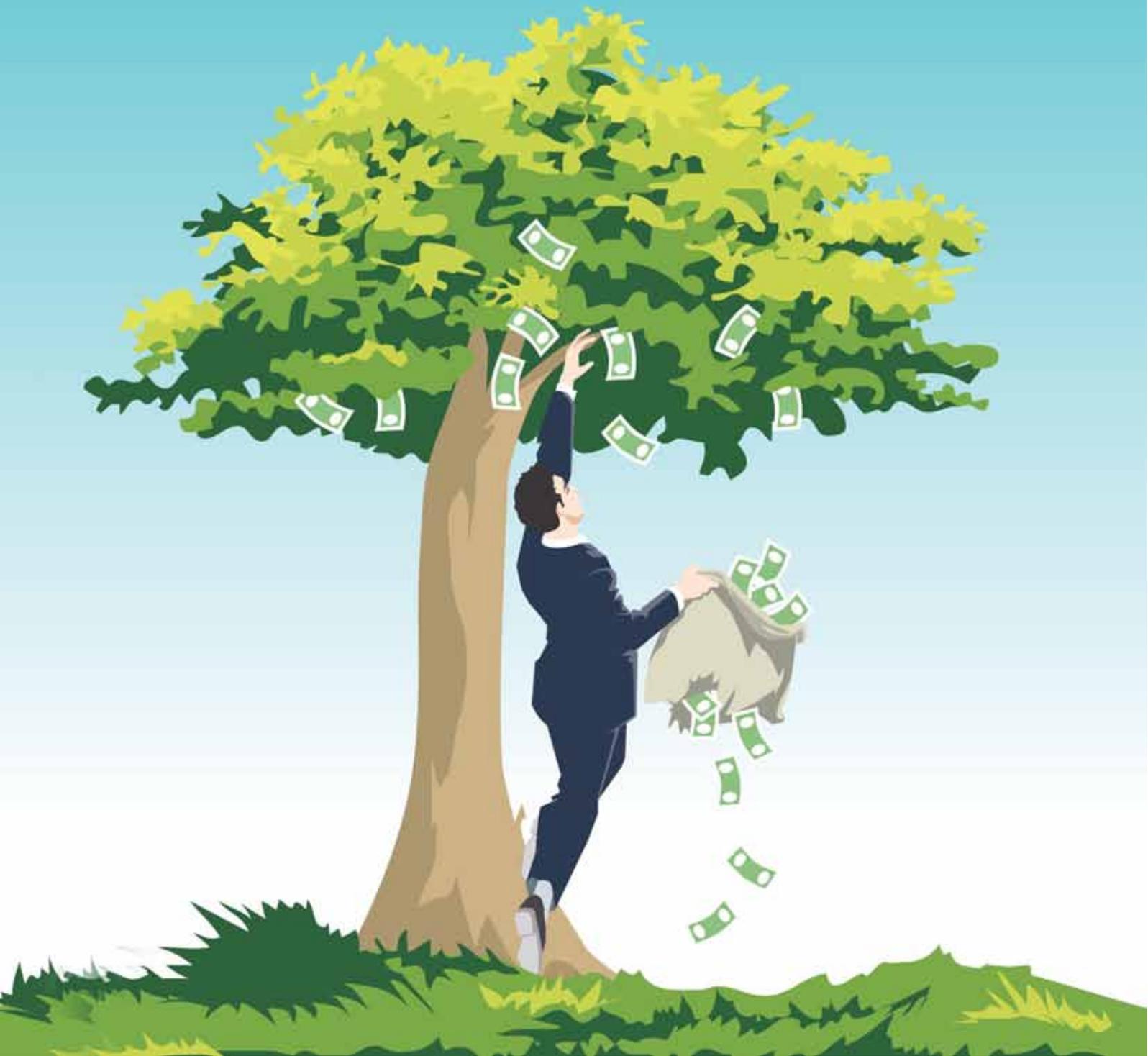


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# Money Doesn't Grow on Trees, But Getting a Business Loan is Easier Than You Think!

**10 Proven Steps to Get Funding**

by Dawn Fotopulos, Anita Campbell, and Rohit Arora.





## Dawn Fotopulos

An associate professor of The King's College (2004-Present), Dawn focuses on Business Strategy and Workshops Conducted for Business Owners. Her book, *Accounting for the Numberphobic: A Survival Guide for Small Business Owners* won "Best Business Book of 2015" in Economics. Fotopulos is a former VP for Citigroup and professional speaker for Entrepreneur's Organization.



## Anita Campbell

Anita owns and operates the award-winning online publication [smallbiztrends.com](http://smallbiztrends.com) for small business owners and people who interact with them. It is the premier source of information, breaking news, and advice covering issues of key importance to small businesses. She is a former senior executive with Bell & Howell Company. As a leading expert on small business ownership topics, she is frequently quoted as a small business expert in national publications such as *The New York Times* and *Wall Street Journal*.



## Rohit Arora

CEO & co-founder of Biz2Credit, an online marketplace lending platform that has arranged more than \$1.2 billion in funding for small business owners since 2007. Biz2Credit's network has grown to more than 1.6 million users, including 200,000 small business registrants. One of the country's leading experts in small business finance, he is frequently quoted by *CNBC*, *Wall St. Journal*, *Inc.*, *American Banker*, and other publications. He was named "2011 Entrepreneur of the Year" and ranked amongst the "2014 Fast Fifty" by *Crain's New York Business*.

# What do lending institutions look for?

Lenders look for the following information when approving loan applications:

- *Credit history*
- *Cash flow*
- *Business plan*
- *Loan documentation*
- *Collateral (when applying for secured loans)*
- *Repayment of debt, and*
- *Potential value of customers*

Cash flow is the difference in amount of cash available at the beginning of a period (opening balance) and the amount at the end of that period (closing balance). If its closing balance is higher than the opening balance, the company is said to have a positive cash flow. Ways to increase cash flow include: generating more sales of goods or services, raising prices, reducing costs, collecting payments more quickly, paying slower, or taking out a loan.

**Credit History.** A company's credit history is the record of its payments that indicate the timeliness and amounts of past loan repayments. It is a critical factor used by lending institutions in making loan decisions.



Business Plan. A business plan defines what a business is and provides a roadmap for success by presenting operational and financial objectives in the short and long term future and outlining how they will be accomplished.

Loan documentation. When submitting a loan application, lenders will look for information, such as tax returns, to demonstrate how soundly a business is operating.

Collateral can be an asset, such as a building, pledged as a secondary security by a borrower. Generally, principal security is the cash flow of his business or his/her personal guarantee. Lenders will typically ask for assets collateral

if the borrower's cash flow is not considered reliable or sufficient to recover the loan in case of a default.

Repayment history demonstrates the ability to repay a loan and principle in a timely manner.

Having a solid track record of sales and specific target audience will provide lenders with the confidence to provide money to a borrower. These are all important factors that lenders consider before taking the leap with a small business. What banks or other lenders want to determine is whether or not a borrower is going to be able to repay a loan.





## Besides banks, who are the lenders?

Big banks are defined as banks with more than \$20 billion in assets. Among them are Bank of America, J.P. Morgan Chase, Citigroup and Wells Fargo.

Smaller community banks approve a higher percentage of loan requests than big banks, which have granted roughly one-in-five applications for funding over the past few years.

Institutional lenders such as Direct Lending Investments, Petra Partners, and Ranger Capital, have emerged as important sources of small business finance through online marketplace lending platforms, such as Biz2Credit's.

Alternative financing lenders include cash advance companies. It is important to note that interest rates charged by these lenders can be extremely high (30-40%) and at quicker repayment terms.

Credit unions, micro lenders, CDFIs and other institutions are the most common non-bank lenders.

# All loans are not created equal



Identifying what type of loan you need for your business is imperative. Borrowers should understand the differences between the following:

- *SBA loan*
- *Traditional loans*
- *Marketplace lending*
- *Working lines of credit*
- *Business credit cards*
- *Alternative Financing (factoring, merchant cash advance, etc.)*
- *Peer-to-peer loans.*



## SBA Loans

SBA loans are government-backed loans that are provided to small businesses through banks and other lenders, including credit unions. The SBA itself does not lend directly to small business owners.



## Term Loans

A common type of bank loan that is granted to small businesses for expansion, business acquisition, refinancing, or working capital. Long-term loans are typically repaid on



a monthly basis, and tend to be in larger amounts and with lower interest rates than short-term loans. (They are generally easier to obtain for successful businesses.) A secured loan is one in which a borrower puts up a specific asset or property (collateral) that a lender can seize in case of default. An unsecured loan is granted on the basis of a borrower's creditworthiness, credit history, and reputation, rather than by pledging assets as collateral.



## Lines of Credit

A line of credit provides a company with access funds incrementally as needs arise, rather than having to borrow a large sum at one time. It is used much like a credit card. It is considered a short-term fix, and interest and fees can be high. Thus, they are best utilized in cases of temporary cash flow issues, rather than for capital improvements, expansion or business acquisition.



## Alternative Financing

Non-bank lending products include merchant cash advances that are repaid as a percentage of daily credit card receipts. These generally are short-term loans at very high interest rates -- sometimes 30-40 percent.



## Peer-to-Peer Lending (P2P)

P2P became commonplace through companies such as Kickstarter and Indiegogo, which through online platforms presented sources of funding provided by individuals. (Thus the term “peer-to-peer.”) Non-bank lending products include merchant cash advances that are repaid as a percentage of daily credit card receipts. These generally are short-term loans at very high interest rates -- sometimes 30-40 percent.



## Marketplace Lending

Marketplace lending is the evolution of P2P lending. Through online technology connecting borrowers and lenders, marketplace lending platforms make it possible for small businesses to secure capital from hedge funds, family funds, insurance companies, and other institutional (nonbank) lenders. Biz2Credit is among the leading firms involved in marketplace lending, which has disrupted the bank-based loan system of financing small businesses.



# 5 Mistakes to Avoid When Applying for a Loan

## Don't wing it!

Your business's numbers need to be strong and stand on their own, let the financials speak for themselves. Make sure financials are current, accurate and complete. It definitely matters when calculating a negative or positive. Accurate bookkeeping is also critical, and you can find one at ProAdvisor.com.

## Think like a banker, not a business owner

Don't apply for a loan when you need the money! Being prepared and knowing exactly when your business will need a boost in funding is extremely helpful. Otherwise, when you make it known you need cash, your business looks like it's on life support. Financial institutions are less inclined to take that risk, so don't take on large debts in your personal life when applying for a loan for the business, because your personal and business finances are the same. It's important to apply for a loan during the strong cash flow months because bankers present loans to their lending committee.



## Be clear on how you plan to use the money

Explain how the loan will benefit the growth of your business whether it be expanding operations to meet demand, marketing to develop new relationships, or systems/IT for existing customer engagement. Be sure to use loan capital to build your asset base – fixed assets and cash is positive leverage. Paying yourself a fatter salary is not a good reason, and as Shark Tank Mr. Wonderful says *“You are dead to me!”*



## Be clear on how you will repay your loan

Getting the loan is the easy part; paying it back is the hard part. Cash flow projections strengthen your application, so imagine if you would invest in a business that has your risk profile. Lenders are in the business of making money on loans, they need to be assured they are going to get their money back in a timely manner. Remember, a credit line can be called at any time, so play offense. As Norm Brodsky, veteran entrepreneur says, *“If your working capital is negative, you will go bankrupt. It’s just a matter of time.”*



## Match the life of the loan to the life of the asset you are financing.

Make sure your business has a viable long-term plan and consider inventory levels and other credit lines. If you can, ask for more than you think you'll need. Always evaluate benefits of a short-term vs. long-term loan to optimize your needs, and study your equipment and machinery in reference to their costs.

# Ten Steps to Securing Credit

## Build a business credit history

Open a business credit card and pay it in full each month, and build a consistent payment history to demonstrate ability to repay a loan

## Gather documentation

Make sure you complete your loan application - incompleteness is the number one reason loans are denied. Get your financials in order and make sure your books are up to date.

## Line up references in case they are needed

Vendors, customers, business partners, and colleagues are all viable sources who can give your business praise.



## Improve personal credit score

Consider applying to a credit monitoring service that includes educational information about how to improve your personal credit score.

Establish a business entity - Identify as an LLC or C-corp to separate yourself personally as a sole proprietor. May not be a direct factor that will improve your chances, but it shows your seriousness as a business. Make sure your entity is in good standing within the state you organized and all “franchise taxes” and fees are paid up.



## Pay down debts

Clear up any late payments and reduce balances. Don't max out your credit cards, as it lowers your credit score.

Stand out from the crowd and build credibility with an online presence - Tell your story in your website in your About section, include pictures of your operation and team, and have some recent customer testimonials. Be sure to check your online listings on review sites and places like Google Local, Facebook local, Yelp, etc. Address negative reviews quickly, politely and professionally. By updating Facebook, Twitter, and LinkedIn profiles, you make a good first impression when someone first researches you.



## Improve cash flow and accounts receivable

Send out invoices in a timely manner. If you have any outstanding invoices, follow up to get them paid. Or, you can offer cash discounts for prepayment.

## Lower Your Operating Costs

Negotiate discounts with creditors and check your credit card and PayPal statements to eliminate unnecessary subscription expenses you may have forgotten. You can move to smaller monthly cloud payments to spread costs out which make your financials look good.

## Apply to multiple lenders

Each lender is different and lenders look at different risks differently. Applying to multiple lenders will increase your chances of getting a “yes.” Online platforms, such as Biz2Credit open access to many lenders and make the application process faster and more efficient. Technology widens the choices much further than any individual can find on his/her own.

# Thank you !

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