



## **CAN I QUALIFY FOR A LOAN?**

Whether you are applying for a microloan, SBA loan or a traditional bank loan, there are certain factors that improve your ability to obtain financing.

### **1. Do you have a good personal credit history? Yes \_\_\_\_ No \_\_\_\_**

Research indicates that good personal credit history is one of the most important factors in identifying borrowers that will repay their commercial loans. Many loan programs require perfect personal credit in order to qualify.

a) If you do not have a recent credit report, order one by calling TRW, Equifax or another credit bureau. The WBDC can order a credit report for you at a cost of \$20.00 for each report.

b) If you have credit problems but they can be explained by a one-time incident such as medical problems, provide information on the problem and how it has been rectified.

c) If you have had a bankruptcy in the past 7 years, or have slow payments, collections, etc. then it may be difficult to obtain financing now. If the poor credit history can be explained by a particular incident, supply information on the situation and how you attempted to repair the past credit problems. If you have consistent credit problems, you will need to `repair' your credit history and rebuild your credit track history. Contact the Metropolitan Family Services Credit Counseling Service at (312) 545-2227 for assistance.

### **2. Have you filed your personal and business income taxes? Yes \_\_\_\_ No \_\_\_\_**

Lenders and government loan programs alike want to see that an individual has met their tax obligations for both filing and paying taxes. For SBA loans a tax verification is obtained from the IRS before a loan is closed.

### **3. Are your Income Taxes paid? Yes \_\_\_\_ No \_\_\_\_**

Many of the loan programs are in partnership with government agencies. These loan programs do not look favorably on individuals who have unpaid income taxes.

**4. Have you demonstrated that your business has the ability to repay a loan?**

Yes \_\_\_\_\_ No \_\_\_\_\_

- **For existing businesses** – If the business is profitable, then there are demonstrated profits to repay some amount of new debt. If a business is not profitable, then it becomes very important to prove how it will be profitable in the near future so that a loan can be repaid. WBDC classes and counseling can assist you in this process.

- **For start-up businesses** – It is very important that you find as much data on comparable businesses or industry statistics in order to 'prove' the revenues you intend to generate and the expenses you anticipate incurring. WBDC classes and counseling can assist you in this process.

**5. Does your business have a positive net worth? Yes \_\_\_\_\_ No \_\_\_\_\_**

- **For existing businesses** – The net worth of the business should be positive. If there are loans from shareholders on the balance sheet and you are able to subordinate these (not pay the shareholders) while you pay the bank loan back, you may consider these loans from shareholders as equity.

**6. Is your business not carrying too much debt? Yes \_\_\_\_\_ No \_\_\_\_\_**

- **For existing businesses** – Businesses that have too much debt will find that their profits are directed at paying back loans and not building retained earnings in the business that can fund future growth. Consequently, banks and government loan programs look more favorably at loan requests that do not add too much debt to the business. Banks often look for a debt to net worth ratio of 4 or less (total liabilities divided by equity). WBDC counselors can assist you in assessing your debt situation.

**7. Do you have enough money of your own to put into the business?**

Yes \_\_\_\_\_ No \_\_\_\_\_

- **For start-up businesses** – All loan programs require that the business owner put their own money in the business. This owner equity injection shows that the owner believes in the business enough to risk their own money. Some microloan programs require only 10% owner equity; other programs require at least 30% and will look more favorably on a loan request the more equity is in the business.

**8. Do you have any collateral to secure a business loan? Yes \_\_\_\_\_ No \_\_\_\_\_**

Business and personal assets can be considered collateral, or a way to repay the loan if the business defaults on a loan. Most collateral is valued at an amount less than face value based on a variety of factors. Although the SBA and microloan programs state that collateral can not be the only factor that would

lead to a denial, the more collateral one has, the more likely a deal will be favorably considered.

**9. Are you willing to personally guarantee a loan? Yes \_\_\_\_\_ No \_\_\_\_\_**

Most business owners are asked for a personal guarantee in order to obtain their first business loans.

**10. Does your business have managers and advisors capable of leading your business to the next level of growth? Yes \_\_\_\_\_ No \_\_\_\_\_**

• ***For existing businesses*** – As businesses expand, they need more sophisticated management as it relates to strategic planning, marketing, recordkeeping, inventory control, personnel, etc. If there are sectors of your business that you need assistance with, we strongly recommend that you attend one of the WBDC's entrepreneurial training classes, meet with a WBDC counselor or obtain a referral to one of the many business resources in the area.

**11. Do you have experience in running your own business? Yes \_\_\_\_\_ No \_\_\_\_\_**

• ***For existing businesses*** – For a new business especially, it is important for the business owner to demonstrate that she has experience in the industry and/or entrepreneurial experience. If you have never owned or operated a small business before, we strongly recommend that you attend one of the WBDC's entrepreneurial training classes.

**STOP! If you can not answer yes to all the questions above, then you may have difficulties obtaining financing at this time. We suggest that you evaluate the needs of your business and take advantage of the WBDC Entrepreneurial Training Classes and counseling.**