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Finance - Getting Money

Banks

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Banks

Banks are the primary financing vehicle, other than owner's savings, for small businesses.

Banks like to use hard assets such as buildings, motor vehicles, or equipment as collateral against loans. They will loan against receivables and inventory, but, especially in the case of smaller businesses, tend to heavily discount the protection these assets offer. They are afraid the inventory and receivables will be converted to cash in order to cover operating losses if the business experiences any financial difficulties.

While banks like the ultimate protection of hard assets, they also want to feel that there is little chance that the business, or the bank, will have to call upon these assets to pay off the loan. Banks don't care whether or not your business has sky-high profit potential. They are only interested in the business' ability to cover the principal and interest payments.

In making a proposal for a loan, the bank will want to see all of your recent tax returns, financial statements, and cash flow projections. They will also want to know how much you would like to borrow. And, if yours is a small business, it will expect you to conduct all of your business banking activities through its institution.

Banks are reluctant to loan to businesses that cannot show at least two years of profitable operation. They want to see that the owner of the business is heavily invested in the enterprise. And, typically, they won't make loans in amounts that exceed 50 percent of the firm's capitalization.

Many bankers feel they are extending a loan not only to the small business, but to the owner-operator as well. They will feel more comfortable loaning business funds to someone with community ties, who has experience related to the business he or she is conducting, and who has made a complete and total commitment to that business.

Small business loan criteria vary greatly from one bank to another. It can even vary from one loan officer to another. If you have been turned down by nine out of ten banks in your region go ahead and try the tenth. While all banks and loan officers consider the same factors when weighing a loan request, they will place different emphasis on those factors. Some bankers place great store in hard asset collateral, some in the profitability or continuity of the business, and yet others will go with their impression of the owner as the deciding factor.

* Source [Streetwise Small Business Start-Up](#)

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