

How Can You Increase Your Chances of Getting a Business Loan?

There are a number of things you can do to improve your chances of securing a bank loan. Here are a few of the most important:

Create a sound business plan. Having a solid business plan is your best shot at getting a loan. But it also must be a complete and well-presented plan. It's especially important to polish your executive summary. This one to three page summary of your business is what bankers look at first — if they like what they see, they might read on.

Invest your own money. Another way to improve your chances of getting a loan is to put some of your own money on the line. Lenders typically like to see owners have at least a 25 percent equity stake in the businesses they finance.

Rent, don't buy. Bankers favor businesses that plan to rent rather than purchase a building. That's because lenders prefer that you invest in assets that generate income, like inventory and equipment.

Check out your credit report. Reviewing your own credit report before you start the application process can also put you ahead of the game. Lenders use your personal credit history to help them decide whether you're a good risk for a loan, so it pays to know what they'll find. If your report shows a mistake, contact the credit reporting agency and demand a correction.

If your credit report shows legitimate late payments or bankruptcies, you should include a letter with your application explaining the circumstances and how they have changed. This can soften the impact of these black marks against you. Always be honest about your credit history — covering up problems is the fastest way to get shown the door.

Explore local banks. Don't assume the bigger the bank, the better your chances of getting a loan. Smaller community banks might be more inclined to finance businesses in their areas, and their loan officers are more likely to give you individual attention.