



Credit Factors a Potential Borrower Should Know

These are credit factors a lender will review and analyze before deciding whether to internally approve your loan application, seek a guaranty from SBA to support its loan to you, or decline your application.

Equity Investment

Loan applicants must have a reasonable amount invested in their business. This ensures that, when combined with borrowed funds, the business can operate on a sound basis. There will be an examination of the debt-to-worth ratio of the applicant to understand how much money the lender is being asked to lend (debt) in relation to how much the owner(s) has invested (worth).

Earnings Requirements

Financial obligations are paid with cash, not profits. A company must be able to meet all its debt payments, not just its loan payments, as they come due. Applicants are generally required to provide a cash-flow projection, broken down on a monthly basis, and covering the first annual period after the loan is received.

All SBA loans must be able to reasonably demonstrate the "ability to repay" the intended obligation from business operations.

Working Capital

Working capital is the excess of current assets over current liabilities. Current assets are the most liquid and most easily convertible to cash, of all assets. Working capital represents the margin of protection a company can give its short-term creditors.

Collateral

To the extent that worthwhile assets are available, adequate collateral is required as security on SBA loans. However, SBA will generally not decline a loan where inadequacy of collateral is the only unfavorable factor. Collateral can consist of assets that are usable in the business and personal assets outside the business.

For SBA loans, personal guarantees are required of every 20 percent or greater owner, plus other individuals who hold key management positions.

Resource Management

The ability of individuals to manage the resources of their business, sometimes referred to as "character," is a prime consideration. Managerial capacity is an important factor involving education, experience and motivation. A proven ability to manage resources is also a large consideration.

Mathematical calculations on the historical and projected financial statements form ratios, which provide insight into how resources have been managed in the past. Some key ratios lenders review are: debt to worth; working capital; the rate at which income is received after it is earned; the rate at which debt is paid after becoming due; and the rate at which the service or product moves from the business to the customer.

Contact a reputable business plan specialist to help you get prepared for your small business ventures.