

Help to prepare for a loan

Before you decide to apply for business finance, it's important to have all the information at hand. The more organized you are, the better your chances of success.

Before you go and see your lender, you need to:

- › Identify much it'll cost to either buy or set up the business, including what stock or equipment you'll need.
- › Work out how much you think you'll need to borrow.
- › Decide what you're contributing yourself such as savings, assistance from family, or any investors you already have on board.
- › Work out how you'll secure any loan. Borrowing against your house is common, but there are other options available.
- › Figure out a plan to repay the loan, ideally from the profit the business will make.

You should also outline any other debt or other sources of income to reassure the lender you're declaring all your revenue and obligations.

Outline what the money will be used for

Ideally borrow as little as possible, but enough so you won't have to borrow again for a while. It's better to add a small buffer now, which you may not require, than going back to the lender and explaining your estimate was wrong. Provide details of everything that you need funds for; stock, equipment, set-up costs, working capital, intellectual property etc.

You should also show how much of your own money you're planning to use. If you need \$300,000 for new equipment, the lender will want to know your existing assets total so they can get an idea of what percentage of assets the new loan comprises.

Plan how you will service the loan

It's important to show that whatever you borrow, you can pay it back. No lender wants you to default on a loan. It's easier for everyone if you provide:

- › A Personal Statement of Financial Position, outlining everything you own as well as what you owe and your income and living expenses, including those of your partner if you have one, or any dependents.
- › Details of how much you intend to take from the business as a salary or wage and if you've got other sources of funds in reserve.

- › A business plan to explain the business and where you're headed.
- › A cash flow forecast predicting the year ahead to show you can afford any repayments.

Demonstrating your ability to repay a loan is crucial, and lenders will look for a clear personal financial overview, anticipated business income, a strategic business plan, and a cash flow forecast to assess your repayment capacity.

Security

When applying for a business loan, lenders often require some form of security to mitigate the risk they take on by lending you money. Security provides the lender with assurance that if you are unable to repay the loan, they can seize and sell the asset to recover their funds. The type of security required depends on the size of the loan, your business's financial standing, and the lender's specific requirements.

It's important to understand the risks involved with offering security for a loan. If your business defaults, you risk losing the assets you've used as collateral. Before agreeing to provide security, it's advisable to thoroughly assess the value of the assets you're offering and consider alternative ways to secure financing if you're uncomfortable with the risk.

By offering sufficient and well-documented security, you can increase your chances of loan approval and potentially negotiate better loan terms, such as lower interest rates or more favorable repayment conditions.

How you run the business

In addition to your business plan, you'll also want to:

- › Provide details of who owns the business, whether you'll be working in the business full-time, and who else is involved in management.
- › Outline the operational structure (corporation, partnership, sole proprietorship or trust) .
- › Explain what you're selling, providing or producing.
- › Describe your location.
- › Include details about your competition.
- › Outline what's happening in your market and any industry trends.

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- › Details of any lease terms or other agreements.
- › Outline any professional advice from your financial advisor, accountant or solicitor.

To strengthen your loan application, it's essential to provide a clear picture of how your business operates, including ownership, management, products or services, market conditions, competition, and any professional guidance you've received.

Provide a resume

Show what experience you have in both your industry and in running a business. The more experience and successful past track record, the better.

If you can, include in your resume:

- › Past business experience and a timeline.
- › Key personnel.
- › Training and support.
- › Qualifications that relate to your industry and business.
- › Have the key details about your business ready to go.

Providing a resume is crucial because it helps lenders assess your experience and track record, demonstrating your ability to manage and grow a business successfully. It also highlights your qualifications and the expertise of key personnel, which can increase their confidence in your ability to repay the loan.

Next steps

- › Use a cash flow forecast to predict the impact of the loan on your business. Include a repayment plan so the lender can see you can afford the repayments.
- › Consult with a financial advisor to make sure your financial projections are realistic and align with your loan application.
- › Review and double-check all documents before submitting your application to ensure accuracy and completeness.
- › Talk to us about what information we need to help you apply for the loan.

By gathering all the necessary information and carefully preparing your loan application, you can increase your chances of securing the financing you need to grow and sustain your business.

Financials

It's important to show that your business can generate enough cash to meet your outgoings, with your new loan included, and provide an income.

Include monthly profit and loss projections and cash flow forecast (possibly for up to three years in advance for SBA loans). You're also best to explain why you think your sales are achievable, how you'll achieve your projected profit margins and any key expense items.

Note

This is a guide only and should neither replace competent advice, nor be taken or relied upon as financial or professional advice. Seek professional advice before making any decision that could affect your business.