

## Starting a business: tips for applying for a loan

By Jonathan T. Hasebe



### 1. Get your financial house in order.

In order to get the best possible loan for your business, you need to put your best foot forward.

Presenting your business in an organized and professional manner will go a long way toward earning the confidence of prospective lenders, ultimately saving time and increasing your chances of securing the loan you want. Every lender will require some basic documentation, so it's a good idea to get these documents cleaned up and assembled.

### 2. Make your wish list.

Before you begin to apply for loans, you should be making a wish list of the important terms that you'd like in your loan documents. While some lenders may be more willing to negotiate than others, don't be afraid to ask for what you want. Even if you don't get everything on your wish list, you will find that lenders often have flexibility on certain terms. When putting together your wish list, you should ask yourself some questions that will help determine what terms are important to you.

What type of loan should I be applying for? Loans are not "one size fits all" and a borrower should think about what type of loan best suits their business whether it be a term loan, a line of credit, or something else.

How do you envision the loan being secured? Lenders will need some security to back up their loan, whether it's collateral in the form of property or a guarantee. However, a borrower may be willing to negotiate the specifics of this collateral (limit or duration of a personal guarantee).

### 3. Review the loan documents carefully.

Once the loan documents are drafted, review them carefully before executing any document. To the extent the lender has agreed to an item from your wish list,

Legal

Ease

ensure that it has made its way into the final document. If there is a later disagreement regarding the terms of one of the loan documents, it is difficult to argue that the written contract doesn't govern, even if you can show that the terms are different than those agreed to in the negotiation process.

### 4. Be a good partner.

After the ink has dried and you get your money, keep in mind that your lender is now a partner in your business with expectations for how you will operate. These expectations go beyond merely making your loan payments on time and typically include financial covenants (metrics you have to meet), negative covenants (things you cannot do without lender permission), and affirmative covenants (things you have to do to avoid defaulting). Before signing your loan documents, review these covenants carefully to make sure you are willing and able to comply. You may find yourself needing your lender's permission for even routine business decisions you previously made on your own.

### 5. Seek out help.

It's important that a business owner seek advice from trusted professionals like accountants and lawyers early. These professionals assist in preparing documents for the application process that prevent any misstatements or omissions in the application, help negotiate and document the terms and conditions of the loan to better tailor the loan to your business, and help business owners fully understand all covenants and obligations so as to avoid the high costs associated with a potential default.

*Jonathan Hasebe is an associate at Gallagher & Kennedy. He practices in the areas of both general commercial litigation and transactional law. For more information about Mr. Hasebe, please visit [www.gknet.com](http://www.gknet.com).*