Guide to Getting a Business Loan

INVESTORS
COMMUNITY BANK

WHAT YOU NEED TO KNOW BEFORE CONTACTING A BANKER

When you first came up with your "big idea" for a business, you dreamed about what equipment and supplies you'd need, where to locate, when to hire the right people and how to get the word out. Still, the biggest challenge you likely faced was figuring out how to pay for it all. Whether a startup or an established business, financing is one of the biggest hurdles to growth.

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Financing your growing business and having enough working capital are critical to its success, and the impact goes beyond your own bottom line. An entrepreneurial spirit can fuel innovation, strengthen the economy and make a positive contribution to communities across the nation.Success in any business, from manufacturing to professional services, requires a strategy.

You'll need a strategy for securing financing, too. In this guide, you'll learn:

- what information you need to gather before sitting down with a banker
- the types of loans available
- the process of getting them approved
- the ways a community-based bank can help

PAINT YOUR FINANCIAL PICTURE

Before you head to the bank, it's important to gather the right information that will help your banker see your financial outlook clearly. A bank will use the documentation and information you provide in their decision about whether to lend you money. While it can be a tedious process, gathering information and creating projections will not only help the banker gain a full understanding of your financial picture, but you may make some revealing discoveries along the way as well. The documents below are a great starting point:

Financial Information. This is a pretty broad term, so knowing what financial details to provide can be overwhelming. Here are a few items that your banker will definitely want to see on his or her desk:

- **Income Statements** — If you're an existing business, you'll need to demonstrate your financial performance for the last 3–5 years by showing your profits and losses over that time.
- **Balance Sheets** — These help your banker determine your company's net worth over the same 3-5 year time period.
- **Current Liquid Assets** — Report any cash, bank deposit accounts, accounts receivable, expected tax returns, investments and inventory.
- **Fixed Assets** — This includes anything with value that cannot be quickly turned into cash, such as buildings, land, machinery, equipment, computers or furnishings.
- **Liabilities** — What financial obligations are outstanding? Liabilities include unpaid bills and accounts payable, payroll, leases, rent, credit card debt, subscriptions and more.
- **Loans** — Report loans you have for your business. If you're just starting out, share your personal debt, including any government-backed student loans. The lender will want to know the reasons for the loans, account numbers, monthly payments, interest rates, the original and present balances, when they mature and whether you're current or delinquent.
- **Credit History** — If you've been in business for a while, your business will have its own credit rating in addition to your personal credit score. A good credit rating will take you far in the eyes of the lender.

STARTUP BUSINESS TIP

If you don't have a business credit history, financial institutions will examine your personal credit history. They want to know that you personally strive to meet your obligations. It demonstrates responsibility, and lenders will be more confident that you'll carry over those same good practices to your business.

Tax ID Number. The lender will use this to make sure you have identified your business to the US government for tax purposes.

Licenses and Permits. If your business model requires government oversight of environmental regulations, you may be required to have licenses, permits and/or periodic testing. This is something many entrepreneurs don't think about up front.

Estimates. Building a new building? Installing a new piece of equipment? Adding to your fleet? No matter the investment, whether you're expanding or just starting out, your lender will need to see written estimates of the projected expenses.

Personal Information. In addition to basic contact information, you'll need to gather personal financial statements with supporting tax returns. You may need to provide similar information for any other business stakeholders—co-owners, investors or key management. This includes social security numbers, net worth, investments, loans, credit card accounts, mortgages…everything. As part of the loan process, you may be expected to sign a personal guarantee.

Business Plan & Projections for Growth. Whether a startup or an established corporation, bankers want to know you've thoroughly done your research and have a plan in place to succeed. Gather the following:

- **Market Analysis.** Demonstrate that there is a demand for your new service or product with research from your target market.
- **Business Plan.** Maybe you need a loan for a new piece of equipment; a good business plan will prove to the lender that it will not only pay for itself but increase your company's profits over time. A business plan outlining projected sales and expenses, along with other details, is especially critical for startups.
- **Cash Flow Projections.** Show how the loan proceeds will generate more revenue and result in positive cash flow.

STARTUP BUSINESS TIP

Leverage local resources such as small business development centers or a local SCORE chapter to assist you in preparing your business plan. They've counseled a lot of entrepreneurs and can be an excellent business plan resource for you.

Before bringing your business plan to a banker, review it with an experienced business attorney and accountant to show you've thought through considerations such as taxes, legal documents and the type of business entity you should form (i.e., sole proprietorship, partnership, S or C corporation, LLC, etc.).

When you come armed with the right information, it makes it easier for a banker to take you seriously, because they know you've done the research and have a realistic view of your financial situation. In your first conversation with a banker, ask if there are specific elements of a business plan they look for to make sure you've covered it.

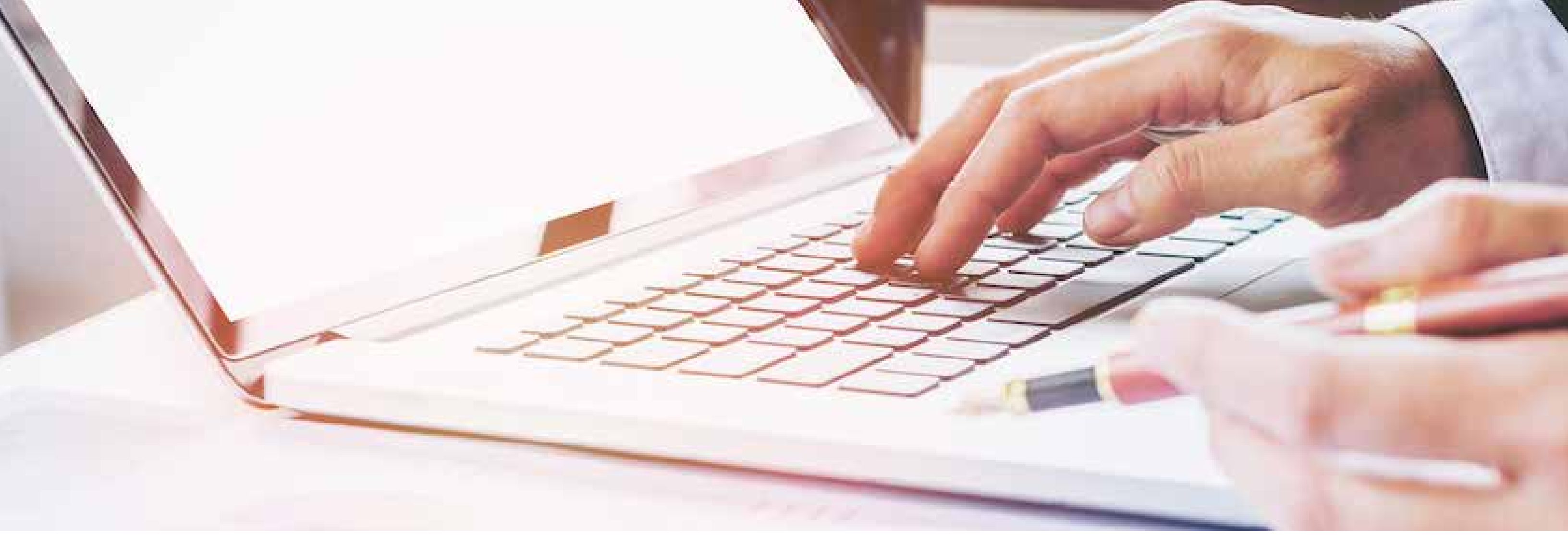
FIND THE LOAN THAT'S RIGHT FOR YOU

Not all business loans are alike, and it's important to educate yourself about your options. A banker will help you determine which type of loans best match your situation, but it's still good to have an elementary understanding. In general, there are three types of loans that are most common for businesses:

Business Line of Credit. With a business line of credit, you can draw money as it's needed for your business on a short-term basis up to the amount of a set credit limit. This way, you don't need to go through an application and approval process each time you need to borrow more money.

- You can access working capital if your company doesn't have sufficient cash reserves to meet payroll, fulfill an order or pay for equipment maintenance. For example, a manufacturer may need to bridge the gap between paying for raw materials and labor to fulfill an order and receiving payment for that order from the customer. A service provider like an accounting firm or healthcare provider may need to fill the payroll gap between the date of service and payment.

- Interest is only owed on money once it's withdrawn, and funds can be withdrawn multiple times as needed, up to the maximum credit limit. You can make principal reduction payments when your company's cash flow permits.



- Lines of credit are often structured on a variable rate basis, adjusted periodically in accord with the prime rate or some other benchmark interest rate.

- A line of credit should not be used to purchase long-term assets such as equipment, vehicles or real estate. It's intended for temporary needs, not long-term debt, and principal payments should be made when the company collects on receivables.

- Conventional Term Loans. Term loans are meant to finance fixed assets (property that cannot easily be converted into cash). Think of it as long-term debt for long-term assets. The duration of a conventional term loan can vary and typically corresponds to the useful life of the asset being financed. For example, a loan for computers or a fleet vehicle may only last 3–5 years, whereas a loan for real estate or a large piece of equipment that will be part of your long-term operation may be stretched out over a much longer period, say up to 20 years.

- Rates can vary depending on your risk.

- A good bank will work with you to determine what fits the needs of your company and will customize a solution for you.

- It's possible to renegotiate conventional loan interest rates in the future as you show consistent business results and payments over time.

- Government-Guaranteed Loans. With an objective of improving the economy, the government established programs such as the Small Business Administration (SBA), Wisconsin Housing & Economic Development (WHEDA) and others to help entrepreneurs and existing companies finance their business ventures. If a business is a good candidate for a conventional bank loan, it's sometimes the better option. But for those who might have a difficult time securing a conventional loan, or whose industry is very cyclical, SBA financing may be the answer.

- SBA loans can often be used to restructure existing debt at better terms.

- They usually require lower down payments and provide longer loan maturities, which results in lower monthly payments.

- Government loans involve additional paperwork, and the underwriting process can sometimes be drawn out, but the terms diminish risk for the borrower (and the bank that issues the loan).

- Some banks are hesitant to offer government loans because it may be too much work or not be in their best interest, though it may very well be in the best interest of the borrower. If you feel an SBA loan is right for you but your bank shies away from them, seek the advice of another lender.

- The longer amortization period makes SBA loans cash flow and recession-friendly, and the interest rate can't be raised (but it could be lowered).

- The terms are fixed for the life of the loan, so there is no renewal risk — meaning the bank can't refuse to renew at the time of a balloon note.

- In general, long-term government loans cannot be prepaid without a penalty.

Don't forget to explore other financing alternatives, including your local municipal or economic development revolving loan funds. These sources often provide a low-cost source of capital.

STARTUP BUSINESS TIP

Typically, companies/owners with little business credit history or experience are better candidates for an SBA loan than a conventional commercial loan.

Finding the right loan to fit your company's goals and financial situation is an art, not a cookie-cutter formula. Organize your business plan and involve a banker who can help you understand all of the options for structuring your debt to best fit your needs.

WHY CHOOSE A COMMUNITY BANK AS YOUR FINANCIAL PARTNER?

While choosing the right type of loan to finance your company's growth is necessary, choosing the right lender may be the most important business decision you make. The right banker can help you strategize, find the right fit and reach your business goals.

Here are reasons to consider a community bank.

Community Banks. Generally, local community banks are focused on service and a relationship-based approach to lending. They are not governed by a large global corporation, so they are able to keep a pulse on local economic trends based on first-hand knowledge. Since they're a part of the community, they are more invested in supporting local progress.

- Most community banks have a local decision-making committee with the authority to approve a loan, rather than an off-site approval process.
- Loan origination fees are generally lower than large banks.
- Local banks aren't as "boxed in" by the processes and policy limitations of corporate banks and may have more flexibility when working with a borrower.
- Community banks can be more nimble and may have a faster approval process.
- If there are questions about your loan, there is a local person who can talk through any concerns, often in person. The assurance of having a personal business banker who'll listen and work as a partner in your business venture is of great value.

For most small businesses and entrepreneurs, a community bank with local decision-making authority might be a better choice for lending needs, but do your research. Even among these lenders, there is a lot of variances. Look for reviews, network with other business leaders in your area to get their perspectives and seek out resources.

In the end, work with a banker who takes the time to understand your unique situation supports your vision and will strategize with you to reach your business goals.

By following the steps we've outlined of gathering the right financial information and having a basic understanding of your options ahead of time, you'll be prepared for a conversation with a commercial banker — and you'll be more confident in making the right decisions with regard to financing, while helping streamline your loan approval process.

At Investors Community Bank, we pride ourselves on the deep experience of our bankers and their commitment to helping Wisconsin-based businesses thrive. Visit our website to get in touch with a banker today.

Appleton: (920) 739-2660
Green Bay: (920) 884-1166
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Sheboygan (Loan Production Office): (920)-451-0200
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