



Article 5

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Getting a Loan Officer to say yes

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Asking for money is something no one likes to do. Asking to borrow money can be just as difficult. The outcome will depend on how prepared you are.

First, research the different loan programs available throughout New Mexico. It would be a waste of time to apply for a loan that doesn't fit the requirements of your business. Conversely, it would be a shame to miss out on a loan program that is perfect for your company because you aren't aware of it.

Make sure you understand words you may not normally use – words like assets, liability, net worth, gross or net profit, collateral, receivables, payables, amortize and depreciate. Having a working knowledge of these terms lets the lender know that you understand the financial part of your business.

Obtain your credit report. This document is one of the most important criteria that lenders evaluate when they are considering a loan request. It is essential that you look at your own report at least once a year to make sure that the information is correct. You can also learn your credit score, which indicates how well you have paid your debts. Many lenders will not approve a loan if the credit score is too low.

What if your credit report doesn't look so good? Some lenders are flexible in this area and will appreciate a letter of explanation. Obstacles that may be insurmountable include bankruptcy within the past 1 - 3 years, tax liens, unpaid judgments, unpaid child support and student loan defaults. These should be taken care of and cleared off the credit report before you apply for a loan.

Other issues, including too much debt, unpaid medical bills, late payments and charge-offs, require a letter of explanation because the lender will want to know the circumstances and your plan to handle the situation.

Lenders also want to understand both your personal and business financial condition. A personal financial statement and personal income tax returns will be part of a loan request package for most loan programs. Historical business financial information, including balance sheets, income and expense statements and business income tax returns, will be part of the package.

If the business is new, financial projections will be important. The lender will look for financial strength – not too much debt – and enough cash flow for you to make loan payments.

There is constant debate among lenders about the importance of a business plan. For the most part, it is extremely beneficial for a start-up business owner to take the time to write a business plan. A well thought-out and researched plan can help mitigate the high risk of starting a new business. Most lenders realize this and will ask for one.

On the other hand, it takes time to write an in-depth business plan. Some lenders recognize that borrowers often don't have the time, and for that reason, they don't require one. As you research the different loan requirements, find out about the necessity of a business plan. Keep in mind, however, that investing time to write a good plan may make the difference between the success and failure of your business.

Every lender wants to see borrowers have something at risk, something they would not ever want to lose. This could be collateral in the form of cash or another asset owned by the borrower or the business. It could be a car, equipment, or equity in real estate. Some community lenders allow collateral in the form of artwork, jewelry, a big-screen TV or your child's tricycle.

Recently I met with a woman who was looking for money for a new business. She said, "My goal is to be able to borrow enough so that I don't have to put in any money of my own."

No lender wants to hear that. Borrowers ask lenders to invest in something in which lenders have no control. Lenders want assurance that borrowers will work very hard to repay their loans.

Asking for a loan is very much like a negotiation. The more you understand the needs of the person on the other side of the table, the more likely you are to walk away with the money.

For more information about obtaining a loan or equity funding to grow a business in New Mexico, go to www.FinanceNewMexico.org.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC), New Mexico Small Business Development Center (NMSBDC), Empowering Business Spirit (EBS), the New Mexico Venture Capital Association (NMVCA) and other partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to www.FinanceNewMexico.org.

