Finance New Mexico

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Preparing to Ask for a Loan

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Asking for a loan is a type of negotiation. As with any negotiation, an entrepreneur is more likely to succeed if she understands the needs of the other party: the lender.

It also helps to know the language of lending. A knowledge of terms like assets, liability, net worth, gross or net profit, collateral, receivables, payables, amortize and depreciate tells the lender that a borrower understands the financial aspects of his business.

Would-be borrowers will need to answer personal questions about their credit history, business plan and personal stake in the business.

Money matters

Because a credit report carries weight with lenders considering a loan request, borrowers should check their report at least once a year to ensure the information is correct. A credit score is another number lenders will review as it shows how well a borrower has paid her debts.

Borrowers with low credit scores and unflattering credit reports can still get loans if they can explain their circumstances to a lender's satisfaction. A borrower with a recent bankruptcy, tax liens, unpaid judgments, unpaid child support and student loan defaults, however, should resolve these more serious problems before applying for a loan.

Lenders also want to know the state of a borrower's personal and business finances. Most will request a personal financial statement, personal and business income tax returns and other financial statements from the business. If the business is new, the lender will want to be sure it has few debts and enough cash flow for the borrower to make loan payments.

What's the plan?

Entrepreneurs considering different types of loan requirements should determine if they'll need to write a business plan to present to a potential lender.

A good business plan takes time to research and write, but the investment can spell the difference between success and failure for a business. A plan also shows a lender that an entrepreneur has

thought through the most important aspects of starting a new business or expanding an existing venture.

Many lenders require a business plan before approving a loan, but some lenders will waive this requirement.

The owner's stake

Lenders want to see what borrowers are risking in their own business, so they'll ask the borrower for collateral in the form of cash or another valuable asset owned by the borrower or business, such as a car, equipment or equity in real estate. Some community lenders allow collateral in the form of artwork, jewelry or other personal possessions the borrower is loath to lose.

Borrowers are asking lenders to invest in something which the lender has no control, so it's only fair that lenders want assurance that borrowers will work hard to repay their loans.

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