

What Do Bankers Look For in a Business Plan?

Be prepared. Many people misunderstand what the bank can and can't do for you, and why. Before you get to the bank with the plan, here are some ways to prepare yourself -- and your business plan.

1. As you develop your plan, set realistic assumptions about financing options. Bankers expect you to know the basics before you walk in their door.
 - They can't loan you money just because they believe in your business plan. Laws that protect depositors' money prohibit banks risking that money on speculation. Banks can make loans to borrowers who pledge assets they will lose if they are unable to pay.
 - Many entrepreneurs pledge personal assets to borrow money for their business. I've done this myself by taking out a second and even a third mortgage to get the business through hard times. Understand that if you do this, you risk losing your house, your savings, or whatever else you pledge.
 - If you are applying for an SBA loan, you'll need to present an excellent business plan -- and 30 percent of the financing. SBA loans will provide up to 70 percent of the money you need -- if you get approved, that is.
 - There are at least two other ways to finance your small business: You can lease your equipment, or you can use a credit card to buy whatever you need at very high monthly interest rates.
2. Expect to fill out bank loan applications even if the required information is in your business plan. Bank managers need to have the forms filled out and in place, business plan or not.
3. The bank will ask for past tax returns to prove whatever information you provide about your personal or business income. Be prepared to explain any discrepancies between your financials and your tax returns.
4. Only the good loan managers will actually read and comment on your plan. Although a business plan is required for most business loans, there is no guarantee that bankers will read your plan. Many are just filed away. Obviously you should prepare a plan to be read, and you can evaluate the bank by how closely they read your plan. A bank that wants a relationship with you will read your plan, because they want to know who you are and what you plan to do. Here are some things they are likely to look for:
 - **Your business background.** You have more credibility if you have had experience in business and in the field you're entering. The business plan should describe the management team with short biographies of main managers.

- **Your financial projections.** Bankers expect to see the three main statements -- income, balance, and cash flow -- projected monthly for the first year, and annually for a couple of years after that. Cash flow is the most important part of your plan.
- **Realism in the financials.** Bankers will compare your projections to industry reports showing average performance for different kinds of businesses. If you project margins higher than industry averages, you will need to explain why and how you are going to accomplish that. For example, if the average sporting goods store has a 33 percent gross margin, don't show a banker a plan with a 70 percent margin.
- **Alignment with the financials.** The amount you ask to borrow should match the financials in your plan. For example, don't try to show that you don't need any money; if you didn't, you wouldn't be borrowing. But don't show that you need much more money than you can afford to borrow. Your cash flow should be realistic, and it should show how much money you need and why you need it.
- **A complete plan.** While management team and financials are most important, a good banker will also expect to see a readable plan, from the executive summary through to the end. It should cover what you sell, your market, company background, and specific dates and activities.

The business plan is a two-way test. Although many banks will require a plan, not all of them will really process the plan. Be grateful if they do. That means they are interested in your business and want to build a long-term relationship.

Reprinted from allbusiness.com