Can I Reasonably Expect to Receive Funding and New Lines of Credit for My New Business?

Launching a new business involves careful planning and focus, including the search for financial backing in some cases.

One Entrepreneur recently asked: Can I reasonably expect to receive funding to hire a technology company to build the IT engine for my internet business?

For this question, I sought out **Business Manager, Deanne Geile of Huntington Bank**. Geile states "if the expenses associated with the build out are reasonable and well documented as a fundamental part of the business plan, then some or all of those expenses may be eligible for financing."

When also asked: **How does a new business establish new lines of credit?**

Geile stated, "New business owners should understand the basic principles of credit evaluation before trying to engage a lender in establishing a line of credit or any type of loan."

These principles include the 5 C's of credit.
All five principles must be considered, so that issues in any one area can be addressed or mitigated, if necessary.

1. Capacity- refers to how much debt a borrower can comfortably handle. The financing entity will want to understand the current indebtedness of the borrower(s) and the repayment terms of all existing debt to determine if capacity exists to service any additional debt.

2. Capital- refers to current available assets of the borrower, such as real estate, savings or investment that could be used to repay debt if income should be unavailable.

3. Collateral- refers to the asset(s) that can be entailed or sold if a borrower fails to repay the loan(s). Collateral can typically support only one piece of indebtedness.

4. Conditions- This is an overall evaluation of the conditions surrounding the loan, including general economic climate at the time the loan is requested and the general purpose of the loan.

5. Character- refers to how a person has handled past debt obligations. Financing institutions will rely on the borrower's personal credit history to determine the borrower(s) ability to repay their debts.

Most companies need working capital and they must decide to either self-fund or obtain a line of credit. Lines of credit are particularly difficult loans to obtain for start-ups and small businesses primarily because of the lack of a prior credit history as the most important factor.

Be A Successful Entrepreneur:
To be successful, borrowers should:

Be very clear about the need for a line of credit.
For example, "we need working capital to fund payroll in advance of the collection of accounts receivables," is a great explanation for a line of credit. Saying you want the line as a "cushion" or "safety net" is like telling the financing entity that the line is going to be used when things start to decline or go wrong.

Be accurate with your assessment of need.
Ask for an amount of money that is reasonable for your business. Asking for $100,000 when $25,000 for weekly payroll is all you need is a good indicator that you, the business owner, may not understand your cash flow.

Consider how much collateral will be needed to secure the line.
Keep in mind that most lenders do not advance 100% on any single type of collateral. Equipment and inventory are heavily discounted as collateral. If you want a $100,000 line of credit, be aware that you probably need about $150,000 to $200,000 in collateral.

Start small.
Lenders are more likely to start small and then help you grow into a line as your business expands. SBA guaranteed lines of credit are also available through approved lenders. Any program that takes some of the risk off the lender will be an advantage. The SBA 7(a) program provides for up to $350,000 for working capital lines.

Whether your question is about obtaining funding or generating revenue, one this is certain: preparation, planning and focus are critical to any start-up.

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