

Financing Your Startup Business With a Bank Loan

Everybody knows that banks make the most business loans, so Entrepreneurs think of them first when considering financing for a startup. However, most of those “business loans” are made to existing successful businesses. A startup is a whole other ballgame with a different set of hurdles to jump.

Banks generally do not like financing startups because of the risk... remember, most startups fail. Banks are conservative investors- they are places to keep our money safe, and none of us want them investing our money in ideas that are destined to fail.

There is a misconception that banks are like non-profit organizations set up to help people get things. In fact, banks are for-profit businesses no different than any other business. If there is any risk of not getting their principal back with interest, they won't invest. They don't want your business or car or whatever it is they finance, all they want is the principal paid back with interest on time.

If you go after a bank loan, like the old saying goes, the best way to get a loan is to prove you don't need the money! In other words, take away all the risk. You must have a good business plan and the 6 Cs:

1. Credit- your credit score is the most valuable asset you have for pursuing investors; it is your personal creditworthiness. Never go after any kind of financing without knowing your credit score. Successful Entrepreneurs manage their score.
2. Capacity to repay- The quality, completeness, and believability of your business plan is how you prove you and your business have the capacity to repay the loan.
3. Capital- Cash. Yours! You must have a substantial amount of your own cash invested. If you don't, why would a banker invest in it? Why would anybody? You must have money to get money. Tons of business ideas are never pursued because of the Entrepreneur's lack of cash. Sorry, but there is no charity in business.
4. Collateral- Nearly all bank loans must be secured or collateralized- assets the bank can seize and sell to cover the amount of the loan they give you. With the startup failure rate what it is, a bank has to be kind of crazy to invest in a startup, so, if it does, the loan will just about always be fully secured and/or covered by an SBA guarantee.
5. Character- Yours! Investors invest in the Entrepreneur as much as the business. Successful Entrepreneurs all share similar skills, traits and characteristics so investors know what type person has the best chance of making a company succeed. You can, and should, learn and emulate those skills, traits, and characteristics.
6. Conditions- The ease of getting a loan, or any financing for that matter, is significantly affected by the condition of the economy at the time or the condition of the industry you are entering.

If you get a loan to start a business, make certain you communicate well and often with your banker- he or she is your ally. Visit regularly with good news or no news so that when you have to visit with bad news they will be more inclined to work with you. Your banker wants your business to succeed, and they will help you as much as possible as long as you are straight and honest with them.

Next time we'll talk about equity financing, VC's and Angel Investors.