

**EXPERTS' FORUM** | Bank/Financial

## 6 Steps To Consider Before Preparing A Loan Proposal.

Before you approach a banker for a business loan or begin preparing a presentation, you'll need to do some groundwork. A little savvy strategy ahead of time will give you an edge with your proposal.

**Check your credit report.** A negative credit report or poor credit score can be a deal breaker. First, clear up any inaccuracies on your credit report. Resolve any business or personal tax issues, liens, garnishments or bounced checks. If there has been a bankruptcy, be prepared with an explanation.

**Watch your cash flow.** Lenders will review your cash flow. While you don't want to deplete your current liquidity or cash reserves, you don't want to show sporadic large deposits either. That large check received for a 9-month project might not convince the lender of your solvency, but indicate you can't control cash flow. Therefore, calculate your average day's receivables and average day's payables to structure a good balance. Lenders want to see frequent and regular deposits, even if they are small. That's because bankers are considering your ability to repay your loan.

**Dazzle with numbers and ratios.** Bankers understand numbers and ratios, so pull some together for your business. You'll show the lender that you have an excellent grasp of the numbers involved in running your business. Two ratios you'll want to project are sales to assets, and net profit to assets. These ratios demonstrate how effectively you are using your assets to generate profit. Compare these numbers to others in your industry. Many business libraries carry this information. Calculate your debt to net worth ratio which measures your current debt load capacity. And, if you have inventory, show your inventory turnover ratio. Also provide a minimum of 12 months of financial projections for best to worst case scenarios. This will help the lender feel

more comfortable with repayment ability and project your high and low cash needs for the next year. Be as realistic as you can. It is better to be too conservative and overachieve than to over promise and under deliver.

**Know what you want.** Erase this sentence from your vocabulary. . . "How much can I borrow?" Utter it and you'll tell the lender you are unprepared. Determine the amount you'll need to accomplish your goal and the length of term you'll need it. Short term loans are best for daily working capital needs, accounts receivable financing, etc. Long term loans are generally used for financing real estate, equipment, long term working capital and other major capital expenditures where the goal is to match the term of the loan to the life of the asset.

**Target the bank that's best for you.** Don't mass produce your proposal and shoot it out to every bank in your area. That could come back to haunt you when your lender runs a credit report and discovers you've been turned down by others. Banks and bankers are unique, so don't be afraid to search out the institution and individual banker that suit you best and understand your business and its' specific needs.

**Get it in writing.** Improve your lendability by preparing a written proposal. Depending on the size of the loan, you may not always need an original proposal . . . the bank's application will do. If you wish to demonstrate your understanding of the loan process and help ensure success, you'll want to create your own formalized proposal. There are many online outlines and books on the subject.

Start with a savvy strategy for your loan proposal. You may not get a second chance, so go that extra mile right up front.



**JOHN APPLEQUIST**  
Market President  
MINNWEST Bank  
johna@minnwestbankgroup.com  
<http://www.minnwestbank.com>