



Applying for Business Credit

If you're thinking about borrowing money for your small business, carefully consider your needs and options. Here are some tips for deciding how to proceed:

- First, look at whether your problem could be solved by improving your cash flow—rather than getting a loan. For example, can you get more cash by improving the efficiency of your collections (in other words, how fast your customers pay you)? Or, could you switch to a just-in-time inventory system so that your money isn't tied up in inventory that's not needed now?
- Next, study your financial situation. In addition to reports that capture what happened in the past, you need to create reports that represent your best-guess of future results. One key example is a cash flow projection. If you approach a bank to borrow money, they will probably want to see your cash flow projection and your business plan.
- Next, consider the risks of taking on debt. Remember, the lender will probably ask you to sign a personal guarantee. If you are unable to repay the loan, there will be negative consequences for your business and for your own personal credit.
- Finally, consider what are likely to be the future ups and downs of your business and how these will impact your finances. Through proper planning, watching your expenses, and collecting the money that's owed you more quickly, you can shorten the periods of time that are financially challenging.

If you decide to apply for credit, the first meeting with your lender can have a significant influence on your chances of being approved. In advance of the meeting, work out your business cost structure and projected revenues. Be prepared to answer the key question: Are revenues greater than costs? Establish how much working capital is needed to sustain the business until it reaches profitability.

The lender will ask you to back up your estimates. For example, if you plan to buy an expensive piece of machinery, the lender will want evidence that the manufacturing company will sell you that machine at the given cost, and that you have any necessary permits.

You should ask questions, too: Ask the lender about the loan terms, such as interest rate, maturity (the length of the loan), collateral requirements, and the amount they are willing to lend. Also ask if the lender is familiar with your type of business.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at www.wellsfargo.com or any Wells Fargo store.