

Applying for a Business Loan

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The process of applying for a business loan is a stringent one as compared to the standard procedures in obtaining a home mortgage loan or a personal loan. This is probably due to the fact that business loans contain a greater risk element as compared to other loans. Therefore, lenders need to exercise greater caution and emphasis when evaluating business loan applications in order to minimize their risk exposure.

With that, lenders evaluate their applicants based on the information that are provided as well as their judgment of the viability and profitability of the business being financed. Thus, business loan applicants will be required to submit a loan proposal along with their applications with the purpose of creating a positive impression upon the lender.

The first element of a loan proposal is an executive summary, providing short descriptions of the type of business and the industry, the purpose and usage of the loan, the proposed repayment conditions as well as the intended loan period. After that, the company information is provided, enriching the reader with the nature of the business, the location of the business, company history, the products or services provided, key differentiation factors of the company or the product, the general growth of the industry, competitive information, growth potential and target customers.

It would help if you could include your company marketing strategy, detailed product information, historical information as well as projected growth plans for the company. Apart from that, if you plan to incorporate product or service extensions in the future, you should provide these descriptions within your loan proposal. If possible, geographical expansion plans will help in the proposal.

The next area that needs to be showcased in the proposal would be the credentials and experience of each member of the management team. Impressive credentials will provide assurance to the lender that the company is managed by individuals who are responsible and capable. This is important as having the wrong people managing the company could be detrimental for the business.

In any loan application, historical records are essential to be used in evaluating the performance of a company. As new companies do not yet have these records, the financial records of the owners will be used as the basis of evaluation. Income tax returns forms are also required by lenders. All of these records provided should be the latest copies less than 90 days old, with the exception of the income tax returns form.

If the loan is applied for an existing company in active operations, company financial statements, including profit and loss accounts, balance sheets and the net worth reconciliation record should be included in the loan proposal. Again, all of this information should also be the latest and less than 90 days old. Additionally, a listing of accounts receivables and other short term and long term debt should be attached.

On the other hand, if the loan application is submitted for a new business, a pro-forma balance sheet and profit and loss account should be provided. Apart from that, a cash flow projection for the upcoming year is drafted to indicate the possibility of recovering the debt. This also means that projected revenue, profits, costs incurred and expenditure should be listed out with definite explanations provided as well as a list of assumptions.

If you possess assets that you wish to use as collateral for your loan, details for this should be provided to the lender as well. It is often common for lenders to request for dual sources of repayment in the event that one source is defaulted. This means that if the business owner defaults on his repayments, the collateral can be sold in order to recover debt.

Finally, other documents normally required for a loan application would be items like the article of incorporation, lease agreements, partnership agreements, license, references, etc. As the list of required documentation, information and attachments differs between lenders, it is best to check with the individual lender on their specific

information and documents required to be attached with the loan proposal.

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