# How to Find, Apply for, and Get Approved for a Small-Business Loan

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Applying for personal loans is a common experience. If you want to qualify for a mortgage or car loan, for example, you go to a lender with your credit score and documentation of income. But it's different for a small business loan.

Funding your small business is often a challenge. You might find grants or even investments, but there's a good chance a loan will be necessary. In fact, 45 percent of small businesses look for loans each year. Understanding the process is important. Here are the steps you'll need to take.

## 1. Understand why you want the money

Lenders want to know that they're helping a company advance the growth, stability, revenue, and ability to repay the money you want them to give you. They need to know how much you want, meaning that you need to understand what your business requires. Ask for too little, and you'll fall short and fail in your goals. Ask for too much, and you can overburden your business with debt service or put off a lender. Be clear on what you are going to do and all the hard and soft costs involved.

## 2. Prepare your books and business plan

An institution or individual that might lend you money wants to see a well-thought-out strategy. If you've got an already going concern, that means keeping full books and not a shoebox of receipts and collection of invoices. You should be able answer basic questions and review a comprehensive business plan with the lender. Know your revenue, profits, costs by category, cash flow, and short-term and long-term debt, to name a few aspects. Have a balance sheet, income statement, and cash flow statement. Don't depend on software-generated materials alone. Run everything by an accountant to be sure it stands up. Investors will want to analyze the materials, calculate such metrics as debt-to-equity ratio, gross margins, and EBITDA (earnings before interest, taxes, depreciation, and amortization).

## 3. Practice

Find a financially savvy friend or have a professional role-play with you. Let them drill you with the hard questions. Learn what you might be asked and how to answer. Your work here may lead you to rethink the amount of money you want and how you plan to use it. Loans aside, this insight into your business is priceless. You'll become a better manager and entrepreneur.

## 4. Check your online presence

Lenders are going online to examine borrowers, and that can include businesses. Be sure your virtual presence -- website and social media sites -- seems professional. That means both the company and your personal ones. Look through what people say about your company on Yelp and other review sites.

## 5. Consider how lenders make decisions

Loans aren't monolithic. Many lenders will want collateral, which could mean ownership of equipment until you pay or even a mortgage on your home. The more secured the loan, higher the credit scores, longer you've been in business, and greater the annual revenue, the more money you can get and the lower the interest rate. Conversely, the less secured, lower the credit scores, smaller the annual revenue, and shorter time you've been in business, the less you will get and the more you'll pay.

## 6. Score yourself

Look at your business the way a lender would and see if *you'd* trust you with money. Check your personal credit score (often demanded in small-business lending because the lender has to trust you in particular and available through many credit card issuers) and any D&B rating (Dunn & Bradstreet business credit rating) for your company. Personal scores are vital as, according to the New York Federal Reserve, 42 percent of businesses seeking credit rely completely on the personal credit score of the owner, while another 45 percent use a combination of personal and business scores. What are the going interest rates on loans? Is your revenue high enough to support monthly payments on the loan? Is the company financially stable?

## 7. Get your other paperwork together

In addition to your books, pull together additional information you may need. That will include business and personal tax returns, business and personal bank statements, and any legal documents, such as a business license, incorporation papers, property leases, and franchise agreements. You want anything that shows financial commitments, ongoing operations, and company existence.

## 8. Look at the types of available loans

There are different types of lenders. Banks can lend more, but are also more conservative and want a better credit risk. They can also be slower to process loans.

The Small Business Administration provides loan funds through intermediate lenders for loans that are guaranteed by the government, meaning, among other things, that the interest rates will be lower. It has general small business loans, called the 7(a) Loan Program, which is the most common type, to establish or acquire new businesses or expand existing ones. The Microloan Program provides up to $50,000 to help small businesses start and expand. These loans can be used for working capital, inventory or supplies, furniture and fixtures, or machinery or equipment.

Online lenders tend to charge more, sometimes a lot more (rates approaching 100 percent or more are not unknown), but they may be looser on what they expect in credit scores and revenue and how quickly they can respond. You'll typically find short-term lenders focusing on amounts up to around $50,000 as credit lines or operational loans, although the average loan may be much smaller.

Also look at Community Development Financial Institutions, or CDFIs, organizations that combine government and private sector dollars to fund economic development.

According to the 2016 Small Business Credit Survey, released this year by the New York Federal Reserve, half of businesses seeking credit went to a large bank, 46 percent went to a small bank, and 21 percent looked to online lenders.

In the entire loan process, also recognize that you may not get the amount you want, or even be approved. According to the New York Fed, only 53 percent of firms got all the financing they wanted. For businesses with annual revenues of $1 million or less, 67 percent received less than the amount they wanted. Also, the less your revenue, the less likely you are to receive at least some financing, so being prepared for the entire process is important.

## 9. Compare opportunities

Not all lenders are the same and neither are their offers. Compare rates, amounts to lend, loan terms and conditions, and business reputations of the lenders to decide which offer might make the most sense.

New York Fed data suggest that the highest rates of success in a smaller business getting a loan come from smaller banks (60 percent rate), online lenders (59 percent), and CDFIs (77 percent). Satisfaction with lenders among small businesses is greatest at credit unions and small banks (75 percent) and lowest with big banks (46 percent) and online lenders (27 percent).

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