Understand bank's perspective when seeking business loans

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So you've started a business to sell a great product or service, and now you need some money for further development or expansion. The question is: where can you get it?

One possibility is to approach your banker and ask for a loan. If that's your decision, your chances for success will be enhanced if you heed some advice from three bankers, each of whom often has sat across the desk from entrepreneurs who have come to them with just such a request.

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The three bankers joined forces last month to provide their collective financial advice to members of the Tri-Cities Venture Group at a meeting in the Richland Shilo Inn. Their comments showed that banks and bankers have varying degrees of lending flexibility and requirements. For example, finance companies will loan money to a company that has no equity investment but that does have a revenue flow. Venture bankers require equity but not revenue. Some banks require both equity and revenue.

You should spend some time to locate a banker with a philosophy compatible with yours. Look for one who's had experience in dealing with similar requests, who can give you some helpful directions and references to others who can supplement his or her advice, and who shows some enthusiasm about your company and its potential. Although there are differences in philosophy between banks, there also are steps you can take that will make a favorable impression on any banker:

- Have an action plan for your business, based on parameters your banker has given you. What's your vision for the next several years, and how do you propose to achieve that vision?
- Establish a thorough accounting system for your business. When banks consider lending money, they examine your company's financial history – what was your cash flow during your most recent business year, what's the level of your accounts receivable, what does your profit-and-loss statement look like?
- Understand capitalization. Bankers will be quite interested in the ratio of debt (loans, accounts payable) to equity (ownership) in your business. A lower ratio of debt to equity is likely to be more acceptable than a higher ratio. Get your banker's feedback on what constitutes an acceptable range, and help the business stay within the range by limiting the amount of money that you

take out of it, or by making contacts who will put additional venture capital into the business.

Your bank is likely to regard a business that has a combination of debt and equity to be a good loan risk. A bank wants to see that your business has equity investors, including yourself. They figure that if you have a stake in the business, you’re less likely to walk away from it in tough times. Also, equity investors can provide expertise you don’t have yourself.

If your high-tech startup company is just getting started and has no revenue yet, consider venture bankers. They typically lend to new, technology-based companies that are backed by strong intellectual property and market potential but lack cash flow. Venture bankers get involved after your company has received an equity investment from another source. The loan is based on the commitment made by the investor, who has already validated the new company's profit potential by evaluating the market, business plan, management and technology. In exchange for taking more risk than traditional bankers, venture bankers often will take the right to purchase the company's stock.

For more traditional bankers, Schneider said, the best time to look for financing is after you have been in business for at least three years. Then your banker can more accurately assess your track record and your management ability. Bring business and personal financial statements, business tax returns and a business plan that includes an analysis of your market and your competitors, plus a list of your clients.
The September meeting of the Tri-Cities Venture Group was sponsored by Pay Plus Benefits, Inc., a Kennewick-based firm that provides payroll services, and organized by Pacific Northwest National Laboratory’s Economic Development Office.