

## Action Report #12

### ***Financing Proposals: How to Get That Needed Capital and Refinance Debt***

- Know What You Want
- Know What the Lender Needs
- Prepare a Brief, Effective Financing Proposal

Raising capital can be a harried and confusing experience. Comparing interest rates isn't enough. You have to concentrate on getting the best overall package: the lowest interest rate, the most acceptable terms and restrictions, and a reasonable repayment schedule.

When shopping for the best loan deal, your most effective tool is a standard loan request that can be used with all potential lenders and that saves time for both you and the lenders. Here are ideas on the *best* way to obtain that needed capital.

**Fact:** The average lender looks at scores of loan applications each year. So there is a good chance that your financing request and proposal may be *buried in an unread pile*.

**Question:** How do you move your proposal to the top of the pile and get action on it? By keeping your presentation concise and targeted to the right people with the right information.

Remember, no matter what your proposal is for, people respect other people who can tell their story quickly and succinctly. Too many business owners and executives hand their bankers internal company reports and assume they can dig out the information they need to accept or reject the loan request.

Company-prepared internal plans (e.g., budgets, cash flows, and profit forecasts) are comprehensive and detailed. But they are best used as in-house management tools in looking back (judging performance) and looking forward (controlling and determining needs). Initially placing these long, tedious documents into the hands of outsiders and expecting them to serve as a request for capital usually is a big mistake. Potential lenders may *not* have the time or interest to wade through company documents to pull out the numbers they need

to consider a loan request.

### **Know What the Lender/Investor Wants**

Most prospective lenders and investors initially want no more than ten, double-spaced pages, approximately 2,000 words. Time yourself. If your financing proposal can't be read in five to ten minutes, kill it and start over.

*If it can, your proposal will immediately be separated from the pile of other financing proposals.*

Furthermore, write and shape the proposal to the reader for whom it is intended. While banks, finance companies, small business investment companies (SBICs), and insurance companies all make loans to smaller businesses, they look for those characteristics in a financing that fit each lender's special needs.

*Give them the highlights of what they want;* the back-up material can follow later. For example, if you're approaching an asset-based lender, discuss the collateral (in detail); if an insurance company, historical income statements and balance sheet substance should be played up; if an SBIC or venture capital firm, your projections for growth and the value of the company's common stock or the equity kicker (warrant or convertible) should be emphasized. To summarize, it is in your best interest to:

1. find out as quickly as possible whether or not there is interest in your proposal and
2. structure the proposal so that it deals with what the reader needs to make a decision.

### **Here's an Example**

Let's assume you currently have a \$200,000 bank loan and want to increase it to \$400,000. You also want to repay the loan on a monthly basis over a three-year period. How do you get your request accepted?

Most individuals would *verbally* try to convince their bankers, some successfully. But your odds are greatly increased if you first identify the banker's needs. In deciding whether or not to lend you an additional \$200,000, a good lender is primarily concerned with the following:

- Why do you need the additional capital?
- Why couldn't you repay the present loan?
- How will you repay the \$400,000?
- What alternative repayment sources do you have?

**Step-by-step.** Prepare a 10-page, double-spaced memorandum, which should:

- Explain where the company is today and why you need the money. Possibly, you can't repay the \$200,000 loan because your sales are up substantially, and consequently so are your inventory and accounts receivable levels which need to be financed.
- Itemize and explain any collateral that may be offered to secure the loan.
- Show how you plan to repay the loan and document the paydown with a monthly cash flow projection for one year and then annually for two to three years.

Of course, the lender also will want to see current financial statements and receivable and payable reports, but these 10 pages are sufficient for him or her to indicate an initial "yes" or "no."

### **The Result**

This direct approach not only shows your lender that you are on top of the situation and testifies to your competence, but it also gives him or her the necessary information to make a quick decision. If other individuals will be involved in approving the request, your professional memorandum provides the necessary data they need to make a decision.

Even if your loan request is rejected, you at least have found out *quickly* and can now move rapidly to identify and pursue other financing alternatives. Also, in any proposal, candidness is essential. If you suffered some recent losses, say so upfront and provide an explanation. If your company is in a turn-around situation, explain why and document the reason with actions you have already taken or intend to take to solve the problem.

Remember, your goal is to get your proposal read so that you can take the next step. The short, factual approach will accomplish this and will separate the interested from the uninterested lender, and do it a lot sooner.

For a Brief, Effective Financing Proposal, please see the next page.

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If you would like **more information** on this subject, please see **Report #28: *How to Finance a Business: Common Stock, Preferred Stock, Debt, and Convertible Securities...*** 68 pages with a Case Study on each Financing Method, Actual and After-Financing Balance Sheets and Income Statements, Debt and Investment Terms, Negotiating Strategies, and Sources of Capital. □

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## A Brief, Effective Financing Proposal

Here is a typical breakdown of what should be included in your 10-page request for capital.

<u>Topic</u>	<u>Number of Pages</u>	<u>What to Cover in Financing Request</u>
Introduction	2	One to two sentences each on the purpose of the report, business of the company, major customers, comparative income statement results.
The Proposal	1	Capital needed: amount, use of proceeds, and repayment.
Justification	1	List the reasons why the lender/investor should act on the proposal; in a nutshell, why it is a good loan or investment.
The Business	4	Description of the company's products, industry, marketing, customers, facilities, management, backlog, etc.
Financials	1	Show, in condensed form, a balance sheet and historical income statement data plus one to two years' projections.
The Future	<u>1</u>	Summary on where the company is headed.
Total Pages	10	

*Presentation note:* All proposals should be originally typed and professional in appearance. Enclose the material in an attractive brochure, and introduce it with a short, one-page cover letter. Also supply extra copies to the individual who is handling your request. This will speed up the review process; more than one loan officer may be reading your proposal. □