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Ask SCORE



Securing financing can be difficult

At SCORE counseling sessions, one of the most asked questions is, "Where do I get money to start my business?"

The answer can be discouraging.

Lenders have definitely tightened requirements, and unless an entrepreneur is prepared to add some serious cash of their own, they may have to delay their plans.

Mike Hall, CPA, a SCORE volunteer and manager of the Green Bay office of QuickStart Inc., has seen the pendulum swing from one extreme to the other when it comes to lending.

"For a while, it was probably too loose," Hall said. "Banks were competing and were much more aggressive in trying to get deals done. Now it's swinging to the other extreme and it's very difficult to get a loan. It needs to come back to the middle where reasonable practices prevail."

QuickStart recently held a seminar, Financing in Troubled Times: What Lenders are Looking For. The focus was on changes in lending and what lenders look for before granting loans. Hall summarized some of the general criteria.

"As an average, in the past, you might have needed 15 to 20 percent down. Now, it's typically a minimum of 30 percent equity, and that means cash," he

said. In addition, it is likely that you will need to pledge other assets, such as your home, as collateral. If a person is light on cash, a home equity loan is possible, but even that is more difficult to obtain due to declining home values and lower loan-to-value ratios.

If the loan applicant does have the needed equity, the lender also will review character, previous business and ownership experience, company history and products, marketing and competition, and the strength of the business plan.

Hall noted the importance of the business plan.

"It's more important than ever, because you've got to be realistic about the way things are right now. If you really do a good job of putting it together, you may find it's not the best time to go into business."

Start-ups have the additional issue of no historical financial information. That means projections have to be conservative and reasonable. Still, many lenders won't even consider start-up financing in this environment. If the financing is for an existing business, the lender will discount the value of the hard assets of the business and exercise extreme caution in financing goodwill.

"Almost any deal right now is going to need seller financing, and those amounts are going up also. They might be asking for 30 percent or more," Hall said.

He says that his company has gotten more creative and asked banks to come back with options instead of turning down loans.

If that still doesn't work, he advises waiting until you have more money saved. When the money is available, take a second look at the business plan and decide if it still makes sense.

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