AMERICA'S SBDC WASHINGTON

Why Lenders Say "No"

Successfully obtaining a business loan is centered on preparing supporting documentation to provide the bank. When considering a business loan it will be helpful to understand some of the most common errors made by applicants that result in denial of their application. Consider the following so you can be better prepared to present an application that can be approved.

- The applicant did not have a solid plan. They were speculating and talking about how great the business will be, and did not show evidence of market opportunity. The applicant had not thought all the way through the business operation, or was ineffective in telling their story.

- The request for a loan was unclear as to how the funds will be used and repaid. The application must explain how the business makes a profit and repays the loan.

- Applicants did not clearly understand the terms for the loan and impact on cash flow and net income. You cannot borrow your way out of trouble.

- Financials and balance sheet contained errors, the owner did not understand their financials. Cash Flow projections did not fit the business model, were overly optimistic and were not supported with realistic assumptions

- Owners or managers lacked experience/education in the proposed area. Lenders need to know the applicant has the knowledge and skills to perform and manage the business.

- Cash flow shortage - Insufficient cash flow to meet all obligations, debts are increasing. Business and personal cash shortage. Business has not shown a profit.

- Not enough capital contributed by owners.

- Applicants lack understanding of the market and business sector. Did not demonstrate there are enough customers.

- Lack of sufficient collateral

Seek assistance in preparing your application. Proofread to catch errors, inconsistent numbers, incomplete statements, verify numbers add up correctly and supporting documents are included. The application needs to be concise, factual, and verifiable.

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