



Article 4

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## **Business Financing – Your Idea is Just the Beginning**

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People often ask, “What do I really need to get a loan?”

They have reviewed the various bank programs, surfed the Internet, talked to friends and attended seminars. They may be drowning in information but they are still unclear about what to do next. How, exactly, does one go about getting financing, without having to sign over the rights to a house, a car, or as the joke goes – a firstborn child?

It all starts with an idea. But it’s the planning associated with turning that idea into a viable business that is the most important factor and one of the keys to whether or not a loan will be awarded.

Before you talk to a banker, a venture capitalist or an alternative lending group such as The Loan Fund, you need to do some thinking. Don’t worry about doing a full-blown business plan – yet. Ask yourself these seven questions. We will certainly ask them if you call us about a loan.

Is your idea a good one? You love it, but will anybody else? Why would someone who doesn’t know you buy your product or service?

How are you going to reach your target customers? We often see plans that include “advertising” as the sole marketing tactic. There’s a lot more to marketing than advertising.

What are your potential customers already doing? Whatever your idea, your potential customers are already doing something to solve the problem or fill the need. Why would they change to you?

Have you considered the future? The location of your new store may be great now, but what happens if the city decides to do major road construction?

Are you realistic about costs? One of the top reasons entrepreneurs fail is undercapitalization. They simply don’t have the money to carry out the plan. It’s like renovating a house; it always takes twice as long and three times as much money as the original estimate. Plan your business accordingly.

What is your worst-case/best-case cash flow estimate? How much money are you going to have coming in and going out each month? Do you have enough cash to cover expenses until revenue

becomes a steady stream? It takes time for a business to really get going – word has to spread, customers have to keep buying and you have to live through unforeseen events. It's not unusual for a start-up to take two to three years to become profitable.

How will you pay back the loan? Be honest with yourself. Optimism is great; naiveté isn't. Saying "it will somehow all work out," doesn't help your case with lenders.

Congratulations! You have just roughed out your first business plan and are now prepared to talk about financing. This brings us to your first meeting with a lender.

When you meet with a lender, be prepared for some personal questions. We will look at your credit score and your tax returns. If you have had problems in the past, it doesn't necessarily mean you won't get a loan, but you must be prepared to explain the circumstances.

We also look at earning history. For example, if someone with an existing business is projecting revenues of \$300,000 and the business has never made more than \$50,000, we need to dig a bit more into the business plan. What will be different this time? If you have an existing business, we will also ask to see balance sheets and income statements.

Last, but certainly not least, we will be looking for that intangible asset called passion! The gleam in your eye goes a long way toward compensating for lack of experience.

Both knowing where to look and being prepared are essential to the success of getting a loan or finding equity to grow or start a business. For more information about either, go to [www.FinanceNewMexico.org](http://www.FinanceNewMexico.org).

*Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC), New Mexico Small Business Development Center (NMSBDC), Empowering Business Spirit (EBS), the New Mexico Venture Capital Association (NMVCA) and other partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to [www.FinanceNewMexico.org](http://www.FinanceNewMexico.org).*

