

EXPERT BANKING ADVICE FOR YOUR SMALL BUSINESS

How to Increase Your Chances of Getting a Small Business Loan

By Bob DeAlmeida
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In the loan businesses, we look at a number of factors when determining if a business is a good candidate for a loan: character (integrity), capacity (sufficient cash flow), capital (net worth), collateral assets to secure the debt (and conditions overall of the borrower and economy). Call it the five C's if you'd like.

All are important, but at the top of the list is cash flow. Banks want to be sure that you can make the monthly payment. Typically we can loan up to 75% of your monthly accounts receivable. We want to know that even after paying your monthly expenses that you still have money left over. You may hear lenders talk about "debt service coverage" of 1.25%, which put simply means that if you are bringing in \$1.25 you are putting out only \$1.00 to run operations and \$.25 remains in your funds.

The same concept applies to your balance sheet. It isn't unusual for small business owners to pay themselves whatever is left over at the end of the year, but banks want to see that you're leaving capital in the business. Don't start out the year at zero. You need to leave something in the business. Call it your "rainy day fund," if you will.

One of the best ways to increase your chances of getting a loan is to ask for a reasonable amount. Again, that comes back to cash flow and capital as described above. One exception might be if the loan is for an expansion or opportunity that you can prove will increase cash flow and available capital. A bank will want to see any supporting documentation, such as a contract outlining the upcoming opportunity, and most certainly a business plan. We can tell quickly from your business plan and your balance sheet if a loan is affordable or not.

Conditions play a part in the bank's decision-making process as well. Where does your company fit into the economy overall and within your particular industry? Are there ups and downs in revenue that occur seasonally or cyclically? How are you prepared to deal with those shifts? Other aspects to consider are the demand for your service or product, and the competition.

At Hamilton, we also look closely at character. Your credit history (both business and personal) is part of that. Are you trustworthy? Do you have integrity? We also want to see your office, meet your employees, and understand your plan for the future. We want to get to know you and your business. We also consider how you present your loan package: Is it complete? Organized? Returned on time? Are you responsive to our inquiries?

In today's challenging economic climate, banks have increased their requirements for collateral. They will need to cover the loan amount with adequate collateral. This can take on many forms from accounts receivable to your personal residence. The bank will start with your business but may have to rely on personal assets to shore up the request.

That's why it's best to keep personal debt down to a minimum so that collateral will be available when needed. A good banker will help you maintain a balance of collateral that is acceptable for all parties involved.

ABOUT BOB DEALMEIDA



Bob DeAlmeida is president and CEO of Hamilton Bank, which operates five Maryland locations and meets the complete banking needs of small businesses, retailers, consumers, and homeowners across Greater Baltimore.

MORE INFORMATION

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