Are You A Good Risk For Lenders?

COMBINED BUSINESS SOLUTIONS LIMITED
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Most businesses are funded with borrowed money. It's especially true for businesses that are established and want to expand. Owners are usually proud of their achievements and tend to see their businesses as an extension of themselves, so naturally they think others see the business in the same way. But when it comes to borrowing money the lending institution you approach may see things in a different light altogether.

Give yourself a reality check before making a loan application and you can find areas that need some tuning-up before starting the paperwork. Here's a list of questions you should ask yourself – before the bank does.

Questions about you:

- Do you have a good credit rating?
- Are your income tax returns up-to-date?
- How much of your own money is in the business?
- How much experience have you had in running a business?
- How long have you worked in your industry?
- Can you repay the loan if the business can't?

Questions about your business:

- Can the business afford the loan repayments?
- Is the business profitable?
- Is the business well managed?
- Are the accounts up-to-date?
- Is there a trend for growth in sales?
- Does the business pay its debts on time?
- Is there a trend for growth in profits?
- Is it in a growing industry sector?

Lenders use these questions to assess their risk exposure. If you can't give a positive answer for each of them then you're very likely to encounter problems when seeking a loan.

Lenders know that most owners of small business run their enterprises in the same way they run their private lives. A string of bad debts in an owner's private life will usually mean the business is a slow payer too. That's why your personal credit history will be examined carefully. People who don't file their tax returns or who owe money in back taxes are also likely to get into some form of financial trouble in business. It's an indication of a lack of personal responsibility and possible financial ineptitude.

As for the questions about your experience in running a business and in the industry where your business trades, it makes sense that a lender would want to loan money to someone who wasn't expecting to learn 'on the job'.

The lender will also want to know how much of your own money is in the business. Lenders don't generally want to see a ratio of debt to equity (what the business owes compared to the value of the owner's share of the business) greater than 4 to 1. Lenders are always interested in the accounts of the business. Everything should be up-to-date for a review when seeking a loan. You might also want to take your accountant with you to the loan interview with the lender. This can be especially helpful when you want to prove the ability of the business to make the loan repayments.

And finally, the lender will want to see that you have enough assets in your own name to pay back the loan if the business fails. Even though *you* know without a doubt that the business will make heaps of money you're still likely to have to put up your house or other personal assets as collateral for the business loan.

These 14 questions make up a good personal checklist that's a pretty useful guide to the question of whether or not you should be contemplating borrowing money. If your answers won't be good enough for a lender, there's a good chance you should think twice about borrowing money at this time.

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