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Preparation Is the Key to Getting a Business Loan

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Unlike securing a consumer loan for a home or car, getting a business loan can be difficult. Consumer loans have become readily available, and often a borrower can be pre-approved based on his or her credit score. A business loan, on the other hand, demands far more documentation, takes longer to close, and is often based on both the historical success of the business and the personal financial strength of the owner.

There are many reasons for this. Valuing a business is not as simple as having an appraisal on a home because there are fewer comparisons – not many businesses are exactly like yours. Nor can the business be sold as quickly as a home or car.

The New Mexico Small Business Investment Corporation (NMSBIC) tries to make the process of obtaining a business loan easier. Through its financial partners, like ACCION New Mexico, WESST Corp. or The Loan Fund, we have provided funding for over 1,300 business loans throughout the state. While each financial partner has their own credit approval process and each requires different documentation, these partners are accustomed to working with small businesses that might otherwise have trouble securing a loan from a traditional bank.

Like bank loans, most business loans available through our partners are based on the value of assets such as buildings, equipment, inventory and receivables. Lenders also want to know how profitable the business has been for the last few years. The better prepared you are to provide this information, the more likely you are to receive the loan you are looking for.

The Small Business Development Center (SBDC) helps business owners think through this process by providing classes and business counseling in twenty centers around the state. These services are provided free or at low cost and can be invaluable to the business owner, especially when a loan request is being contemplated. Counselors can help you prepare a formal business plan that provides the essential information that will assist the lender in understanding the purpose of the loan.

Do you *need* a business plan to get a loan? No. Do you *need* a well documented loan request with all the details about why the loan is requested and how it will be paid back? Probably. Would it help to have a business plan and other background documents in hand when making the loan request? Definitely yes!

If a business has ample assets to pledge as collateral, has been profitable, is known and well-regarded in the community, and the owner can provide the last three years of tax statements, lenders might be inclined to make the loan more quickly without needing as much documentation. Unless you can provide most of this, however, you will need to thoughtfully prepare in advance. All lenders, whether they are banks or non-profit community development agencies, will deny your request if you can not demonstrate that you have thoughtfully planned the manner in which the money will be used to grow your business.

What if the business doesn't exist yet and you merely have an idea? It is even more important to have a well-prepared business plan with financial projections, in order to explain everything in detail since the risks perceived by the lender are so much greater.

While the Legislature has created and funded the NMSBIC to provide loans and to make investments in New Mexico businesses, it is our duty to protect the taxpayer's dollars by making quality loans and investments. Our financial partners have well-established credit policies and, while they use underwriting standards and loan documents that may vary slightly from one another, each partner endeavors to structure and issue loans that will perform well over the life of the loan. For a listing of loan partners and their specialties, please refer to www.FinanceNewMexico.org

Resources, both educational and financial, are available to New Mexico businesses. It's up to you to be prepared.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation and its partners, to assist individuals and businesses in obtaining resources and knowledge to start or grow a business in New Mexico. To learn more about available resources, go to www.FinanceNewMexico.org

