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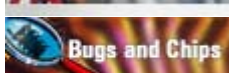
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**Banking, Finance & Investing Feature Week: Borrowing Primer for Small Businesses**

## What you need to know before you apply for a small business loan

By **SHARON L. GRAY**  
Union Bank of California  
July 14, 2003

It's a common problem for many small business owners: They need a loan to get their company off the ground or grow it to the next level, but they don't have a relationship with a bank or financial track record that will enable them to get the loan they need. How can they overcome this obstacle? Here's help.



Sharon Gray

### Find the right bank, establish a good relationship

Don't assume that as long as you have a place to deposit receivables, draw payables and handle basic transactions, your banking relationship is working. Establish a good relationship with your bank because it has the power to help your business grow and maximize its potential.

Look for a bank that can grow with your business. Make sure that as your company grows and its need for capital increases, that the bank can lend you as much money as your company might need in the future.

Meet the branch manager and other staff members of the bank you're considering and make sure you feel comfortable with the personnel and can trust them. Once you become a customer of that bank, the branch staff becomes your voice within the bank, helping you to get the loans you need and alerting you to services that might help your company's finances.

Be honest about the state of your business. Your banker needs to know that you are presenting your company in a factual manner and not exaggerating successes or minimizing challenges just to get the best financial package. If your banker understands the ups and downs of your business, he or she will be more willing to take a risk on your behalf.

**Get your finances in order**

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When evaluating a business, banks look for collateral such as real estate, business assets, personal assets, cash, equipment and accounts receivable to tie assets to the loan and determine how a customer might pay back the debt.

Banks want to make loans, but they have to make loans they know will be repaid. Remember this and position your new company and yourself with this in mind.

If you haven't started your company yet, before you quit your job to start a business, review all the cash sources you have on hand that you might tap to fund your company. Save as much money as you can while you still have a steady paycheck. Build a good cushion. Banks want to see that you have cash on hand to carry you through the rough times, even though you're asking the bank for a loan because you need cash in the first place.

Look for a secondary source of income. If your company is a husband and wife team, it's easier to get a loan if one of the spouses still has a salaried position to rely on. It also helps if there is another income source such as rental income, or any other secondary source of repayment.

Banks will ask to see tax returns from the previous two years, and/or pay stubs and profit and loss statements to verify income. Keep careful records.

Before turning to credit cards to buy equipment and get started, think about the interest rate and how you'll pay the cards down.

If you're still employed while launching your company, consider taking out a home equity loan. With interest rates at an all-time low, this is one of the least expensive ways to finance your business.

Clean up your credit. Request a copy of your credit report and review it carefully to make sure it's accurate. Late payments, bankruptcies, tax liens, charge-offs, judgments and anything that goes to collection can reflect negatively on you and lower your credit rating.

Taking the time to clean your credit report will save you a lot of time and pave the way to getting a good loan at a better interest rate.

### **Have a business plan**

The best way to introduce your company to a bank is by having a business plan. While many banks don't require a business plan to grant a loan, it does help position you as a serious entrepreneur who is realistic, knows what to expect, has thought of all the contingencies and has a clear plan for growth.

Your business plan doesn't have to be elaborate, but it should contain enough information to show the bank that you know what it takes to make your business work.

Include a solid description of what your product or service will be, the market for it and the competition. Explain what your experience is in the industry, how long you expect it to take before you start making sales and seeing cash flow, how you will accept payment, what your operating expenses will be and how you will handle shipping and down time.

Keep your plan updated by reviewing it monthly and making adjustments.

### **Know your options**

Before you apply for a loan, research the types of loans available to small businesses.



Visit your bank and surf the Internet to get as much information about the different products available and decide which loan works best for you.

Find a bank that will work with you to structure the right loan, whether it's an unsecured loan or a line of credit.

Sometimes banks will secure a loan using a vehicle or piece of equipment you already own. Some banks offer business loans and business equity lines of credit secured by home equity, and with the loan entirely in the name of the business.

Don't overlook government-sponsored programs like those offered by the U.S. government's Small Business Administration. The SBA has programs for small businesses that cannot secure financing through normal lending channels.

If you are a minority, consider traditional financial institutions that have formalized loan programs geared toward this growing segment of business owners.

Even after you take all the above steps to get your company's finances in order, you still might be unsure about how to apply for and get the loan you need. If you find yourself in this position, don't hesitate to ask your bank representative for help. Once you've been through the process, you'll find that your bank is a valuable partner in your company's growth.

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*Gray is vice president and small business banking coordinator for Union Bank of California. She also is president of NAWBO, the National Association of Women Business Owners.*

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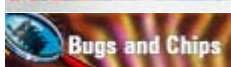
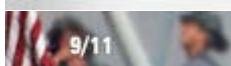
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**Banking, Finance & Investing Feature Week: Borrowing Primer for Small Businesses**

## What your banker is looking for in your business plan

By **DON PEARSON**

Wells Fargo

July 14, 2003

So you want to start a business, and you know you'll need a loan. Where do you begin?

Start by developing a business plan, because establishing a new business without a business plan would be similar to driving across the country without a map. You eventually might get to your destination, yet it's likely you'll spend most of the time along the way lost and frustrated.

Studies show that success rates for new companies that use business plans as guides are significantly higher than for new businesses without plans. Why? Most importantly because the process of developing a plan moves you to examine your company's strengths and weaknesses, and it helps you identify what you need to succeed.

So what is this business plan? Simply, it's a written representation of your company's goals and strategies, and it presents information others such as bankers might need for evaluation. A well-crafted business plan -- one that you can "take to the bank" -- should include the following elements:

\* Cover sheet. This page should include your company name, contact information, company logo and trademark and copyright notice if applicable.

\* Table of contents. One page that provides details of the content of your business plan.

\* Executive summary. A brief statement that highlights the substance or main points of your business plan including the type of business, your product or service, company goals and objectives and history of the business.

\* Mission statement. This one-sentence statement should be focused on your company's highest goals and core purpose of the business.

\* Products/services. Identify the products/services your business will sell and list the benefits of the product/service line.

\* Operations. Describe how you will run the day-to-day operations of your company and list the inventory, raw materials and supplies the business uses. Identify the key owners and employees and include their resumes.

\* Information on your business. This section should address the legal structure of the business (sole proprietorship, partnership, corporation, etc.) and include information

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about business licenses, zoning requirements, insurance requirements, building codes, health codes and other relevant laws and regulations. Be sure to seek tax and legal advice.

\* Location. State the location of your business and tell what makes this a desirable location.

\* Competitive analysis. Identify your major competitors and compare your products or services to theirs in terms of quality, price, selection and customer service. Address why consumers would choose your business over the competition.

\* Marketing strategy. Identify your customers and market and how you will promote and sell your product or service. Include information about your pricing strategy.

\* Personal financial statement. Include a list of all your assets and liabilities and calculate your net worth.

\* Budget. Include payroll taxes and employee benefits, such as Social Security and unemployment taxes; your non-labor expenses including rent, utilities, supplies and insurance; your startup expenses such as license and legal fees, remodeling, advertising and promotions; and projected cash flow.

\* Capital equipment. List each piece of equipment needed to start your business, its cost (include the cost in your startup expenses), monthly depreciation and estimated life.

\* Timetable. Identify activities key to starting your business. Schedule a start and finish date for each action.

\* Sources and uses of financing. List your sources of financing, including the cash invested by you, your partners, family and friends. State what you will do with that cash and any loans you hope to receive.

\* Supporting exhibits. These should include items such as historical financial statements, tax returns, resumes, organizational chart, location map, job descriptions, legal documents, credit reports, patents, letters of reference, market survey report and photos of business.

A well-conceived business plan will help you communicate your business ideas to advisers outside of your company and can be the starting point for constructing a financial proposal for your banker or other backers. Go through the process of developing a business plan and you'll be better prepared for helping your company succeed.

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*Pearson is senior vice president and division manager of Wells Fargo Southern California Business Banking.*

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