Applying for a SBA Loan

North American Industry Classification Codes (NAICS)

When applying for a loan, you must prepare a written loan proposal. Make your best presentation in the initial loan proposal and application; you may not get a second opportunity.

Always begin your proposal with a cover letter or executive summary. Clearly and briefly explain who you are, your business background, the nature of your business, the amount and purpose of your loan request, your requested terms of repayment, how the funds will benefit your business, and how you will repay the loan. Keep this cover page simple and direct.

Many different loan proposal formats are possible. You may want to contact your commercial lender to determine which format is best for you. When writing your proposal, don't assume the reader is familiar with your industry or your individual business. Always include industry-specific details so your reader can understand how your particular business is run and what industry trends affect it.

Description of Business

Provide a written description of your business, including the following information:

Type of organization
Date of information
Location
Product or service
Brief history
Proposed Future Operation
Competition
Customers
Suppliers

Management Experience:

Resumes of each owner and key management members.

Personal Financial Statements:

SBA requires financial statements for all principal owners (20% or more) and guarantors. Financial statements should not be older than 90 days. Make certain that you attach a copy of last year's federal income tax return to the financial statement.

Loan Repayment:

Provide a brief written statement indicating how the loan will be repaid, including repayment sources and time requirements. Cash-flow schedules, budgets, and other appropriate information should support this statement.

Existing Business:

Provide financial statements for at least the last three years, plus a current dated statement (no older than 90 days) including balance sheets, profit & loss statements, and a reconciliation of net worth. Aging of accounts payable and accounts receivables should be included, as well as a schedule of term debt. Other balance sheet items of significant value contained in the most recent statement should be explained.

Proposed Business:

Provide a pro-forma balance sheet reflecting sources and uses of both equity and borrowed funds.

Projections:

Provide a projection of future operations for at least one year or until positive cash flow can be shown. Include earnings, expenses, and reasoning for these estimates. The projections should be in profit & loss format. Explain assumptions used if different from trend or industry standards and support your projected figures with clear, documentable explanations.

Other Items As They Apply:

Lease (copies of proposal)
Franchise Agreement
Purchase Agreement
Articles of Incorporation
Plans, Specifications
Copies of Licenses
Letters of Reference
Letters of Intent
Contracts
Partnership Agreement

Collateral:

List real property and other assets to be held as collateral. Few financial institutions will provide non-collateral based loans. All loans should have at least two identifiable sources of repayment. The first source is ordinarily cash flow generated from profitable operations of the business. The second source is usually collateral pledged to secure the loan.

The 5 C's of Credit:

Your bank is in business to make money. Consequently, when a bank lends money it wants to ensure that it will be paid back. The bank must consider the 5 "C's" of Credit each time it makes a loan.

Capacity to repay is the most critical of the five factors. The prospective lender will want to know exactly how you intend to repay the loan. The lender will consider the cash flow from the business, the timing of the repayment, and the probability of successful repayment of the loan. Payment history on existing credit relationships - personal and commercial - is considered an indicator of future payment performance. Prospective lenders also will want to know about your contingent sources of repayment.

Capital is the money you personally have invested in the business and is an indication of how much you will lose should the business fail. Prospective lenders and investors will expect you to contribute your own assets and to undertake personal financial risk to establish the business before asking them to commit any funding. If you have a significant personal investment in the business you are more likely to do everything in your power to make the business successful.

Collateral or guarantees are additional forms of security you can provide the lender. If the business cannot repay its loan, the bank wants to know there is a second source of repayment. Assets such as equipment, buildings, accounts receivable, and in some cases, inventory, are considered possible sources of repayment if they are sold by the bank for cash. Both business and personal assets can be sources of collateral for a loan. A guarantee, on the other hand, is just that - someone else signs a guarantee document promising to repay the loan if you can't. Some lenders may require such a guarantee in addition to collateral as security for a loan.

Conditions focus on the intended purpose of the loan. Will the money be used for working capital, additional equipment, or inventory? The lender will also consider the local economic climate and conditions both within your industry and in other industries that could affect your business.

Character is the personal impression you make on the potential lender or investor. The lender decides subjectively whether or not you are sufficiently trustworthy to repay the loan or generate a return on funds invested in your company. Your educational background and experience in business and in your industry will be reviewed. The quality of your references and the background and experience of your employees will also be considered.