

Tools

Sample Loan Proposal

A loan proposal is very similar to a business plan — or at least it should be. Among other similarities, both the business plan and the loan proposal tell you (and your banker) that you've figured out the answers to the five key borrowing questions:

1. **How** much do you need?
2. **What** will you do with it?
3. **When** will you pay it back?
4. **How** will you pay it back? (that is, where will the cash flow come from?)
5. **What if** something goes wrong?

This is a sample of the introductory portions of the proposal. Each section, if applicable to your company, should be included in a complete business plan or loan proposal.

Loan Proposal for Olympic Flooring

Purpose of Loan

Olympic Flooring is seeking to:

- a. Convert existing short-term notes of \$165,000 to a long-term note to be repaid at \$3,000 per month (plus interest).
- b. Establish a credit line of \$250,000 to finance expected seasonal fluctuations in inventory and accounts receivable.

Repayment

Repayment on long-term financing will come from continuing net profits. Repayment of the seasonal credit line will come from liquidation of inventory and receivables.

Corporate Data

Name: Olympic Flooring
Address: 2610 - 32nd Avenue N.W. Seattle, Washington 98139
Phone: (206) 589-3700
Date Established: February 14, 1995
Form of Organization: Washington Corporation
Incorporated by Bob and Andrea Nelson on June 25, 1995.

Description

Olympic Flooring is a Seattle-based corporation that wholesales flooring products to retailers and contractors out of a North Seattle warehouse location. The average customer is a small- or medium-sized retailer of carpets, linoleum, and window coverings; no one customer is key. Estimated sales for fiscal 2005: \$1,430,000. Advertising expense has been low since most advertising is at the retail-level, co-op by manufacturer.

The primary focus of the business is service and delivery — and the ability to keep fast moving items in stock. Most accounts are carried on a 2% 10/Net 30 basis; few customers take discounts. Contractors are generally carried on a Net 10 basis.

Distribution is from a central warehouse in North Seattle, which is connected to a small showroom and also contains the corporate offices. Lead-time on ordering for inventory is quite short and style changes generally occur once per year. The major supplier is Footloose Coatings. Footloose's terms are 2% 10/Net 30. Almost all the suppliers offer discounts, some even larger than 2% 10/Net 30. During 2004 there was one major price increase of about 5%. Olympic operates out of leased premises and holds a very favorable lease through 2006. Location is not critical, although current location does provide excellent access for delivery trucks. This is a distribution business and, therefore, depends upon efficient routing and/or shipping. Bad debts have recently taken an alarming upturn.

Operational Information

Product. This section includes narrative discussion of the following points:

- a. Description of the business performed as indicated by the Standard Industrial Classification code,
- b. including the principal products sold or services rendered.
- c. General development of the products and/or services during the past five years or since inception.
- d. Relative importance of each principal product or service to the volume of the business and the profits.
- e. Significant changes in types of product or services.
- f. A tentative five-year plan of the objectives and goals of the company, including anticipated revenues and earnings.

Employment.

- a. The total number of employees as of the date of the application, or the expected employment for a new
- b. venture.
- c. A description of the critical skills required in the business and availability of these skills within the present
- d. work force or within the local labor market.
- e. Description of labor relations (including any prior difficulties) and a copy of any current union contract.

Source of Supply.

- a. A brief description of the significant materials and supplies employed or to be employed in the activity of the concern, including the adequacy of the available sources of these materials and supplies.
- b. Names of the major suppliers, including disclosures of any single or limited sources of essential materials.
- c. Adequacy of available storage and materials handling facilities.

Management.

- a. Detailed biographies on all officers, directors, owners, and key personnel, including, but not necessarily limited to: age, health, business experience, business affiliations, education and experience (in particular, that pertaining to the business), time to be devoted to the business, and degree of ownership of the business.
- b. Any contract or proposed contract between the company and any member of management and/or outside consultants. Also include the name(s) of your accountant and/or attorney.

Marketing and Distribution

A narrative discussion of the following:

- a. The type, number, location and financial strength of customers and potential customers (including the names of the five largest) indicating the percentage of the gross revenue accounted for by these customers.
- b. A marketing survey and/or economic feasibility study of a scope commensurate with the size of the company and the proposed investment.
- c. A brief description of the actual or proposed terms of payment by customers if other than cash, including the method of financing utilized.
- d. The methods by which the products or services are now (or will be) provided to customers, including the adequacy of physical distribution facilities (i.e., warehousing, delivery equipment, etc.).
- e. A description of the techniques presently utilized (or to be utilized) to create the demand for the products or services.
- f. Any significant seasonal aspects pertaining to the marketing of the products or services.

Competition

A descriptive summary of the competitive conditions in the industry in which the concern is engaged along with the relationship of the applicant to its largest and smallest competitors.

Facilities

- a. A detailed description of the real and physical property and equipment, including age, condition, insurance coverage, and adaptability to the principal business in which engaged.
- b. Copies of agreements pertaining to any encumbrances on property or equipment owned, or lease or rental agreements on non-owned property.
- c. The same information for property proposed to be utilized by new ventures.
- d. Copies of any franchise agreement, distributorship, dealership, royalty contract, or similar contract with other companies.

References

- a. List a minimum of one banking, one business, and three personal references for each member of management and each principal owner. List the company's key advisors: CPA, attorney, etc.
- b. Credit report on principals and company.
- c. Discuss the company's reputation with suppliers and customers; a small sampling should be taken. Ask the suppliers/customers about the company's reliability, credit-worthiness, and fair business practices.

Financial Information — Financial Statements

- a. Historical — When available on established companies, balance sheets and profit and loss statements (preferably prepared by an independent public accountant) for a minimum of the last three fiscal years or from inception, including the latest interim period. Include a comparison with industry averages from RMA (The Risk Management Association). Latest aging of accounts receivable and accounts payable.
- b. Proforma — A proforma balance sheet which includes the effect of the financing, supplemented in the case of new ventures, with a description of the source of the original funds and assets.
- c. Cash Flow — A detailed projection by month of anticipated revenues and expenses and a schedule of cash receipts and disbursements for a minimum of twelve months subsequent to the proposed financing. Proforma profit and loss statements for the next three years.
- d. Other — Personal financial statements for the principals.

- e. Use of Proceeds — The reasons for the request for funds and a description of the proposed uses, including the timing of the requirement for funds.
- f. Salaries and Benefits — Schedule of past, current, and proposed salaries and other benefits of each member of management and/or owners, including bonuses, free arrangements, profit sharing, stock options, etc.
- g. Capacity of Business — A statement of the capacity of the enterprise, both current and subsequent to the financing, including the current and expected rate of utilization of such capacity and current backlog of orders in relation to the capacity.
- h. Outstanding Debt — A description of all outstanding debt or commitments for funds, including the original balance, current balance, interest rate, and amortization schedule, and a copy of the instrument.

And If You Don't Get the Loan . . .

If you get turned down at the bank, don't give up after the first try. Instead, explore new strategies:

1. Ask for specifics on why the loan was refused. Some common causes are the bank's being overextended or not understanding your company's type of business.
2. Invite the loan officer and one of the officer's supervisors to visit your company — to build confidence by showing off your equipment, facilities, and personnel.
3. Ask for ideas on how the application can be made more acceptable through financial or accounting changes, tax regulation, government programs, or production changes.
4. Apply for another type of loan or a different credit basis. For example, possibly pledging machinery as collateral, using a third-party guarantee, or borrowing against seasonal receivables.
5. Reapply when the timing is better. Use an upswing in sales or profits to obtain a line of credit or develop a close enough relationship with your banker to be informed when the bank has excess funds to loan.