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4 Mistakes to Avoid When Applying for a Bank Loan



A bank loan can help your business thrive in good times and survive in bad. Avoiding these mistakes will help your application shine.

To get the financing your business needs, you must be not only more qualified than other borrowers, but also more prepared. Avoiding the following mistakes will give your loan application the head start it needs:

1.) Mistake: Applying at the Wrong Time

How to Avoid It: When entrepreneur Tim Walter opened iMotorsports—his Roselle, Ill.-based motorcycle dealership—in 2010, he needed money for inventory. Unfortunately, he says that no banks were interested until his business was two years old. Indeed, few banks will take risks on start-ups. It's a good idea, therefore, to delay your loan application until you can demonstrate two years of profits.

Of course, waiting too long can be equally detrimental. "The best time to go to a bank is when you don't need the money," says Gene Osekowsky, coordinator at the Tennessee Small Business Development Center in Murfreesboro, Tenn. "If you wait until you really need it, the bank will sense the problem."

2.) Mistake: Lacking a Business Plan

How to Avoid It: Business owners generally have great ideas. Unfortunately, they don't always communicate them on paper, says Osekowsky, who recommends having a written business plan that includes a business overview, a description of your products and services, bios of key people involved, a competitive analysis, a marketing and distribution strategy, and, most importantly, a description of how you'll spend—and repay—your loan.

"Having a business plan that says, 'here's the money I'm requesting, here's what I'm going to do with it and here's how I'm going to repay it' is crucial," says Walter, who also serves as CFO of Tasty Catering, a Chicago-based corporate catering company.

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3.) Mistake: Providing Incomplete Financials

How to Avoid It: Borrowers must have a neat and organized loan file that includes an accurate business balance sheet, three years of personal and business tax returns, an income statement and a cash flow forecast. "By creating a file for the bank and your records, you are more prepared and you look more prepared," says Richard Bradshaw, head of SBA programs at TD Bank, based in Portland, Maine, and Cherry Hill, N.J.

4.) Mistake: Relying too Heavily on the Loan Application

How to Avoid It: Along with the four Cs of credit—capacity, collateral, capital and conditions—banks often place a premium on character. "Most small business owners realize there's more to the application process than paperwork," says Bradshaw, who recommends exchanging phone conversations for face-to-face meetings whenever possible to establish relationships and rapport.

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