

Business Loans — From the Bank’s Viewpoint

If you’re considering borrowing money from a bank to start your business , it’s important to remember that the bank is a business too. Like you, banks need to assess their expected risk and potential return each time they enter into a transaction. The three key questions that a bank is particularly interested in are:

- Is the borrower’s business performing as expected?
- How much risk is there that the borrower will be unable to repay the loan?
- How can the bank be protected?

This table shows some of the factors banks examine in deciding whether to make a loan.

Points	Management	Repayment Ability	Collateral	Credit	Capital & Equity
5	3 yrs experience (ownership) running business profitably	Cash flow exceeded debt service by 30% for 3 yrs	Max. of 80% loan to value of real estate (no blue chip stocks)	National Risk Score of 100	At least 50% injection of cash/real estate with debt to worth of 2 to 1
4	At least 1 yr experience running business profitably	2-3 yrs cash flow exceeded debt service by 10%, and by 30% in past yr	Max. of 90% loan to value of real estate (no blue chip stocks)	Clean credit	At least 40% injection of cash/real estate with debt to worth of 3 to 1
3	Min. 2 yrs industry and management experience	In last full yr, cash flow exceeded debt service by 10%, but 100% total	Less than 100% loan to value of real estate collateral coverage*	Minor delinquencies	At least 30% injection of cash/real estate with debt to worth of 4 to 1
2	Min. 1 yr industry or management experience	In past 6 mo. cash flow exceeded debt service by 10%	Less than 50% loan to value of real estate, but at least 75% total collateral coverage*	Serious delinquencies	At least 20% injection of cash/real estate with debt to worth of 4 to 1
-20	No industry or management experience	No historical cash flow	Less than 50% collateral coverage*	Collections, tax liens or bankruptcy	Less than 20% injection of cash/real estate with debt to worth over 4 to 1

*Business assets at liquidation value: Furniture and Fixtures at 10%, Inventory at 40%, and Receivables at 40% of total value.

To determine where your business rates, circle the block in each column that best describes your situation, then look to the left to see how many points that position is “worth.” Add the number of points to determine your total. For example, if you circled the top block under each of the five headings, your score would be 25. If your score totals 21-25 you have a good chance of obtaining a bank loan; 17-20 points gives you a fair chance, and 13-16 points gives you a marginal chance. If you circled any of the bottom blocks (-20 points), you have little or no chance of obtaining a bank loan.

Note: Though several area banks confirmed that the system described above is a good example of how loan applications are examined, this should not be considered an absolute indicator of your ability to gain a loan. Each bank uses different criteria; it’s important for you to shop around and fully explore your options.