

HOW TO WRITE A LOAN PROPOSAL

The heart of most lending decisions is company value. Every banker wants to hear how his loan will improve the worth of your company. Address your presentation to this question and you'll improve your chances of coming away with the money. Here are some guidelines, along with specific tips.

A loan proposal consists of eight parts. It's virtually written already, though, if you have an up-to-date business plan on hand. A simple shift of emphasis toward your new audience will convert a business plan into a loan proposal.

SUMMARY. On the first page, give your name and title, company name and address, nature of business, amount sought, purpose, and source of repayment.

TOP-MANAGEMENT PROFILES. To sell yourself and your partners or top executives to the bank, develop a paragraph or two on each of you, touching on background, education, experience, skills, areas of expertise, accomplishments. *Bankers seek their ultimate security in experienced management.*

BUSINESS DESCRIPTION. Give details of your company's legal structure and age, number of employees and union status, and current business assets. Define your products and your markets, identifying customers and competitors. Describe your inventory in terms of size, rate of turnover, and marketability. *Bankers favor established and conventional merchandise, as opposed to trendy or perishable items.* Report the status of your accounts receivable and accounts payable. *Bankers look for accounts to be less than 60 days old and for receivables to be spread among many customers, not concentrated in a few big ones.* If you have any "contingent liabilities," or potential expenses, acknowledge them here.

PROJECTIONS. Basing your figures on your current share of market, explain your growth opportunities and describe how you plan to exploit these opportunities for the next year and the next five years. List your alternative and fallback

plans. Work out a realistic timetable for achieving your goals. *Bankers judge your plans and goals in terms of your industry's practices and trends.*

FINANCIAL STATEMENTS. Get together balance sheets and income statements for the past three years, including current figures, and make projections for the next three years. Past and current statistics must be exact. *Bankers are more comfortable with audited statements.* If you can't afford a full audit, ask your accountant for a financial "review." While less convincing than an audit, this new intermediate procedure gives your banker more assurance than an unaudited statement. Prepare two sets of projected balance sheets, and income and cash flow statements, one predicated on receiving the loan and the other on going forward, without it. Although critical to proving your claim that the loan will increase company worth, your projections must be realistic. *Bankers match projections against published industry standards, searching for padded earnings and meager cost estimates.* Personal financial statements, including tax returns for the past three years, must also be submitted, since your own net worth is a factor. *Bankers check your personal credit rating, as well as your company's.*

PURPOSE. Pinpoint your proposed use of the loan. A request for "working capital" will elicit questions, not money. Instead, explain what the working capital is for, e.g., "To build up Christmas inventory by increasing production, starting in late summer."

AMOUNT. Ask for the precise amount needed to achieve your purpose, and support your figures with estimates from suppliers, for example, and previous years' cost figures. Don't ask for too much, expecting your request to be trimmed, or for too little, hoping that the smaller the request, the more likely an approval. *Bankers know costs.* They'll suspect you don't, if you seek an inappropriate amount.

REPAYMENT PLANS. The pivotal aspect of your proposal,

repayment plans, should be formulated in the light of several banking axioms.

First, asset must match loan: *Any asset you want to finance must last at least as long as the loan period.*

Second, *the asset should generate the repayment funds*, by increasing sales, slashing costs, or heightening efficiency. Third, *your projected balance sheet should clarify your company's capacity to meet interest as an expense, and to repay principal from net profits.* Finally, *you must provide "two ways out," or two different sources of repayment.* The bank wants assurance that if the first way – the asset and your company – is blocked, there's a second, ordinarily compromising your own and perhaps others' guarantees, validated by an accountant.

Weaving these axioms into a repayment schedule is a complex task, but you won't be required to do it all yourself. Lending officers anticipate calls for advice on this and all other elements of your loan proposal. They look for you to be an expert only on your business, however, *you will be expected to come in with all the requisite financial data.* "I'll have to look that up" or "Let me check that out and get back to you" will put you in the amateur league, as far as bankers are concerned.

Bad as it is to lack financial information, it's worse to try to hide anything you fear may damage your chances. *Be candid*, bankers urge, pointing out that a good relationship is rooted in trust. Further, if you've made some misstep that's eating into your profits, the banker probably has the tools to effect a rescue.

Is there any other action you can take to swing the odds in your favor? Most bankers admit there is: *Don't confine your patronage to the loan department.* Buy additional services and refer other depositors. A bank, even a big money-center bank, is a business like any other, and will go to some lengths to satisfy customers – especially now, as competition for the small business market heats up.