Sources of Financing

Home Based Business

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I. Introduction

Sufficient start-up capital is very important in beginning a business and being able to pay the bills until you show a profit. Being undercapitalized is one of the most common reasons a business experiences difficulty. The information in this section will guide you in preparing, packaging, and presenting a financial proposal for your business so you will have a greater chance of business success.

There are many start-up costs involved. Having the necessary money, whether it is $100 or $1,000,000, is the key to starting a business. Finding the money to start, run, or expand a business can be a major hurdle. Competition is keen because of the number of businesses that start each year. Since investors are aware of the statistics on business failures, they select carefully to reduce their risks.

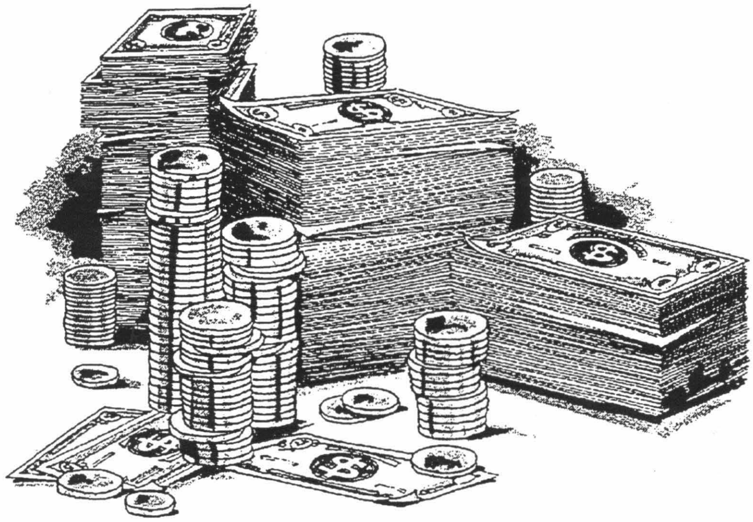
Financing your business involves four basic steps. These include:

1. Determining how much money you will need.

2. Determining where the money will come from.

3. Developing a loan proposal.

4. Presenting the loan proposal.



II. Determining How Much Money You Will Need

To determine how much money you will need to start your business requires careful estimation. Different businesses require different amounts of money. Your financial needs will vary according to the following factors:

— Type of business
— Kinds of products or services which you provide
— Competition in the area
— Purchasing power of your customers
— Who your suppliers will be
— Location of business
— Cost of employees
— General economic conditions
— Other

In financing your business, you will need capital for start-up costs (equipment, space improvements, inventory, etc.) and operating or working capital (payroll, utilities, advertisements, insurance, etc.). The working capital pays for the day-to-day operating expenses of the business prior to the time when business revenues will be able to support the venture. If you raise start-up capital without working capital, the business will not be able to function.

You may use ***financial ratios*** to help determine how much money you will need. These ratios provide information about businesses similar to yours, including the relationship between expense items and net sales. For example, if you find that the industry standard ratio of expenses to sales is 1 to 2, and you estimate that sales for your business will be $20,000, then your estimated expenses will be $10,000. For every $1 spent on expenses, you will get $2 in sales if the ratio holds true. If your business has additional expenses, you will need to include those, as well. Lists of typical financial ratios for specific types of businesses are published by different sources including the following:

- ❑ **Dun & Bradstreet, Inc.** (99 Church Street, NY 10007). **Key Business Ratios** lists operating ratios for 125 lines of business activity.

- ❑ **Robert Morris Associates** (Philadelphia National Bank Building, Philadelphia, PA 19107). **Statement Studies** lists business ratios for 300 different types of business.

- ❑ **Accounting Corporation of America** (1929 First Avenue, San Diego, CA 92101). **Barometer of Small Business** gives operating ratios for many types of small businesses.

- ❑ **National Cash Register Company** (Marketing Services Department, Dayton, OH 45409). **Expenses in Retail Businesses** gives operating ratios for many retail businesses.

- ❑ **Federal Trade Commission—Securities and Exchange Commission** (U.S. Government Printing Office, Washington, DC 20402). **Quarterly Report for Manufacturing Corporations** gives raw data on manufacturing corporations in the United States that you can use to calculate your own financial ratios for various types of expenses.

To acquire information from these sources, you may write directly to them or contact your local Chamber of Commerce, Retail Merchants' Association or financial institution.

If you can find a typical financial ratio for your business, it will be easier to calculate your expenses.

III. Planning for a Loan

Credit is the lifeblood of American business, especially for the smaller firm. It helps the entrepreneur get started, obtain equipment, build inventory, develop new lines of merchandise, or expand. In brief, credit makes the business grow when used properly and with good input.

Key Questions

Before you go into a bank to borrow, you should ask yourself some basic questions. Thinking these through and having answers ready will lead to a more productive credit interview. Here are some examples.

- What do you need money for?
- What collateral do you have?
- Exactly how much do you need?
- When do you need it?
- How long will you need it?
- How will you repay it?
- Can you afford the interest on the loan?

The answers to questions such as these are critical to the lender's decision. And, the information which you provide—supported by your financial statements—will help the banker make the decision more quickly.

THE SIX C'S OF CREDIT

Understanding how a potential lender evaluates a proposal may help you to prepare one. The six Cs of credit are traditional, time-tested criteria. Think about each one from a lender's viewpoint; they may help you find the strong and weak points of your business idea.

Character. You are important to the lender. Are you honest, a good manager, experienced in business? Will you make every possible effort to repay the loan?

Capacity. Will your business generate enough income to repay the loan? If the business does not work out, do you have the personal capacity to repay the loan?

Collateral. What collateral will you pledge? If the business fails, will it cover the loan? How easily could it be sold? Some lenders accept co-signers as collateral; their character and capacity is then important. However, some lending institutions have encountered difficulties in collecting from co-signers, and lenders may be reluctant to accept co-signers' guarantees. You can use personal assets like your home, vehicles or stock shares as collateral for a business loan. But, before you pledge these assets, *think carefully* about the effects of losing them if the business fails.

Conditions. Market conditions and trends are important to a lender. The projected changes in your target market, trends in your community and seasonality of your business will be considered. The lender will also look at your competition and your plans to deal with them. Also, their experience with similar businesses will influence their decision.

Capital. Your financial commitment to the business is critical. Be prepared to invest as much capital in your idea as you can reasonably risk.

Coverage. Whether you have adequate insurance on your business contents is important to the lender due to fire or theft risks.

IF YOU'RE TURNED DOWN

Suppose, despite all your efforts, your loan application is turned down. You still have a number of possible choices.

Question your banker closely on the reason. If, for example, you asked for too much, file a new application for less money. The first rejection shouldn't affect your new application. But if you sense that your banker really doesn't care, don't push it—you simply are not going to get money from that bank.

Go to a new bank. Get the name of the loan officer there, make an appointment, and explain to him or her what happened at your old bank. Tell him/her you wanted $10,000, but that was more than your numbers supported, which you weren't told when you first applied. Explain that you could live with $7,000, but make it clear that you are getting absolutely no help from your previous banker on any of this.

You will represent two things to the new loan officer. First, you will seem like a good prospect for a $7,000 loan. Second, he or she probably will require you to shift all of your banking to his/her bank before granting the loan, so the bank will acquire a new, desirable customer.

IV. Obtaining Financing

The kinds and supply of money have changed since the 1980's. The 1990's are moving into a very tight market for working capital. There is no one best method for raising capital. Your success in acquiring outside financing for your business venture depends on effective planning, realistic forecasting, and your knowledge of available sources of capital.

The initial source for financing a business venture is *you.* You need to expect to invest at least 20 percent of the total financial needs. The size of your commitment to the business is critical. Lenders will hesitate to risk their funds if you are not risking a substantial amount yourself. Also, they will seldom invest more than 80 percent of the capital needed for a new business.

The two general categories of financing are ***equity financing*** and ***debt financing***.

EQUITY FINANCING

The money that you put into a company or business is ***equity***. Initially, this money comes from your savings, personal borrowing, friends, relatives, or business associates. Eventually, earnings retained in the business will increase your equity.

If you form a corporation, you can buy one or more shares and *lend* the rest of the money to the corporation as a shareholder's loan. The advantages of a shareholder's loan are as follows:

- Lenders consider these loans as equity as long as the money is left in the company.

- It is easier to repay the loan than sell shares back to the company or to other investors.

- Interest may be paid or dividends on shares may be paid when funds are available.

- Interest is tax deductible to the company.

- The loan can be repaid in part or full without tax consequences to the recipient.

DEBT FINANCING

A debt is a loan. It must be repaid and the lender will charge interest on the money you have borrowed. With borrowed money, normally the principal and interest are paid back on a fixed monthly payment. You, therefore, have to include the principal and interest payments in a current business plan.

A commercial loan through a bank will require the pledge of adequate business and/or personal collateral. Collateral may include:

Non-Personal (Business Assets)
— business cash on hand
— business buildings and/or land
— equipment
— inventory
— accounts receivable

Personal (Non-Business Assets)
— saving accounts
— stocks and bonds
— land and/or home
— autos

It is important to exercise caution when committing personal assets to finance any business venture.

Possible Sources of Capital

Many sources of financing are available depending, in part, on your situation.

A. Business Start-up

- Personal savings, family, friends
- Life insurance policies
- Credit card advance

- Profit-sharing funds from previous job
- Mortgaging real estate
- Commercial banks
- Savings and loan associations
- Government agency loans (SBA, FmHA, etc.)
- Internal financing (selling ownership to partners, employee)
- External financing (selling stock to outside investors)
- Public venture capital (SBIC, MESBIC)
- Private venture capital
- Finance companies (commercial or consumer)
- Obtaining equipment on a loan, leasing or using a lease-back agreement.

B. Operating Capital

- Good money management inside the business
- Trade credit
- Customers
- Accounts receivable financing
- Other sources listed above.

C. Expanding An Established Business

- Mortgaging existing facilities
- Industrial revenue bonds
- General revenue bonds
- 503 certified development companies
- Other sources listed under start-up financing and operating capital.

For additional explanation regarding these sources please see the Appendix.

V. How To Develop Your Loan Proposal

Regardless of which sources of money you choose to contact, you will need to sell them on your idea. Your loan proposal is the best method to tell your story. Your business plan can easily be converted into a loan proposal. The proposal is critical to your success and requires your commitment to completing it. It must fit your needs, wants, and background and the needs and interests of the investor or lender to whom you are applying for financing.

WHAT DO INVESTORS CONSIDER IMPORTANT?

When evaluating a loan proposal, what do experienced investors consider important? The Utah Innovation Foundation recently sent a model plan to venture capitalists and investors across the United States. These investors were asked what emphasis they place on the individual parts of the plan. The Utah Foundation's Plan contained five sections. The weights indicate the importance the investors place on each section in making an investment decision. On a 100-point scale, for instance, information on the company is worth 15 points while marketing is worth 35.

1. The Company (15% weight)

- What business are you in?
- Purpose of the business
- A brief summary of the company's history and current status, including legal

organization and whether the company is publicly or privately held
- The company's overall strategy and objectives

2. The Product or Service (15% weight)
    - Important features and user benefits.
    - Relation of products and services to market needs
    - Pricing
    - Present status—current stage of development, expected life cycle
    - Proprietary position—trademarks, patents, trade secrets, special production skills, proprietary processes, etc.
    - Products and projects planned—their status, when due out, expected life, potential revenues

3. The Market and Marketing Strategy (35% weight)
    - Who buys your products and why?
    - Describe the market, size, anticipated growth, key changes
    - Competition—Who are they? How much of the market do they have? What is their strategic position?
    - What needs in the market will you satisfy? What market situation do you plan to exploit?
    - Unique characteristics—What do you offer that makes you different and gives you an advantage?
    - Marketing plans—market penetration—How will you reach the market (direct sales, mail order, etc.)? How much will the marketing program cost?

4. Management (25% weight)
    - Background and abilities of key individuals. Why can they do this job? What do they bring to the company?
    - History of working together as a team
    - Immediate personnel needs and costs
    - Organizational structure, decision making framework and authority

5. Financial Summary (10% weight)
    - Funds required
    - Use of the funds
    - Simple projections of sales revenues, income and expenses over a three-to-five-year period
    - Any security offerings planned
    - Best estimate as to when and how an investor will get his money back
    - Funding needs at each stage of development, along with objectives to be reached at each stage

Surprisingly perhaps, the "bottom line" is not as important as other factors. Marketing strategy and management are the most important parts of a plan in the opinion of these venture capitalists. They should then receive careful consideration before you invest your own valuable time and hard-earned money in a business venture.

PREPARING THE LOAN PROPOSAL

There are many possible sources of money for a good business idea. However, be prepared to put your own funds on the line. Securing financing will require a sound business plan with realistic economic projections. Lenders are in business too; their goal, like yours, is to make a profit.

Prepare a plan and present it to the loan officer so the officer can say yes to the following questions:

- Yes, I understand how your business works.
- Yes, you have a good marketing strategy.
- Yes, I believe you can meet your sales plan.
- Yes, I think your financial position is okay.
- Yes, I think your profit plan is feasible.
- Yes, I think your cash-flow plan is a reasonable estimate of your cash needs.
- Yes, I will make the loan.

An outline for a loan proposal is included in the Appendix. For assistance in preparing the loan proposal, see "Developing a Business Plan," publication 354-302, available from your local Virginia Cooperative Extension office.

Appendix

SOURCES OF CAPITAL

Trade or Supplier Credit

This type of "money" is not borrowed. It is money you owe suppliers who permit you to carry inventory on an open account. Study the discounts for the advantages of early payment and the penalty for late payment to determine the true cost of this form of credit. While some suppliers will extend credit only to well-established, proven businesses, many will extend limited credit to new businesses to encourage another buyer for their merchandise. Trade credit is effectively used by large businesses to buy products at a lower cost than small firms. Do not depend too much on trade credit from one supplier because if repayment problems arise, you may find your major source for supplies cut off when you need it most.

Life Insurance Policies

A standard feature of many insurance policies (except term insurance) is the owner's ability to borrow against the cash value of the policy. The money can be used for any business or personal need. It takes about two years for a policy to accumulate sufficient cash value for borrowing. You may borrow up to 95 percent of the cash value of the policy for an indefinite period of time. As long as you continue to pay the insurance premiums, interest can often be deferred. The policy loan will reduce the face value of the policy, and, in case of death, the loan is repaid before the beneficiaries receive their portion.

Friends and Relatives

(see "Private Borrowing" section)

Customers

When customers pay in advance for the work a service provider does, or provide some of the material, they are in effect financing the business. It is not uncommon, for example, for businesses to request a deposit from customers who order special items or request specialized work. Otherwise, the business will be financing the customer.

Leasing Companies

Leasing business equipment is one way to reduce the need for capital. Everything from office furniture to food processing equipment can be obtained from large leasing companies. Leasing is generally more expensive than bank financing and is limited to items that have a long service life, widespread use, and are easily repossessed in the event of default. In many cases, you have an opportunity to buy the equipment for a previously agreed-upon amount at the end of the lease period.

Commercial Finance Companies

Commercial finance companies may have to be considered when you are unable to secure financing from a bank. Commercial finance companies, like banks, are concerned with your ability to repay the loan. However, they may be more willing to rely on the quality of your collateral then your business's track record or profit projections.

If you do not have substantial personal assets or collateral, a commercial finance company may not be the best place to secure business capital. The cost of commercial finance company money is usually several percentage points higher than bank financing.

Commercial Banks

(See later section.)

Federal Government Loans

Small Business Administration (SBA): The SBA provides loan guarantees, participates in bank loans, and, if funds are available, makes a limited number of direct loans. To receive any financial assistance from SBA, a business must be able to prove that they are unable to secure reasonable financing from other sources. SBA interest rates on loans vary from year to year based on the cost of money to the government. A loan proposal for the SBA is generally more complex and needs more documentation than one for banks.

- **Guaranty Loans:**
- **Direct Loans:**
- **Development Company Loans** which include:
  - Local Development Company Loans (502 Loans)
  - Certified Development Company Loans (504 Loans)
- **Seasonal Line of Credit Guaranties (short term)**
- **Energy Loans**
- **Handicapped Assistance Loans**
- **Vietnam-Era and Disabled Veteran Loans**
- **Export Revolving Lines of Credit**
- **International Trade Loans**
- **Section 7A (11) Loans** — formerly known as "Economic Opportunity Loans."
- **Disaster Assistance**
- **Pollution Control Financing**
- **Small Contractor Loans**
- **Surety Bond Guarantee Program**
- **Small Business Investment Companies**
- **Small Business Innovation Research**

Farmers Home Administration Loans

Private Borrowing

Most home-based businesses have been started with the owner's savings, plus loans from friends and family. If you borrow from a friend or relative, do it on a business-like basis by writing up a loan agreement that specifies the amount borrowed, the length of the loan period, the interest, schedule of payments, and any collateral (your property used to secure the loan). If the lender is very cooperative and doesn't need the money back immediately, he/she may agree to a demand loan—you agree to pay back the full amount if and when the lender asks for it. Although a demand loan doesn't specify regular payments, try to repay as much as you can as soon as you can.

Few of your friends or relatives will charge you market interest rates although you might make a tactful suggestion along these lines. The IRS considers lending money at below-market interest rates a gift; the size of the gift is the gap between market and actual rates; so if a lot of money is involved, the lender will have to pay a gift tax.

Commercial Banks

Banks insist on a solid business record and plenty of collateral—both very hard to come by in a start-up situation. But once your business is well under way, you may be able to borrow more operating capital, or the money you need for expansion.
When you borrow money for your business, it is important to know the kind of money you need from a bank or other lending institution. Here are the twelve basic categories that bankers generally use to classify loans, grouped according to the expected duration of the loan.

Short-term Loans

Business runs on short-term loans. Technically a "short term" loan means repayment in less than a year, but in practice, short-term loans often expand to two or three years. Small businesses usually seek short-term loans to finance their accounts receivable or supplies/inventory, especially when their business is seasonal or they deal with perishable goods. But short-term loans can also be used for many other purposes, from taking advantage of a temporary bargain on an item regularly carried in stock to taking care of an emergency. Most short-term loans fall into one of these four categories:

LINE OF CREDIT A widely used form of short-term lending, a line of credit consists of a specific sum reserved for a business to draw on, as needed, over a definite period of time. That time period may be 30 days or two years, since repayment is tied to anticipated profits. Interest is computed only on the amount actually drawn out, but a commitment fee of 1/2 to 1 percent of the total credit line is usually charged to pay the bank for reserving funds that may not be used by anyone else. Some banks will waive this fee if the borrower keeps a minimum balance on deposit throughout the loan period; others work out a combination of account balance minimums and commitment fees.

Lines of credit are popular because of their simplicity and banks have developed several credit line arrangements that fit different borrowing needs. The cheapest is the nonbinding line of credit. This may be the best buy for a small business; but because it carries no guarantees, there is always the risk that the credit line may dry up if the business's financial position deteriorates, or if that industry seems headed for hard times. When the economy is tight and the need for a loan may be greatest, the bank itself may develop liquidity problems that force a cut-off of funds—although larger financial institutions can usually ride out such crises. The risks of losing the line can be avoided by paying a fee to insert the word "committed" in the loan agreement. The commitment fee may go as high as 2 percent then, but the business is assured that funds will be available when needed.

Nonbinding or committed, a short-term line of credit must be "cleaned up" periodically. Typically, the business must be paid up for 30 days each year. If cleaning up a line of credit constricts cash flow too much, there's a third form that may be useful—the revolving line of credit, which requires an annual review and renewal, but no cleanup. This is similar to a department store revolving charge account. As the business withdraws funds, the available credit diminishes and expands again with repayment. Interest is computed only on the funds actually borrowed, and there's usually no extra fee or additional cost. Ordinarily, revolving lines of credit are repaid in monthly installments of interest plus principal.

INVENTORY LOAN When a small business with seasonal borrowing needs applies for loans between $5,000 and $15,000, some banks prefer to write what they call "short-term loans to carry inventory." The bank's collateral is the inventory itself. Funds are made available for borrowing, as needed; repayment is made in installments as inventory is sold and/or accounts receivable are paid. The usual inventory loan runs six to nine months and requires the same 30-day annual cleanup as a line of credit if an extension is needed.

COMMERCIAL LOANS Some banks do much of their short-term lending in commercial or "time" loans, which minimize bookkeeping for both lender and borrower. A commercial loan does not require installment payments, it is repaid in a lump sum at the end of the term, typically three to six months. Commercial loans are often used to finance inventory/supplies, but they may be applied to any purpose that the bank approves. In making a commercial loan, the bank's chief concern is the source of repayment—how will the business get the lump sum to meet its obligation?

ACCOUNTS RECEIVABLE FINANCING Some businesses who carry their own credit find accounts receivable are tying up huge amounts of working capital, so they turn to their bankers for loans that will convert the unpaid accounts into cash. Which accounts will a bank loan on and how much? Generally, accounts must be less than 60 days past due, and the customers themselves must be credit-worthy. For accounts receivable meeting these criteria, banks will advance 65 percent to 80 percent of face value, to be repaid as customers' checks come in. The usual arrangement calls for the business to pass the checks on to the bank, which takes its portion and deposits the rest in the business's account. Interest is charged only on the amount outstanding.

Although most accounts receivable loans are ordinarily written for one year, some banks will work out a revolving plan. Under such an agreement, which is reviewed annually, the bank will continue to advance funds against incoming receivables. One limitation on accounts receivable financing is that some banks will set a minimum dollar amount of qualified receivables before making a loan. For example, the business must have $10,000 in accounts receivable that are less than 60 days past due.

Banks who lend money on accounts receivable may take the accounts on a notification or nonnotification plan. Under a notification plan, the credit customer is informed by the bank that his or her account has been assigned to the bank and s/he is asked to send payments to the bank. Under the nonnotification plan, your credit customers continue to pay you the sums due on their accounts and you pay the bank.

Medium-term Loans

Short-term loans tend to be granted by banks without too much concern for collateral since these loans are usually self-liquidating from sales made in the ordinary course of business. Medium-term loans of one to five years are the usual way to finance equipment, fixtures, and expansions, and are more likely to require collateral. The business may see the new asset as the source of repayment in expectation of its generating increased sales. However, the bank may ask for collateral in addition to the asset the business is purchasing, especially if the business is just getting started.

Medium-term loans, in contrast to short-term loans, may impose some operating restrictions on the business. The bank may insist that the borrower maintain a certain level of working capital or a certain ratio of current assets to current liabilities. If so, the business borrower should shop around—conditions will vary from bank to bank.

There are two kinds of medium-term loans:

TERM LOAN Most term loans provide 80 to 90 percent of a new asset's total cost and are written for either five years, with a refinancing clause, or for the useful life of the asset. The typical repayment schedule calls for quarterly installment of principal plus interest. Principal payments remain constant, but interest payments decline over the term of the loan as they are computed on the amount outstanding. So installment payments are highest at the start, although some banks will arrange the repayment schedule to meet anticipated cash flow.

MONTHLY PAYMENT BUSINESS LOAN This is a variation of the term loan, which allows a business to make approximately equal monthly payments over the entire period of the loan. Some banks will allow a business to repay a smaller amount in the first year or two of the loan than would be required by regular term-loan conditions. The business will pay more in interest than under a straight term-loan agreement where interest costs drop as principal is repaid.

Long-Term Loans

Loans of five or more years are the hardest to get and must be linked to some specific business purpose such as the purchase of real property or major expansion.

COMMERCIAL AND INDUSTRIAL MORTGAGES Bankers question potential real estate purchases because over-commitment in bricks and mortar can mean business failure. However, if a business gets a chance to buy the building they are now renting, for example, most banks will consider a mortgage loan of up to 75 percent of appraised value. Commercial mortgages may be written in a number of ways, depending upon the value of the building, and the long-range profit projections. The business might get a 25 year mortgage, to be paid off in regular monthly installments. More likely the business will get a 5- to 10-year mortgage, with monthly payments adjusted to a 15- or 20-year amortization period. When the mortgage comes due, the business will be faced with a "balloon" payment of the entire balance. At this point, a new loan can be financed, but there are no guarantees.

REAL ESTATE LOAN Some businesses face the opposite problem: they own real estate and want to borrow against its value to finance an expansion or major equipment purchase. One way to tap real estate equity without giving up a low-interest first mortgage is by adding a second mortgage—if the business has sufficient equity and a good financial standing. A "wrap-around" mortgage is an alternative for businesses in a less solid position. This differs from a second mortgage in that the total mortgage payment is paid to the bank with the wrap-around, who passes on the amount due to the holder of the first mortgage. Refinancing is an option if the business's real estate has appreciated substantially. However, refinancing may involve giving up an old interest rate and taking on a higher one. Refinancing is risky unless the business is certain to turn out higher profits as a result.

PERSONAL LOAN Most bankers believe an owner's personal assets should provide much of the financing for major expansion and acquisition. Any property in the owner's name can be used as collateral, along with stocks or bonds, savings accounts, and certificates of deposit. Such collateral is readily acceptable, and a personal loan may be easier to negotiate than a business loan. Or a business loan may have to be secured with a personal guarantee, which amounts to the same thing.

START-UP LOAN Starting up is like expansion and acquisition, to a banker's view, which means that the business owner will have to put most of his/her own money into the project in addition to funds raised by personal loans from family and friends. About the only other start-up capital available is through a Small Business Administration loan guarantee, which can involve a fair amount of paperwork and delay.

OUTLINE FOR A LOAN PROPOSAL

I. **Cover Letter**

- A. Name of business, address and phone number.
- B. How much money is being requested and for what purpose?
- C. What terms and timing are you requesting?
- D. What type and value of collateral offered.

II. **Information About the Business**

- A. Description of the business.
    1. Background and history of the company.
    2. Type of business (manufacturer, wholesaler, retailer or service).
    3. Form of organization (corporation, proprietorship, partnership).
    4. Long and short range business goals.
- B. Market analysis
    1. What market do you serve?
    2. The size of the market and your expected share.
    3. Industry trends.
- C. Method of selling, distributing and servicing your product.
- D. Competition
    1. Who are your nearest competitors?
    2. How will your operation differ from your competitors?
- E. Pricing policy
    1. What is the method of establishing prices?
    2. What sales terms are offered?

III. **Management**

- A. Organization Chart
    1. Include the board of directors and officers
- B. Resumes of key people
- C. Staffing plan
- D. Personal financial statements of key people

IV. **Financial Data**

- A. Historical data for the past two to three years.
    1. Balance sheet
    2. Profit and loss statement
    3. Statement of changes of financial position
- B. Projections
    1. Cash flow for one year
    2. Profit and loss projections for two years
    3. Balance sheet projection for two years (optional)
- C. Other

1. Break even analysis
2. Reconciliation of net worth
3. Aging of accounts receivable and accounts payable
4. For new business amount and source of equity

V. Supporting Documents

A. Articles of incorporation
B. Letters of reference
C. Credit reports
D. Letters of intent
E. Copy of lease
F. Contracts
G. Information on encumbrances and liens
H. Real estate and equipment descriptions (photos and appraisals, if necessary).

The amount of detail necessary for a loan proposal depends upon many factors, such as:

What type of investor is being sought?
The type of phase your business is in (start up, growth or buy-out).
How the loan proceeds will be used.

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