

The Daily Transcript

San Diego's Business Daily

Securing financing can be easy once you've done your homework

By LEAH THISS *BBBS Inc.*

One of the best sources of financing for your business is your local community bank.

In San Diego, we are very fortunate to have several community banks that actively support local businesses and share a passion for seeing our city's businesses grow and prosper.

While their doors are wide open, be sure you are prepared before you rush in. In the end, the bank is investing in you. Taking a little time and effort up front to be sure they see the very best "you" when you walk in to make your request.

Know the industry you are in and know the strengths and weaknesses of that industry. Where does your firm fit in? What opportunities await you? What threats could pose a problem?

If you are a start-up business, have a solid business plan including projected sales numbers. What's your marketing plan? What is your primary differentiator that separates you from the competition? What are your long-term growth strategies?

And above all else, make sure your financials are in order. The strength of your financial knowledge will have a huge impact on your ability to borrow.

While there are many funding options, there are two primary types of business bank loans. A line of credit for a business works very similarly to that of a credit card for an individual.

It is a revolving line of credit that allows you to draw against and pay back several times during the life of the loan. Oftentimes this loan is used to purchase raw materials and cover costs of doing business while waiting to collect receivables.

A long-term capital loan is typically used to purchase a large tangible asset, such as a building, machinery or other equipment. The proceeds of the loan are paid out in one lump sum up front, and payments are made according to a schedule and a predetermined payoff date is set (i.e. a commercial building purchase with a term of 20 years).

In both cases, the assets of the business secure the loans. This is done through a standard Uniform Commercial Code (UCC) filing, sometimes referred to as a blanket lien. This filing covers all assets of the business in the event the business fails to make payments.

The benefit to the line of credit is the flexibility it provides. It can be used for various purposes and borrowed against several times during the life of the loan.

The benefit to the long-term loan is the set payment schedule that allows the business to budget accordingly.

The risk of each loan from the borrower's standpoint is very similar, as the assets of the business are being used as collateral in one form or another in both scenarios. The risk from the bank's standpoint is slightly higher with the line of credit because the assets secured with the UCC filing (i.e. inventory, receivables, etc.) may be difficult for the bank to deal with if foreclosure became necessary.

The loan application will require information on the business and a personal financial statement, as well as a guarantee from every person who has more than 20 percent ownership in the company. Typically the bank will ask for two to three years of tax returns on the business as well as the individuals.

In addition, they will ask for two to three years of financial statements, including balance sheets, cash flows and income statements. They will also require accounts-receivable and accounts-payable aging reports. Government-backed loans such as SBA loans require much more paperwork and documentation.

One local community banker noted that many business owners are reluctant to provide sensitive financial data about their firms until they are quoted rates. Since it is nearly impossible to quote accurate rates without knowing more about your business, you need to feel confident in who you are submitting your documentation to and trust that the information provided will be kept confidential.

The more information you provide, the more smoothly the process will go. Complete packages equal faster evaluations and better decision-making by both parties.

If you are unsure about your company's finances or do not currently generate monthly financial reports, hire professional help to put the appropriate accounting system in place before you seek funding. This is a solid investment, even if you don't have a need for funding today.

Good monthly financial reporting will help you monitor the financial status of your company, prepare for taxes, manage cash flow and establish seasonal benchmarking so that you can plan for seasons accordingly.

With the right accounting system and accounting professionals in position, pulling together the required information for a loan application will be easy. Armed with the ability to clearly state your financial position and have the data to justify the funds being requested will help to create confidence in you, your professionalism and in the end, your ability to meet your repayment obligations.

One community banker said, "We will always ask a borrower 'How will this loan improve your bottom line?' The answer you give to this question tells us how much research you have done and how confident you are in the success of your business."

This is CEO and president of BBBS Inc., a U.S.-based outsourced accounting and bookkeeping-services company with offices in San Diego and Yuma. She can be reached at leah@bbbsinc.com or by visiting www.bbbsinc.com.

Source Code: 20051004ra



WWW.BBBSINC.COM
1-866-329-8009