to the lender. A borrower is required to provide personal information, a business plan, and well-written proposal consisting of general facts, business description, management profiles, and market and financial information when applying for the loan.

The preparation process should start with the entrepreneur developing a business plan to figure out what business is going to open. The business plan helps launch production goals, evaluate performance, and demonstrate knowledge, managerial competence, and technical potential to operate a successful business to a prospective lender. It also forces the borrower to think through every aspect of his or her business and serves as an assessment tool.

The plan will include a wide range of topics, whether it's marketing, financial management of the business, or the place to buy supplies, operations, and personnel. Put the market plan together, take it to the commercial lender, and say this is my package and what I have to offer.

Entrepreneurs are also advised to talk with a bank loan officer and discover expectations. Additionally, acquiring credit and paying it off gives a record of accomplishment.

It's best to be prepared and know the amount of money and why it is needed, and how it is going to be repaid. The lender may be convinced the borrower is a good credit risk when the plan is detailed and well organized with the following:

- Title page. It lists the business and owner(s) names, address, and telephone and fax numbers.
- Executive summary. Introduces the owner, function of the company, and gives a summary of the purpose for borrowing. It should be written last because it will draw on the other parts of the business plan.
- Company description. Provides an outline of the company's function, history, size, products or services, and markets.
- Market analysis. Present research and discuss the conditions and trends within the industry and review the product's market and demand. Describe major competitors, the market each controls, and the strategy for gaining a share of the market or developing a new niche. Explain any barriers to entry into new markets being considered and a plan to overcome them.
- Products and services. Explain the product or service and its function.
- Operations. Give details about making the product or providing service and specify getting it to customers. Where is the raw materials or inventory? Describe a manufacturing process, if involved, including the size of the factory, stages of production, and workflow, or the store's location if a retail business. How was the site selected? Where will inventory be warehoused?
- Marketing plan. Clarify intentions on selling the product or service and who will buy it. Also, discuss distribution plans, advertising arrangements, and sales force.
- Ownership. Indicate the type of legal entity the company is and it's a sole proprietorship, partnership, or corporation. Identify partners and how much of the company they own. Clarify how the individuals became principals and the agreement to give them in return for their investments.
- Management and personnel. Review the person in charge, employees, and why they were hired. Describe how their experience will contribute to the business' success and include self and key people's resumes.
- Funds required and expected use. Summarize the need for a loan and how the money will be used. Ask for a specific amount and include documentation on collateral, guarantor agreements, and signed contracts. Explain the repayment idea and present a contingency plan if the initial source of repayment fails.
- Financial statements and projections. Include a personal financial statement, tax returns, and business financial statements -- balance sheet, profit and loss statement, cash flow analysis for the last three to five years (if been in business that long), and projections for the expected business performance for the upcoming three-year period.

Understanding basic accounting and financial concepts are crucial to the business' success. Using complete and correct financial statements enables communicating the successful idea to a prospective lender.

- Appendices/exhibits. Record any topics not mentioned. For example, distribution agreements, contracts for the product purchase, and operating licenses would all be included as appendices.

Type the business plan and place it in a binder and have several copies available for each of prospective lender. Also, maintain some copies for records. Many lenders suggest getting an accountant or a professional at a small business development center to help with preparing the business plan.

An entrepreneur can then attempt to choose the type of loan necessary to fund the establishment once the plan is prepared. The loan's aim is important for determining the request and the repayment schedule should be equivalent to the receiving funds used to make the payments. Although there are different loan types, most have common features.

A good loan proposal contains:

- Business description identifying the nature of the business, describes the product and its market, identifies its customers and competition.
- Personal profile outlining the background and experience of each of the principals in a resume.
- Proposal stating the type of loan requested and its purpose.
- Business plan summarizing the corporate strategy for the next three to five years. It will aid the borrower and lender in determining whether the business will generate the cash flow needed to repay the loan.
- Repayment plans explaining ways of repaying the loan or outlines a repayment schedule. The lender will expect the borrowed funds to be repaid from the business' profits. As a contingency, develop a plan on how the loan will be repaid if the profits are inadequate.
- Documentation copies a lease, certificate of incorporation, partnership agreement, letters of reference, contracts, invoices or vendor quotes to support the information contained in the loan proposal.
- Collateral including business and personal assets such as inventory, equipment, and accounts receivable or real estate, stocks, bonds, and automobiles that will be used to secure the loan payment.
- Business and personal financial statements. The business financial statement provides the last three to five years of operation, including a year-to-date interim report, a balance sheet illustrating business assets and liabilities, and a profit-and-loss statement with revenues and expenses. (Also, be prepared to provide copies of tax returns for the business for this same period.) The personal financial statement lists assets and liabilities and identifies the names in which title to each asset is held, and its fair market value. (Be prepared to provide copies of personal tax returns and a list of credit references. Lenders check personal and business credit and examine financial statements and business projections. Borrowers must be prepared to answer questions about them.)
- Personal guarantees of the owners or other principals usually are required. The lender may also request a cosigner or a surety, or government guarantee from the U.S. SBA, or other government agency. In addition to the given personal guarantee, under the Equal Credit Opportunity Act the lender is allowed to require another person's guarantee if the application fails to meet the standards of creditworthiness. The lender is likely to require a guarantee if all or most of the assets listed on the personal financial statement are owned jointly with a spouse, or someone else. But, the lender may not require a spouse to be the guarantor. In the case of secured credit, the lender is allowed to obtain a spouse's or other co-owner's signature on certain documents when the applicant offers joint as security for the loan. In this case, the spouse or other co-owner may be asked to sign documents—such as a mortgage or other security agreement—that would be necessary under applicable state law to make the property available to satisfy the debt.

Achieving finances can be a complicated procedure for every business owner, particularly first-time borrowers. Effective planning and being informed about the loan process can make money seeking a pleasant experience. Lenders request various standards and not meeting one requirement does not deter being eligible with another.