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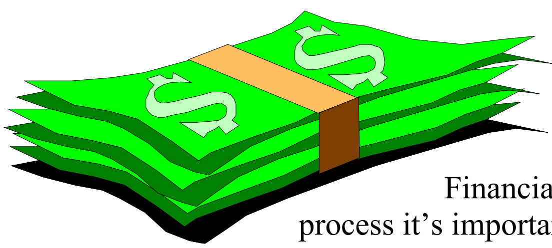
Securing Your Business Loan
10 Important Steps to Optimize Success

In qualifying for a franchise, financial and non-financial criteria are involved. Being able to make the down payment on a potential franchise is just one of the pieces of this puzzle and does not automatically qualify you.

In addition to the financial component, franchises want to ensure that candidates have an entrepreneurial passion, confidence in their own abilities, a collaborative working style and the necessary transferable skills required to successfully operate the business. In essence what franchises are looking for are business partners with whom they can achieve a long-term and prosperous relationship.

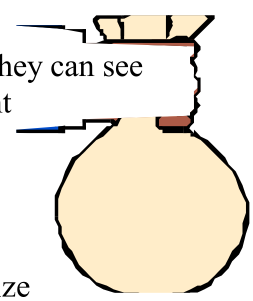


So what if you meet all the non-financial criteria? What then do you need to watch out for regarding your finances or those of potential business partners?

Financial qualification is not complicated or difficult, but like any process it's important to follow the DOs and avoid the DON'Ts. Not all franchises are created equal, and financial preparation is not necessarily consistent across the board, so review the following criteria and take them seriously in order to ensure a smooth beginning and long term success in your business. Here's a list of ten important Dos that will help increase your chances of successful financing:

1. Remember the five "C's

Nobody wants to take a chance on just anyone, and bankers and financial institutions are no exception to this rule. When reviewing the loan request, the lender is primarily concerned with repayment. Loan officers judge loan applications on what is commonly referred to as the five C's of Credit.



- **Character** –Once a lender takes a look at a copy of your credit report they can see your debt repayment trends. They want to know if you have a consistent history of paying your bills and if they are paid on time.
- **Cash flow** -- Historical and projected statements are used to determine your ability to repay the loan and still have adequate funds to run your business.
- **Collateral** –This is an asset or something you own that a lender can seize in the event that you fail to repay your loan. Often assets purchased with the loan may serve as collateral. If your business does not have enough collateral, the lender will look at your personal assets. In summary, you need to have business or personal assets to back the loan.

- **Capitalization** -- Money to put down, fixed assets, or even inventories. You don't have to be fully capitalized to qualify for a loan.
- **Conditions** -- Factors that affect the success of the company such as industry/local market trends, government regulation and competition.

2. Be truthful to your banker and business consultant

No one is perfect and life happens. Don't fabricate your credit history. Instead, if you have blemishes on your report, be up front and explain them to your lender or business consultant. Examples of such blemishes could include credit ruined by a spouse, unexpected medical bills, unemployment and disability. All this information is readily accessible to any lender and they can always validate what you tell them.

Be prepared and pull a copy of your credit report in advance to ensure that it is devoid of errors and inaccuracies. Knowing your personal credit score is an added bonus. Individuals in all states are now entitled to a free copy of their credit report every year, so pull one from each of the three major credit-reporting agencies and review them thoroughly. Corrections may be made online or via mail.

The three major credit agencies are Experian (www.experian.com), Equifax (www.equifax.com) and TransUnion (www.transunion.com).

3. Don't expect the bank to foot the entire "tab"

Your application is on shaky ground if the loan request puts the bank in over four times your net worth. High debt compared to your stake in the business gives the lender excessive control over your operations. Lenders do not want to own your company. Finally keep owner's draw or officer's salary reasonable. Don't give the impression that your company is being milked.

4. Know how much money you need to borrow

Always be specific about the loan amount and provide a detailed schedule that shows how you intend to use the borrowed money. Demonstrate your need and do not borrow more than you need.

5. Document how you intend to pay back the loan

Business loans need to be paid back through continuing cash flow, therefore the need for realistic cash flow projections.

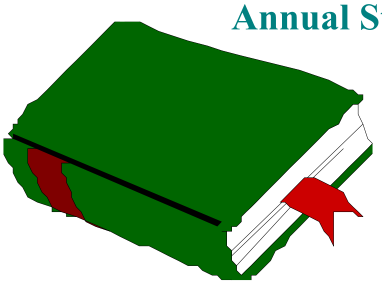
6. Prepare the required documentation to support the loan proposal

Just as with startups or existing businesses, most lenders require a business plan when funding a franchise. With franchises, however, you have a wealth of reliable information available through the company's Uniform Franchise Offering Circular (UFOC) reflecting historical success rates and financial performance. In many cases, the franchise may also be able to help by providing samples of business plans used by their existing franchisees. Also, many well-established franchises have "pre-qualified" their opportunities with the Small Business Administration (SBA).

7. Be realistic about how much and what type of asset-based collateral is needed to put your request over the top.

Inventories/receivables are not enough to secure long-term (5+year) loans. You need to reach into your personal net worth and put up hard stuff such as real estate. Reluctance to offer a personal guarantee will only serve as a negative and could possibly kill your deal.

8. Reference the latest edition of the Robert Morris and Associates' (RMA) Annual Statement Studies.



In the business-planning world, the RMA is analogous to the bible and is very popular with lenders. The ratios from this book are a representative sampling of small, medium and large entities within most industries. Lenders frequently use these ratios to determine if a particular business' ratios are in line with those of other established businesses of similar size.

9. Understand how to "shop" your loan

Even after meeting all of the above financial criteria, it is still possible to get turned down for a loan. A couple of reasons may be that you shopped at the wrong bank or financial institution. Some lenders specialize in certain industries or types of business and don't know anything about your type of business. As a result your business is viewed as a risky proposition. Doing a little bit of research upfront goes a long way and can save you the grief of being turned down by certain financial institutions. Another unknown fact is that for every lender you shop for your loan, your credit score declines by three points!

10. Tap into the vast amount of help to get a first class loan package together

Experienced business consultants have a lot of training and experience with business loan applications and know what lenders are looking for. When shopping for a qualified business consultant, look for the following traits:

- Has a passion for what they do
- Knows what lenders are looking for and want
- Keeps up with the latest changes in their field of expertise
- Is able to identify problems quickly
- Has creative problem solving skills
- Professional
- Has great people skills/compatibility
- Gives clients more than they expect

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About the Author:
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