



Loans for Startups and what the bank will look for

Getting a loan for your start up business can be a challenge but is possible. Start up loans may be used for real estate, equipment, or working capital. Here are some particulars:

- Loan amounts up to \$5 million, but the **average loan amount is \$337,730**
- Loan terms of up to 7 years for working capital, 10 years for equipment, 25 years for real estate
- The loan should be secured by collateral (usually your personal residence in certain conditions)
 - *However an SBA Start up loan cannot be turned down for lack of collateral*
- A personal guarantee is required of all owners with 20% or greater ownership
- There will be a "blanket lien" placed on all assets of owners, both business and personal
- A 20% or more down payment will be required on the overall project.

Interest rates are very low, with rates at prime plus a markup of 2.25 to 2.75 percent, loans are generally variable-rate.

Important Underwriting factors when looking at this type of loan:

- You'll need great personal credit 700+
- No Bankruptcy's or judgements
- Positive Net worth
- Business Plan
- Some collateral for offer for the loan

How to Get a Business Loan

1. What criteria do banks look for in making small business loans?

In order to consider your application for a small business loan, banks will usually require:

- The loan must be for a sound business purpose. The business must be eligible based on size, use of loan proceeds and the nature of the business (no lending, speculating, passive investment, pyramid sales, gambling, etc.)
- You and your partner(s) are of good character, have experience and good personal and/or business credit history
- Ability to pay back the loan- reasonable to strong collateral (personal and business assets) is very important. The bank expects the loan to be fully secured when possible. Also, owners must have personal equity investment in the business/skin in the game.

2. What information will you need?

In general, you will need:

- Personal and business credit history
- Personal and business financial statements for existing and startup businesses and as well as a projected financial statements
- Strong, detailed business plan (including personal information such as bios, education, etc.)
- Cash flow projections for at least a year, and
- Personal guaranties from all principal owners of the business

3. How can you get financing to start a business since many banks want to fund growth?

Start-ups are probably the most difficult ventures when it comes to securing financing. Many start-up businesses seek financing from family, friends and credit cards. If the credit is sound, the business plan strong and you have enough personal resources to invest and collateral to guarantee then the bank may consider lending you money.

4. Are there associations that can help?

Banks work closely with a large network of partners that leverage resources and are just one phone call away and ready to provide extensive help.

- SBA District/Branch Offices– at least one in every state
- SCORE– (approximately 300 chapters nationwide)
- SBDCs – Small Business Development Centers; (approximately 900 locations nationwide; associated with higher education institutions (colleges and universities))
- WBCs- Women's Business Centers (approximately 100 educational centers nationwide)