

FINANCING YOUR BUSINESS

Nearly every business, at some point in time, needs financing to help fund operations and get the company rolling. There are various sources of funding and each source has specific requirements that must be met before funding can be obtained. The Indiana Small Business Development Center (www.isbdc.org) can assist you in preparing to approach banks and lending institutions.

The following points illustrate the 'thought process' behind corporate financing.

A good rule of thumb is that you should have 20 - 40 percent of the money needed before a bank will advance the rest as a loan.

WHAT LENDERS LOOK FOR

Credit Worthiness

Before a bank or lending agency will lend you money, the loan officer must feel satisfied with, among, other things, the answers to the following:

- What is the character of the prospective borrower?
- Does the borrower deserve the money? Does he/she demonstrate good management and financial condition?
- What is the planned use of the money? Is there a demonstrated 'need' for the money?
- When and how does he/she plan to pay it back?
- Is the cushion in the loan large enough?
- What is the outlook for the business (in general) and for the industry?

What Kind of Money?

There are three broad kinds of financing:

1. **Short Term Loan** - paid after the purposes have been served, typically after a year;
2. **Term Loan** - repaid in regular payments over a set period of time; and
3. **Capital Equity** - part of the business you own.

How Much Money?

This depends on the purposes for which you need funds. A detailed projection of sources and use of funds over some future period of time (a minimum of 12 months) is a good approach. Such projections are developed through the combination of a cash budget, projected profit and loss statement,

a projected balance sheet, and a long-term business plan. You should ask for assistance if you have no experience forecasting.

What Kind of Collateral?

Collateral may be required and varies based on financial institution's requirements. The Indiana Small Business Development Center (www.isbdc.org) can assist you in preparing to meet with your potential lenders.

Lender's Rules and Limitations

Because lending institutions are interested in borrowers with healthy, profitable businesses (not just in loan repayments), they impose loan limitations and restrictions to protect themselves against unnecessary risks and poor management practices by their borrowers. The limitations which you will usually have to face when you borrow money are repayment, pledging assets or use of security, maintenance or certain minimum operating ratios and periodic reporting.

A loan agreement is a tailor-made document covering or referring to all the terms and conditions of the loan. With it, the lender can project his position as a creditor and assure himself of repayment according to terms. The lender reasons that the borrower's business should generate enough funds to repay the loan and provide enough for working capital needs.

When you borrow money, thrash out the lending terms before you sign. It is good practice, no matter how badly you need the money. Ask to see all of the papers in advance of the loan closing. Legitimate lenders are glad to cooperate. Keep in mind that while you're considering the terms, you may want to get advice from your associates and outside advisors. Once the terms have been agreed upon and the loan is made, you are legally bound by them.

Sources of Capital

There are various sources of financing available which enable an entrepreneur to develop a financial program that best suits his/her needs and circumstances. The following is a brief summary of different financing available to business and industry located in our area.

Private

The private market is a widely used source of financing and may be employed for all conventional types of lending. Typically, funds of this nature are available through banks, savings and loan associations, commercial financial institutions and investors (individual and organizational).

Local Public

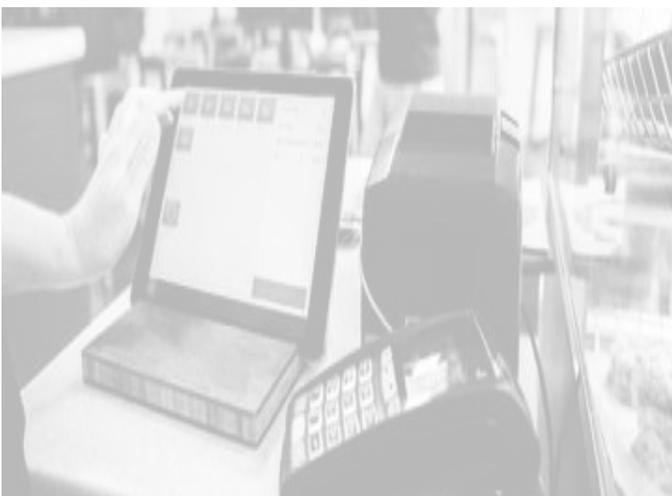
Some localities have developed their own programs such as revolving loan funds to help fund the start-up or expansion of small businesses in their areas.

State Programs

The State of Indiana has a variety of programs, incentives and options. Contact the Indiana Small Business Development Center (www.isbdc.org) for individual assistance in navigating these options.

Federal Programs

The Small Business Administration has a loan guarantee program to assist small business development. The applicant must first apply to a bank for the loan required. If the bank will consider the loan on its own, the Small Business Administration cannot help. If the bank determines it can make the loan with an SBA guarantee, then the bank will submit the application and all supporting documents to the SBA for consideration. There are multiple loan programs that have specific funding uses and requirements for the financing. Visit the SBA online (www.sba.gov).



Business Guide

Resource Guide for New and Existing Businesses

