



# How to Get a Bank Loan for Your Small Business

By Rieva Lesonsky



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**Jose Vega**

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**Obtaining a bank loan for your small business has never been easy, and in the wake of the Great Recession, it's become more difficult than ever. To increase your chances of success, a good loan application package is vital. Here, SBDC Business Advisor Jose Vega explains how to put together the perfect loan application and get the financing you need.**

## **What are the key elements of the loan application package?**

The application package consists of financial information related to the business's and owner's earnings, expenses, assets and liabilities, and current credit situation, says Vega. These include tax returns and personal financial statements. "Always include a copy of your credit report so the prospective lender does not need to run a credit check when [the application] is first presented to them," he adds.

## **What are the first steps an entrepreneur should take in preparing a loan application?**

"Have a clear idea of how much money is needed, how it is going to be used, and how it is going to be repaid," says Vega. (The third factor—repayment—is crucial.)

## **What are the most important criteria the banks consider in making a loan?**

"Repayment ability from current earnings and income is paramount," says Vega, who adds that "the existence of collateral is a plus" but not essential if the business owner can otherwise show the means to pay back the loan.

## **What differences should small business owners be aware of when approaching a big bank vs. a smaller or community bank?**

"Large lenders have more standardized loan processes and develop products that are delivered to clients relatively fast," explains Vega, who says loan applications for small dollar amounts (under \$100,000) are better served through large banks. "Community lenders are more relationship-oriented and tend to customize the loan process to the applicant, but they [are less likely to] work with small dollar loans."

## **In addition to the loan application documents, there is also a personal interview with a banker. How does this affect the entrepreneur's chances of success, and how can entrepreneurs make a good impression?**

While the interview is important, a good interview is not enough to overcome weaknesses in your financials or compensate for a poor loan application package. "The lender is only interested in the ability of the applicant, both the business and its owner or owners, to repay the loan," emphasizes Vega. To make a good impression, he advises, stick to short and simple answers.

## **What are the biggest mistakes entrepreneurs make when applying for a loan?**

Developing an overly complex loan application package that includes too many variables to control is a common error, says Vega. "The higher the complexity, the higher the risk"—and bankers don't like risk.

## **What software or other tools can help a small business owner create an effective loan application package?**

Vega recommends using Excel to prepare a simple and comprehensive budget and Business Plan Pro from Palo Alto Software to create a professional-looking business plan.

## **If an entrepreneur's loan application is rejected, what can he or she do? How can an entrepreneur learn from rejection?**

Understand that rejection doesn't necessarily reflect badly on your business—and don't let it derail your efforts to find financing. "The rejection may be [due to] the inability of the lender to provide the credit, not because the application is [weak]," Vega explains. There are more than 7,500 active small business lenders in the U.S., he says, and each one has its own criteria as to what constitutes a strong credit application. "Try to obtain a reason for the rejection," says Vega, "[but then] move on to the next lender."

*Rieva Lesonsky is founder and President of GrowBiz Media, a media company that helps entrepreneurs start and grow their businesses. Before launching her business, she was Editorial Director of Entrepreneur Magazine. Follow Rieva at Twitter.com/Rieva, read her blog at SmallBizDaily.com, and visit her website SmallBizTrendCast.com to get the scoop on business trends and sign up for free TrendCast reports.*