

2019

MONEY SMART for Small Business

# BANKING SERVICES

Available for a Small Business

PARTICIPANT GUIDE



U.S. Small Business  
Administration



FEDERAL DEPOSIT INSURANCE CORPORATION



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## **ACKNOWLEDGMENTS**

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# CHECKING IN

## Welcome

Welcome to **Banking Services Available for Small Business**. This training is an important step toward building a better business. This guide accompanies the **Banking Services** PowerPoint presentation. This training has three sections: The first addresses banking services (except loans). The second covers financing options and sources available for small businesses. The third discusses how to avoid fraud and scams.

For the purpose of this training, “banking” refers to financial products and services offered by all federally insured financial institutions (banks, savings associations, and credit unions). This module contains some technical terms. Please check the **Glossary of Terms** if you are unfamiliar with a term. Glossary terms are specific to this module and can be found at the end of the guide. Sections or names of Money Smart modules and resources are **highlighted**.

## Agenda

- **Section I: Banking Services**
  - Exercise 1: What Banking Services Do I Need?  
(Case study introduction)
- **Section II: Financing Options and Sources**
  - Exercise 2: Small Business Financing Checklist
  - Exercise 3: Self-Assessment Loan Readiness Checklist
- **Section III: Avoiding Fraud and Scams**

## Learning Objectives

After completing this class, you will understand the following:

- The benefits of building effective **long-term relationships with bankers** (branch managers and lenders) and business advisors
- Factors to consider when **selecting a financial institution**
- **Features, advantages, and risks associated** with the **financial services and products** that you may be considering for your business
- **Types of small business financing options** and **lenders**
- Factors to consider when **evaluating financing options**
- Ways to **improve your chances of getting a loan**, including building a strong personal and business credit history, keeping accurate business records, and understanding the Five C’s of Credit
- Ways to recognize and avoid small business **fraud, scams, and cybersecurity risks**

# Before and After: What Do You Know?

Instructor: \_\_\_\_\_ Date: \_\_\_\_\_

This form will allow you and your instructor to see what you know about business banking services before and after the training. Read the statements below and circle the number that shows how much you agree with each one.

	Before Training				After Training			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. I can identify financial products and services that are commonly available to a small business.	1	2	3	4	1	2	3	4
2. I can explain how these products and services work.	1	2	3	4	1	2	3	4
3. I can identify the advantages and disadvantages of financial products and services.	1	2	3	4	1	2	3	4
4. I can explain how small business owners decide which financial products and services are best for their business.	1	2	3	4	1	2	3	4
5. I can list what is needed to submit a loan application.	1	2	3	4	1	2	3	4
6. I can describe how to build effective long-term relationships with bankers (branch managers and lenders) and business advisors.	1	2	3	4	1	2	3	4
7. I can describe the role of a personal credit score in the business lending process.	1	2	3	4	1	2	3	4
8. I can explain the benefits of separating business and personal bank transactions.	1	2	3	4	1	2	3	4
9. I know how to identify potential fraud, scams, and cybersecurity risks.	1	2	3	4	1	2	3	4

## Pre-Survey

Assess your knowledge of banking services before you start the training.

1. **Which of the following is true? Select all that apply.**
  - a. I can open a business checking account as soon as I have an Employer Identification Number.
  - b. A business must have a personal checking account to open a business checking account with a bank.
  - c. Small businesses cannot open commercial checking accounts.
  - d. Small businesses must make a profit to establish commercial banking services such as opening accounts and setting up merchant services.
  
2. **Which of the following best characterizes a zero balance account?**
  - a. An account maintained with no funds until checks are written
  - b. A new account
  - c. A closed account
  - d. An account with funds that are withdrawn until no funds remain
  
3. **Purchases and receipts for your business should be kept separate from your personal ones.**
  - a. True
  - b. False
  
4. **Which of the following is true about FDIC deposit insurance? Select all that apply.**
  - a. FDIC insurance only protects consumers with deposit accounts at FDIC member banks.
  - b. Only consumers with deposit accounts at FDIC-insured banks are fully insured by the FDIC up to at least \$250,000.
  - c. FDIC insurance cannot protect consumers unless they have money deposited at an FDIC member bank.
  
5. **Certificates of deposit can be used as loan collateral.**
  - a. True
  - b. False



6. **Which of the following is a common advantage of online banking?**
  - a. Information is updated frequently.
  - b. Check images may be available for viewing.
  - c. Current and past statements may be available for viewing.
  - d. b and c
  - e. a, b, and c
  
7. **If a business becomes a victim of online theft, there is a chance that the money may not be recoverable.**
  - a. True
  - b. False
  
8. **The following may be needed for a business loan application:**
  - a. Personal and business tax returns
  - b. Business incorporation documentation
  - c. Business accounting journal and daily financial projections
  - d. Business financial statements
  
9. **Which of the following is one of the Five C's of Credit?**
  - a. Collateral
  - b. Character
  - c. Common sense
  - d. a and b
  - e. All of the above
  
10. **With a term loan (to be paid off by a specific date), the purpose of the loan and the collateral will typically determine the length of the financing period.**
  - a. True
  - b. False



## **SECTION I: Banking Services**

Banking services change at the fast pace of technological advances. Therefore, you need to consider building relationships with financial institutions to ensure that you can keep up with these changes and understand how to choose the right products and services for your business.

### **Building Your Banking Relationship**

Building a banking relationship is just like building any other relationship. It doesn't happen in one day. To select the bank that will handle your needs, take time to meet and develop a relationship with various bank staff: the loan officer, account manager, relationship manager, and branch manager. A good relationship with a key person at your bank can help him or her better understand your business operations and needs. This can help your bank contact better advise you about obtaining and building credit, maximizing the bank's benefits and resources, and leveraging the banker's extensive knowledge and contacts.

Clear, frequent, open lines of communication are important. Talk to your bank contact at least quarterly, and especially when something important occurs, such as winning a major account or overcoming a big competitor. If you engage the bank staff, they will become interested in your business and prospects.



## Myths About Bankers

Products and services that can help small business owners manage their day-to-day finances and improve their long-term financial health are not always easy to identify because of preconceived notions about banks, bankers, and business loans. Below are some common myths among small business owners about banks and business products and services:

**1. Banks don't want my business because my company is too small.**

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**2. Banks don't make small loans.**

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**3. I need a perfect credit history.**

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**4. Loan applications take months to process.**

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**5. Fees are not affordable.**

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**Tip:** Find a Money Smart for Small Business **Building Credit for Your Business** training near you, or download the module to learn more about credit scores.

**Note:** The FDIC's 2017 Small Business Lending Survey found that smaller banks (up to \$10 billion in assets) tend to be flexible in structuring loans for small businesses, and nearly four in five of these banks report that they lend to small businesses that have been in operation for up to two years.



# What Banking Services Do I Need?



1. What banking services do I need?

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2. What should I look for when choosing a bank?

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## CASE STUDY: Meet Eco-Grow Solutions

Rosa is 21 years old and wishes to patent and sell a plant nursery irrigation system. She is partnering with her father, Albert, an avid gardener and retired veteran with a disability, who opened his own commercial nursery two years ago.

Rosa grew up gardening with her father. While in high school, she developed an innovative, water-efficient irrigation system for their home flower and plant nursery. This experience increased her interest in science and technology and led her to pursue a biochemistry and agribusiness degree. She is in her second year of college and has developed an eco-friendly plant nursery technology as part of her studies. Her father has incorporated this system into his nursery business, and Rosa and Albert believe that there is a market to sell this technology to commercial nurseries and farmers; therefore, they need financing to develop this line of business.

Eco-Grow's revenue is less than \$80,000 a year: about \$60,000 from three contracts for providing gardening services to government buildings and about \$20,000 from sales to retailers.

Albert already has a business bank account because it is a requirement to do business with government agencies.

What banking services do you think Eco-Grow Solutions needs, and what features should Rosa and Albert look for in a bank?



**Exercise 1: Banking Service Needs**

Services Needed	Now		Within 6–24 months	
	Eco-Grow Solutions	My Business	Eco-Grow Solutions	My Business
Accounts				
Payment Solutions				
Financing				
Bank Characteristics and Technology				



## Factors in Selecting the Right Bank

There are many factors to consider when selecting the right financial institution for your business needs. Be sure to properly research your options before choosing a bank, as switching can be difficult once you have already established many services, such as online or mobile banking, automated payments, and merchant services.



**Consider** your unique needs when choosing a bank and banking services.  
**Research** and **compare** your options by taking into account your current and future business needs.

### Customer Service

Many financial institutions do not have 24-hour customer service. Understand the benefits and limitations of all the banking services you are using or planning to use. If you don't already have a relationship with a bank, you may know people who are pleased with theirs.

**Why is this important for my business?**

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**Note:** Online banking allows businesses to conduct nearly every facet of their banking without entering a financial institution. However, authorization, viewing, and transaction limitations may apply. Banks may set up **secured access** methods and issue electronic keys or provide security tokens before you can conduct online transactions.

### **Account Access**

Consider your bank staff's availability to answer your questions when they arise. In addition, make sure you understand whether you can access your funds quickly and cost-efficiently. Consider **online banking**.

**Why is this important for my business?**

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### **Technology**

Most banks offer online banking or generate reports that can be integrated with business accounting software such as QuickBooks. Linking, not comingling, your personal and business bank accounts under the same online profile may also be possible. Ask your financial institution about the technology features that you may need.

**Why is this important for my business?**

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### **Specialized Small Business Products and Services**

Ask about Small Business Administration (SBA) or other government agencies and whether the bank has a vice president for small business loans.

**Why is this important for my business?**

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Ask other small business owners about financial institutions they recommend, and do some research through social media and consumer reviews. For complaints and lawsuits against financial service providers, you can contact your state attorney general, the Better Business Bureau, and the Consumer Financial Protection Bureau (CFPB). Your local SBA office is also a great place to get help and referrals to banks that specialize in small businesses.

**NOTES:**

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## Deposit Insurance

Since the FDIC began operating in 1933, no depositor has ever lost a penny of FDIC-insured deposits. FDIC insurance is backed by the full faith and credit of the United States government.

### Basic FDIC Deposit Insurance Principles

- **Deposit insurance coverage is per depositor.** A depositor may be any person (does not have to be a U.S. citizen or resident) or legal entity (such as businesses,<sup>1</sup> nonprofits, or government agencies).
- FDIC insurance covers all deposit accounts, including checking and savings accounts, money market deposit accounts, and certificates of deposit. The **standard insurance amount is \$250,000** per depositor, per insured bank, for each account ownership category.
- For details, please look for the latest version of the FDIC's **deposit insurance brochure**, "Your Insured Deposits," at your bank or on the FDIC website: [www.fdic.gov/deposit](http://www.fdic.gov/deposit).
- Account holders of **deposits in a credit union may also be insured** through the National Credit Union Administration (NCUA), a federal government agency. The NCUA's insurance rules are similar to the FDIC's, but they may differ in some respects. For more information, go to [www.ncua.gov](http://www.ncua.gov) and search for "Share Insurance Fund."



Have questions? Contact an FDIC deposit insurance specialist at 1-877-ASK-FDIC (or 1-877-275-3342), or use the FDIC's Electronic Deposit Insurance Estimator at [www.edie.fdic.gov](http://www.edie.fdic.gov).

#### <sup>1</sup>Additional information on FDIC deposit insurance for different organizations:

- A sole proprietor account (sometimes referred to as a "doing business as" or "DBA" account) is typically owned by one person and insured as the owner's "single ownership account." A sole proprietorship account is added together with the owner's other single ownership accounts at the same bank, and the combined balance is insured up to \$250,000. In some cases, a sole proprietorship is jointly owned by two people. Assuming all requirements for a joint account are met, a deposit account titled in the name of a jointly owned sole proprietorship will be insured as the co-owner's joint account. Each owner of a joint account is insured up to \$250,000 for the combined amount of his or her interests in all joint accounts at the same bank.
- Deposits owned by corporations, partnerships, and unincorporated associations, including for-profit and nonprofit organizations, are insured under the same ownership category. All deposits owned by the same corporation, partnership, or unincorporated association at the same bank are combined and insured up to \$250,000. Insurance coverage for these types of legal entities is in addition to FDIC insurance for personal deposits that a partner or business owner may have at the same bank.



## Account Services



Choosing the right bank and suite of services and products for your business is important. Evaluate the services of each bank you are considering by reviewing the **bank's brochures, websites, account disclosures, and fee/schedule sheets**, which include balance requirements and fees for overdrafts, check processing, and other transactions.

### Cost of Services and Transactions

Understanding your options can save you hundreds of dollars. Some types of accounts charge fees on each processed item, including **checks, Automated Clearing House (ACH) debit and credit processing, wire transfers, and deposits**. Find out how you may be able to get **fees waived**, perhaps by consolidating multiple accounts at the bank or exceeding minimum balances.<sup>2</sup> Ask if your accounts can be **bundled**.

The bank's system analyzes the combined activity and balances in multiple customer accounts to assess or waive fees on a monthly basis. On the following page, you will find a **sample fictional bank fee schedule** that features different accounts and pricing examples.

#### NOTES:

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<sup>2</sup>Businesses that manage a high volume of transactions may want to consider asking about a bank's earnings credit feature, which is typically available on accounts designed for a greater number of transactions.

**Fictional Local Bank Fee Schedule for Case Study Discussion**

The following fee schedule does not represent industry averages. It serves only as a reference to facilitate analysis and discussion for the Money Smart for Small Business Banking Services case study. **Highlighted** and *annotated* items represent recommendations to Eco-Grow Solutions from this fictional bank.

**Key:** \*Subject to monthly account analysis and earnings credit review.  
 \*\* Fees as noted, except subject to monthly account analysis and earnings credit with Level IV Business Checking.  
 +Surcharges may be assessed by other institutions for the use of their ATM.

**Basic Business Checking**

Monthly Maintenance Fee (if minimum daily balance of \$500 is not maintained) ..... \$4.00

**Level II - Business Checking**

Monthly Maintenance Fee (if minimum daily balance of \$2,500 is not maintained) ..... \$6.00  
 No transaction fee for first 150 transactions in each monthly statement cycle; \$0.50 for each additional transaction

*Waived if signing up for merchant services*

**Level III - Business Checking**

Monthly Maintenance Fee (if minimum daily balance of \$5,000 is not maintained) .... \$20.00  
 No transaction fee for first 300 transactions in each monthly statement cycle; \$0.50 for each additional transaction

**Level IV - Business Checking**

Monthly Maintenance Fee (per monthly statement cycle)..... \$10.00  
 Fees are per item/transaction:  
 Items Deposited Fee\* ..... \$0.10  
 Remote Deposited Imaged Item ..... \$0.10  
 Checks Written Fee\* ..... \$0.05  
 ACH Debit Service Charge (electronic debits) ..... \$0.05  
 On-Us Check Cash Svc Charge\* ..... \$0.05  
 Deposits Made Svc Charge\* ..... \$0.35

**Business Money Market Deposit Account**

Monthly Maintenance Fee (if minimum daily balance of \$2,500 is not maintained) ..... \$15.00  
 Excess Transaction Fee (over six per statement cycle item) ..... \$10.00

**OTHER FEES**

Non-Sufficient Funds Fee, Deposited Item Return Fee

**Basic Business Savings Account**

**Statement Savings Account (free if \$1,500 minimum balance)**

**CASH MANAGEMENT SERVICES**

**ACH ORIGATION MONTHLY FEES\*\***

<b>ACH Origination Setup Fee</b>	<b>\$45.00</b>
Files Per Month	Service Charge
Up to 5	\$25.00
6	\$30.00
7	\$35.00
8	\$40.00
9	\$50.00
10	\$60.00
11 or more	\$90.00

**ACH Risk Monitoring \$25.00**

Business Online Banking  
 Entitlements \$25.00  
 Positive Pay Check Fraud Protection  
 Monthly Fee\*\* ..... \$25.00  
 Positive Pay Per Item Fee\* ..... \$0.005  
 Positive Pay Mismatch Item Fee\*\* ..... \$0.10

**REMOTE DEPOSIT SERVICES**

Remote Deposit Service Fee ..... \$50.00  
 Per Imaged Item Fee ..... \$0.10  
 Scanner ..... Varies

**ATM/DEBIT BUSINESS CARDS**

ATM ..... Free  
 Debit Business [Credit Card Issuer] ..... Free  
 Transaction at Our Bank ATMs ..... Free  
**Transaction at Other Banks' ATMs Varies**  
 Overdraft ..... \$35.00 each instance

*To be reimbursed*

## Timing, Ease, and Security of Payment Transactions



Writing a check when you do not have sufficient funds available will likely lead to costly charges. Keep in mind that most payment transactions and deposits do not post to the financial institution's accounting system in real time.<sup>3</sup> For example, when you deposit a check, the funds are not always immediately available, depending on the type and amount of the check deposited.

Some businesses need access to available funds in a shorter time frame—a need you should discuss with your financial institution. Fund availability is usually listed in the account disclosures, along with the check-clearing time frames. You can manage many payments and other financial transactions securely online. **List four examples of services pertaining to account access that may help reduce business expenses and increase transaction efficiency.**

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

## Business Checking Accounts



Banks have different names for their checking accounts. Ask your bank representative to explain the account types so that you can select the products that best meet your business needs.

- A **small-business checking account (or flat-fee account)** generally allows fewer fee-free transactions than a regular commercial checking account, including a limited number of deposits and checks, on a monthly basis. This type of account usually has a lower minimum balance requirement than other commercial checking accounts.
- An **analyzed commercial checking account** is designed for a business that has a high volume of transactions and maintains a larger balance than the minimum required.

**If you don't have a bank account**, many banks offer safe, low-cost personal accounts. **The Money Smart for Adults** modules on banking include tools to compare bank fees and features of consumer accounts.

Many banks also have second-chance checking accounts for individuals who performed poorly with prior checking accounts.

<sup>3</sup>A process in which each transaction settles immediately, called real-time gross settlement, is not available in the United States at all times every day, but banks are making progress in processing payments faster.



### Once you are ready to open your checking account...

**Know the rules governing checks**, as they depend largely on the law in your state. Banks may use information from companies that track returned checks, accounts closed, charge-offs, nonsufficient fund events, check fraud, and other negative activity before allowing you to open an account.<sup>4</sup> It is important to **learn how to properly manage a checking account**. **List three companies that banks might use to evaluate your account application.**

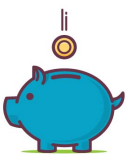
1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_



### Business Debit Cards

Business debit cards allow your business to withdraw cash conveniently at **ATMs** and purchase goods and services. Business debit cards facilitate **online** or **point-of-sale (POS) purchases** without having to use credit. Bank debit cards have a daily limit for POS purchases and cash withdrawals, as well as an overall limit.

Debit cards are issued in the name of the business owner. Only an account signer is authorized to conduct debit transactions. If you have **additional signers**, each should have a card. Discuss the card's intended use and who needs access with a bank representative. The bank may suggest an alternative to debit cards that is less risky, such as a prepaid or preloaded card.



### Savings Accounts

Savings help build a cushion for unexpected needs. Many entrepreneurs must rely on their savings to start a business. Setting aside money also shows your lender that you are reserving cash for anticipated expenses such as equipment or building maintenance or replacement. Businesses keep unused funds in savings or money market accounts. Such savings may serve as retained earnings or equity, which can be a positive factor in a loan application.

Some types of savings accounts, such as certificates of deposit (CDs), have monthly limits on withdrawals and other transactions. Insured CDs allow you to keep money in an account for a few weeks to several years. In return, the bank pays a higher interest rate than on checking or money market savings accounts (the longer the term, the higher the interest rate).

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<sup>4</sup>If your checking account application is rejected: A "Consumer Disclosure" report from ChexSystems shows items such as unpaid fees (primarily from overdrafts), bounced checks at retailers, and suspected fraud. Reports also list credit inquiries, check orders, and consumer-initiated security freezes. Victims of identity theft may place a freeze on their ChexSystems consumer report, which means that no new financial account can be approved unless you authorize it. Every bank evaluates this information differently. If your banking history is a reason you may be told that you cannot open a bank account, discuss your options with the financial institution, and contact the company that provided the report to the bank (for example: ChexSystems, Telecheck or Early Warning Services).



## Additional Banking Services

### Payroll Services

Payroll services include accounting for payroll, retirement, workers' compensation insurance payments, and federal and state taxes. Payroll services can also reduce the number of checks issued and the **potential for fraudulent, forged, or erroneous payroll checks**, as it can be directly deposited to an employee's account.

Having a payroll account and an **operating account**, which is used to pay all expenses except payroll, can simplify business accounting. A feature called **zero balance** links your operating account with your payroll account so that you only draw payroll checks from the payroll account. This also helps prevent fraud. Ask your bank representative about fees.



### Cash Management

Small businesses may receive multiple types of payments such as cash, checks, ACH, and debit and credit card payments. If you are a retail business that handles significant amounts of cash, you can minimize risk by reporting all revenue to your state business revenue department and the Internal Revenue Service; keeping detailed records that show the legitimacy of your business revenue; and discussing options to manage cash with your bank. If you receive payments from international customers, banks may offer remittances and wire-transfer services.



### Merchant Services

To accept credit and debit cards for payment, small businesses enter into a relationship for merchant processing services provided by financial institutions (some of which are banks), which facilitate connections to the card networks (American Express, Discover, Mastercard, and Visa) for authorization and settlement purposes. In addition, merchant providers offer point-of-sale card reader terminals, marketing support, online tools including data analytics, and capabilities to issue gift and prepaid cards.

The costs of merchant services are usually a percentage of the transaction. The rates charged depend on the likelihood of chargebacks, which are losses on fraudulent or disputed transactions, as well as average transaction amounts, the number of transactions, and industry risk.



### Financial and Credit Education

Financial institutions understand the value of financial and credit education. They support and collaborate with nonprofits that offer training, counseling, business plan development assistance, and microloans. For example, bankers may volunteer with local nonprofits to teach Money Smart or participate in small business information fairs.

You can find out about small business development resources near you by going to the Small Business Administration's website ([www.sba.gov](http://www.sba.gov)) or the Money Smart page on the FDIC's website ([www.fdic.gov/moneysmart](http://www.fdic.gov/moneysmart)) to identify local and online resources.

## Reports

Today, most banks have online banking capabilities to produce reports in various formats that are compatible or can be synchronized with accounting software such as QuickBooks. Some reports provide spending charts by categories of payees or vendors that are manually or automatically classified.



## Reconciling Accounts

Tips for reconciling your accounts for financial management and risk mitigation:

- Reconcile accounts monthly at a minimum, and **monitor them frequently** as a cybersecurity measure.
- Work with your bank to address **discrepancies or suspicious activity immediately**.
- Verify that the amount paid for a check is the **amount for which the check was written**.
- **Retain remote-scanner software reports**.



**REVISITING EXERCISE 1:** How will your banking service needs change over the next two years? Go back to the list of bank services for your business and the case study on pages 10 and 11, and review the **sample fictional bank fee schedule** on page 16.

**Has your thinking changed?**

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## Key Points to Remember: Banking Services

In the first section of this training, we learned the following:

- **Build banking relationships early on.** It pays off when you need services that are responsive to your business needs.
- Choose a bank based on an assessment of its **customer service, technology, and services available for small businesses.**
- Take advantage of multiple ways to **access your funds** and **ensure your transactions are secure.**
- Consider the **features and risks** associated with different types of **accounts and business services.**
- **Increase your business efficiency** through banking services such as payroll, cash management, and merchant processing.
- **Reconcile accounts regularly** to protect yourself from errors and fraud.

Useful resources from **Section I:**

- Financial and credit training information at [www.sba.gov](http://www.sba.gov) or <https://www.fdic.gov/consumers/consumer/moneysmart/>
- Tips marked with the star icon
- The list of questions in **Exercise 1:** What services do you need? What should you look for in a bank?



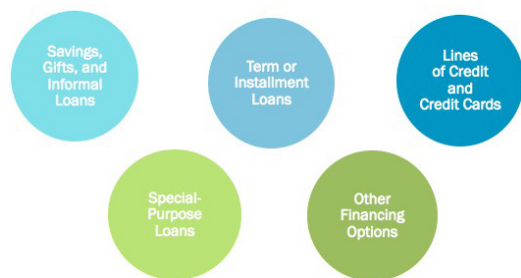


## SECTION II: Financing Options and Sources

Small business owners typically need to borrow money to buy equipment, pay suppliers and employees, and finance their operations. You borrow to make long-term investments and address short-term cash flow challenges.

This segment of the training will help you understand the financing options available from different sources so that you can better evaluate any choices presented to you.

### Financing Options



Most small businesses can finance operations in many ways, some of which we will discuss in more detail during this section of the module. While not all-inclusive, these financing options and sources will help you determine your borrowing needs and understand financing options from various providers. No matter what option you use, you should have a

plan outlining the source of revenue that you will use to make scheduled payments. Each financing scenario has its risks, and the cost of financing is not just the interest but all costs that will accrue until you pay off your debt.



#### Personal Savings, Gifts, and Informal Loans

Entrepreneurs often use their own savings, receive gifts, or get informal loans or investments from family, friends, or other individuals to start and grow their business.

## Business Installment Loans

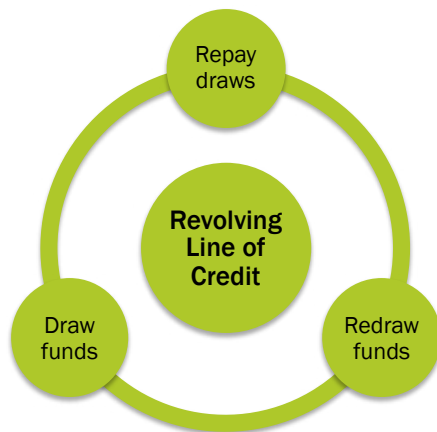


You will  
pay off in  
**15 months**

Typically, business installment or term loans are used to purchase a vehicle, equipment, or real estate. Installment loans involve a one-time disbursement of funds, followed by regular repayment of principal and interest over a fixed period of time. Installment loans are often secured by the asset they are used to purchase. To request additional funds through this type of loan, you must submit a new loan application.

## Business Lines of Credit

Business lines of credit or revolving business lines of credit can be used to address any operational business expense that may arise. Small businesses can use this type of credit line to meet short-term needs such as inventory purchases, funding accounts receivables, and unexpected expenses.



Most credit lines have variable interest rates tied to an index. A common index used is the prime lending rate. A margin above the prime rate is set for the duration of the credit.

Credit lines are generally secured with business assets such as accounts receivable, equipment, or business-owned real estate. No lump-sum disbursement is made at account opening. Instead, borrowers draw funds as needed, then make monthly payments based on the outstanding balances. Credit lines may be available as long as the borrower remains in good standing and is subject to ongoing monitoring of his or her credit performance and periodic credit review.

## Business Credit Cards

Credit cards allow you to make purchases using a credit line offered by the bank issuing the credit card. These business cards can help **build your company's credit history**,








but to avoid paying interest, you must pay your balance in full by the end of the grace period. Not all business credit cards may report your on-time payments to the consumer bureaus for your personal credit benefit. However, if you pay your cards late, those late payments are more likely to be reported.

Choose a credit card after carefully evaluating the interest rate (usually higher than other financing options), fees, terms, and rewards or benefits. Consider discussing your business credit card financing needs with your bank.






Additional **cards can be issued for authorized users**, but this could present a business risk because these users are not responsible for making credit card payments. Your liability for the unauthorized use of credit cards can be greater for business credit cards than for consumer cards.

Detailed information about your personal and business credit histories or scores is covered in the **Money Smart for Small Business Building Credit for Your Business** module.

### Special-Purpose Loans and Loan Guarantee Programs

-  ▪ **Agricultural loans** for crops, livestock, or farm machinery
-  ▪ **Manufacturing loans** for the equipment needs of manufacturing companies
-  ▪ **Veteran and military member** loan guarantee programs
-  ▪ **Exporter loan guarantee** programs
-  ▪ **Disaster loans** for small businesses affected by natural disasters

### Other Financing Options

-  ▪ **Leasing:** helpful to test equipment (maintenance cost may be included); lifetime costs higher than buying
-  ▪ **Financing inventory:** loan secured by inventory; usually used to meet fluctuating seasonal cash needs
-  ▪ **Factoring:**\* selling accounts receivables at a discount to third parties
-  ▪ **Credit card sale loans or merchant cash advances:** upfront funds in exchange for a portion of future merchant processing revenue
-  ▪ **Financing receivables:**\* advances on credit specifically secured by accounts receivables

\*Mostly available to larger businesses.

### Government Programs for Small Businesses

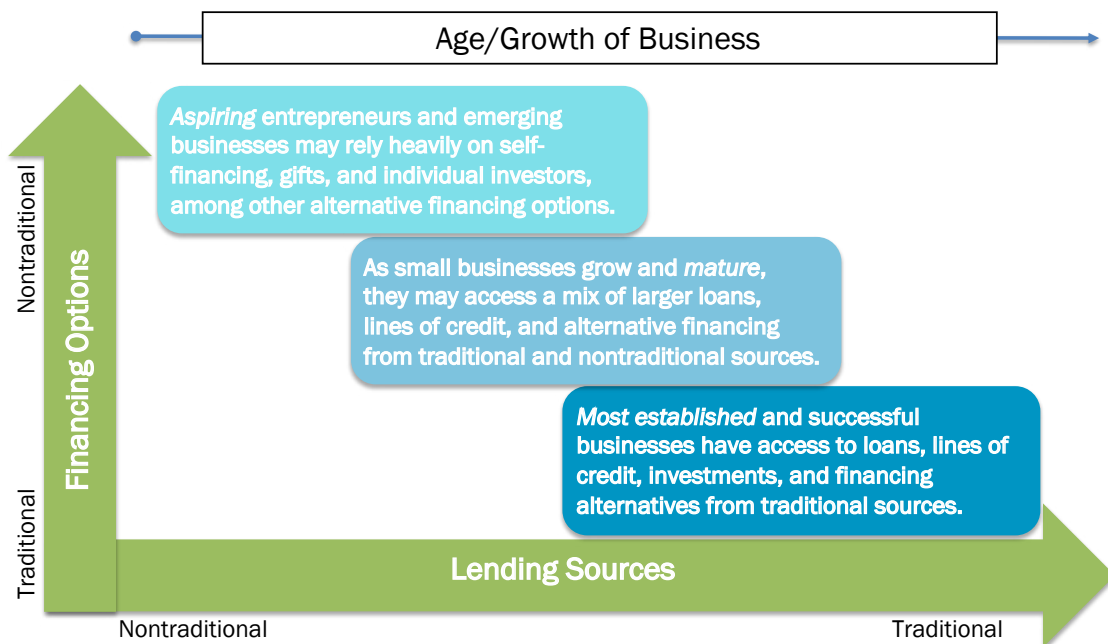
- **SBA** guaranteed lending programs and SBA Microloan Program  
[www.sba.gov](http://www.sba.gov)
- **U.S. Department of Agriculture Rural Development** grants, loans, and loan guarantees  
[www.rd.usda.gov](http://www.rd.usda.gov)
- **U.S. Department of the Treasury** support for small business lenders  
[www.treasury.gov](http://www.treasury.gov)
- **U.S. Department of Commerce's Minority Business Development Agency** network to provide technical assistance minority entrepreneurs  
[www.mbda.gov](http://www.mbda.gov)

- **State and local government** programs to foster entrepreneurship in underserved communities
- **Office of Small and Disadvantaged Business Utilization** (within local and federal government agencies) support for getting government contracts

## Financing Sources

### The Spectrum of Financing Options and Sources

While businesses may access different financing options from various sources at any stage, most start with self-financing and noninstitutional debt before they need or can access financing from traditional financial institutions.



	Start-Up	Early Stage	Maturing	Established
Personal Savings	Available	Available	Available	Available
Family and Friends	Available	Available	Available	Available
Crowdfunding Capital & Peer-to-Peer Lending Platforms*	Available	Available	Available	Available
Loan Marketplace and Fintech/Online Lenders†	Available	Available	Available	Available
Angel Investors and Venture Capital Firms*	Available	Available	Available	Available
Community Development Financial Institutions and Nonprofit Lenders	Available	Available	Available	Available
Banks and Credit Unions	Available	Available	Available	Available

### **Self-Financing, Family, and Friends**

In the early stages of business development, many entrepreneurs rely on their own resources, investments from individuals, and nontraditional financing. Self-financing is the top form of financing used by start-ups. It gives you complete control of your company. Investing your money into the business and taking all the risk may appeal to lenders for future borrowing.

### **Crowdfunding and Peer-to-Peer Lending Platforms**

Crowdfunding refers to a financing method that involves raising money by soliciting small individual investments or contributions from a large number of people.

Peer-to-peer lending is a type of crowdfunding that connects small businesses with individuals who lend smaller amounts of money.

### **Loan Marketplaces and Fintech/Online Lenders**

Loan marketplaces are online platforms that allow borrowers to consider different types of financing from a variety of sources including banks, credit unions, merchant cash advance providers, and online lenders.

Potential borrowers should carefully assess the benefits and risks involved with any type of financing and request all the terms and conditions before signing any contracts or agreements.

### **Angel Investors and Venture Capital Firms**

Angel investors or venture capitalists provide funds in exchange for ownership in your business. Such investors expect to understand the structure and potential of your company from a business plan. If you are considering an investor, work with trusted advisors to identify legitimate financing offers, and evaluate the pros and cons. The U.S. Securities and Exchange Commission regulates venture capitalists and their private equity firms. Venture capitalists are generally interested in larger, scalable businesses.

### **Community Development Financial Institutions and Other Nonprofit Lenders**

Community development loan funds are typically nonprofit, organizations that provide loans and development services to individual consumers and small business customers. Visit [www.cdfifund.gov](http://www.cdfifund.gov) for more information.

### **Banks and Credit Unions**

Banks and credit unions are considered traditional lenders. They obtain funds for lending from their depositors and must follow government regulations to ensure that money is safe and can be recovered from their borrowers.



### Exercise 2: Small Business Financing Checklist



Below are a few more details about the business options Rosa and Albert are considering. Feel free to make assumptions if you think the information provided is insufficient to help them make a decision.



Later, use the checklist to evaluate offers that you may be considering, or work with other class participants as directed by the instructor.

Albert mostly leveraged his savings to launch his nursery, but he also has some personal loans from a bank and a personal credit card that he used for his business. He is not familiar with nontraditional or nonbank financing services. Last year, the nursery had a few slow months, and, as a result, he took a pay cut. This caused him to fall behind on some personal credit card bills and to miss one mortgage payment on his home.

Since that time, Albert brought in new inventory and purchased advertisements in local media outlets. This has helped his sales recover, and his customer base is now growing. Albert is still getting caught up on his personal debt, and his personal credit score took a hit because of last year's financial troubles.

Rosa has never used credit; therefore, she does not know much about financing options, and she has no personal or business credit score.

Together, Rosa and Albert are seeking \$100,000 to finance production of the new technology and product demonstrations, and to attract paying customers (the technology has only been in testing sites thus far). They seek help from a Small Business Development Center (SBDC) counselor, who introduces them to a local bank and to a certified community development financial institution (CDFI). The bank is an SBA lender that provides flexible products for small businesses, while the CDFI offers business development, technical assistance, and training, in addition to microloans.

Rosa and Albert visit the local bank first and learn that the bank can help in two ways:

1. The bank will provide a business account with convenient terms and waive some fees by offering a bundled small business package that includes low-fee merchant services.
2. The bank will provide a business credit card to help Albert establish a business credit history.

At this time, the local bank is not able to offer a \$100,000 loan because of Albert's cash flow problems, his lack of collateral or guarantors, and his inability to demonstrate that the business is able to pay back the loan. In addition, Albert has a blemished personal credit score and does not have a business credit score. Also, Rosa does not have a personal credit history.

After their visit with the bank, Rosa decides to contact an online company that advertises quick financing for businesses. Rosa submits an application and receives a response within 24 hours with an offer in terms that she does not fully understand; however, she is excited about the quick turnaround time and easy application process.

The terms offered by the online lender include a \$4,000 origination fee, which is 4 percent of the gross loan amount of \$100,000; and a \$10 monthly administrative fee with payments of 20 percent of daily business receipts until payment is completed. (this is simply an example; it does not represent an average offer by online companies. The offer does not imply a disbursement in 24 hours).



**Task 1:** Analyze the online lender offer by using the **Small Business Financing Checklist** in the next page.

Next, Rosa and Albert turn to the CDFI, which is a nonprofit lender. After working with the CDFI for three weeks to submit the required loan application documentation, they learn that the CDFI will be able to provide expansion financing of \$50,000 at a slightly higher interest rate than they were hoping for.

These are the terms offered by the CDFI: 12 percent APR, 60-month amortization, and a \$150 refundable loan application fee if the loan is approved. Rosa and Albert must decide to select one of the current financing options available or spend the next few months building and improving their credit histories and obtaining additional sources of revenue.

**Task 2:** Analyze the CDFI offer by using the **Small Business Financing Checklist** in Appendix 1. Make any needed assumptions to provide a recommendation to Rosa and Albert.

**Task 3:** Reproduce the **Small Business Financing Checklist** in Appendix 1 to analyze the terms of any financing that you are considering for your business if applicable.

## Small Business Financing Checklist

The purpose of this tool is to encourage entrepreneurs to work with bankers, small business counselors, and technical assistance providers or other expert advisors to help them make informed decisions when seeking financing and before signing financing agreements or loan contracts. There are two copies of this form: one for you to complete for Eco-Grow Solutions during Exercise 2, and another, attached as Appendix 1, to analyze the online financing offer to Eco-Grow Solutions, or to analyze offers for you to complete for your own business.

### Financing Options Checklist

#### 1. Business Financing Opportunities

<p>a. Is your small business eligible for a <b>federal, state, or local government loan guarantee</b> or other small business program?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p>b. Which lenders offer such programs?*</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p>c. Have you conducted a <b>reputational search</b> of the lenders from which you are seeking financing, or have they been recommended by trusted advisors?</p> <p><i>Note: Seek expert advice to evaluate all financing options.</i></p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p>d. Do the lenders offer <b>business training</b>, or have you asked for their recommendations for technical assistance?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>

#### 2. Financing Agreement/Loan Contract

<p>a. Have you discussed potential <b>financing terms</b> with the lenders, including rates, duration, and covenants to expect in a loan agreement?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
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### Financing Options Checklist

b. Have you **felt pressured** by any lender to make a quick decision on accepting and signing financing documents without understanding them?

Yes  No  N/A

Explanation/Plan of Action:

*Note: Insist on enough time to get the information and advice you need.*

c. Are the **lenders available to answer your questions**? Do you have their customer service contact information?

Yes  No  N/A

Explanation/Plan of Action:

d. Do you have a certified public accountant, business mentor, or other professional who can help you **review the documents**?

Yes  No  N/A

Explanation/Plan of Action:

### 3. Loan Cost

a. Do you understand **the loan repayment schedule** and breakdown of the principal and interest amounts due over time?

Yes  No  N/A

Explanation/Plan of Action:

b. Are any financing options **short-term** (less than six months)? If so, have you analyzed other options carefully by comparing the costs of different loans?

Yes  No  N/A

Explanation/Plan of Action:

### Financing Options Checklist

<p>c. Do you know the <b>interest rate</b> on each proposed loan, whether it is variable or fixed, and how it is calculated into your payments?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p>d. What <b>other loan fees</b>— including origination, late, or prepayment fees— are there?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p>e. Do you understand the <b>total amount</b> required to pay off the loans at any time during their terms?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p><b>4. Payment Terms</b></p>	
<p>Do the loans require <b>monthly payments</b> or a different type of schedule (for example, daily or weekly)?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p><b>5. Type of Financing</b></p>	
<p>a. Are the offers a loan, a <b>merchant cash advance</b>, or something else?</p> <p><i>Note: An advance is not debt but provides upfront funds in exchange for a portion of future credit and debit card sales.</i></p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p>b. <b>If obtaining an advance</b>, are you aware of the repayment process, restrictions, and total cost?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>

### Financing Options Checklist

#### 6. Ability to Repay

a. Do the lenders require information to <b>assess your ability to repay the loans</b> ?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
b. Are the lenders asking how you will <b>repay the loans</b> ?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
c. Do you know if your <b>projected cash flow</b> will accommodate projected loan payments?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
d. Do you understand <b>what happens if you are unable to repay</b> the loans?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
e. Do you understand the <b>risks of losing property that you pledge as collateral</b> if you don't repay the loans?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:

\*State or federally sponsored small business programs and loans may have convenient terms. Check the SBA website ([www.sba.gov](http://www.sba.gov)) and state and local government websites to identify programs that apply to your line of business or business ownership structure. This checklist may help you assess such opportunities.

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## Improving Your Chances of Getting a Business Loan

A bank has many types of customers, including depositors and borrowers. Depositors put money in the bank to keep it safe, make deposits and payments, perform other financial transactions, and earn interest. Borrowers take money out of the bank in the form of loans and repay them with principal and interest payments. Essentially, the bank lends depositors' money to borrowers and is responsible for ensuring that borrowers make their loan payments.

Factors that play an important role in getting a loan from a bank:

- Strengthening your personal and business credit history
- Separating business and personal finances
- Understanding the Five C's of Credit
- Building banking relationships (see this topic in **Section I**).

### Personal and Business Credit History



When deciding to approve a business loan or line of credit, lenders will generally consider the credit history of the business owners along with the financial performance of their business. They will typically use a personal credit score to evaluate a loan applicant. Many different credit score models exist. A number of financial institutions use FICO® credit scores that consider one's payment history, debt burden, length of credit history, types of credit, and recent credit inquiries. FICO® credit scores range from 300 (lowest) to 850 (highest).

To evaluate your loan application, lenders may use your personal credit score to:

- assess whether to extend credit;
- help determine how much credit to extend; and
- establish the interest rate they will charge for a loan.



Your personal credit score reflects how well you manage money. A low score may indicate that you have not paid your loans or other bills on time, which can be a red flag to lenders about your ability to run a business successfully.

If you have no credit score or a low one, you can take steps to establish or improve it.

For information on approved credit counseling agencies, visit the U.S. Department of Justice's website ([www.justice.gov/ust/credit-counseling-debtor-education-information](http://www.justice.gov/ust/credit-counseling-debtor-education-information)), and explore the Consumer Tools section of the Consumer Financial Protection Bureau's website ([www.consumerfinance.gov/consumer-tools](http://www.consumerfinance.gov/consumer-tools)) for self-paced education resources and information on organizations that can help you.

In addition, you should consult with your trusted business advisor about SBA programs (see [www.sba.gov](http://www.sba.gov)), and check the **For More Information** section of this guide, as well as the Money Smart for Small Business **Building Strong Credit for Your Business** module.

### Keep Business and Personal Transactions Separate

You should not use personal accounts for business purposes. Keeping separate savings, checking, and credit card accounts is necessary for accurate record keeping; it is also essential for tax reporting, and it may be legally required depending on your corporate structure. Keeping accounts separate is easier with online banking and business accounting software.

If you know you plan to seek financing in the next one to two years, consult with your tax advisor or accountant. Showing no net profit or consecutive losses on business tax returns could make it difficult for a business to demonstrate its ability to pay back the loan (although the lender does add back noncash expenses such as depreciation when assessing your ability to repay). Lenders require documentation to support their analysis. Requested documents vary depending on the loan amount and the underlying collateral. Every effort to keep orderly business and personal records pays off, particularly when you are seeking financing.



The case study entrepreneurs demonstrate the consequences of mixing personal and business transactions: Albert from Eco-Grow Solutions was not in the best position to seek the amount of financing he was expecting from a bank because he had used personal credit cards and loans for his business. Albert did not have separate business and personal records and finances.

## The Five C's of Credit

To take the appropriate level of risk and ensure loan repayment, lenders follow core strategies that are reflected in their policies. These principles are known as the Five C's of Credit:

### Capacity

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### Collateral

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### Credit History

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### Conditions

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### Character

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You can explain much about how you fulfill the five C's in a business plan. Lenders want to know that you not only have a great idea but also know how to execute it. Lenders look for a business plan that at least includes:

- accurate financial statements, including tax returns, a balance sheet, income statement, and cash flow statement showing how borrowed money will be repaid;
- an overview of the company that highlights the owner's experience (if you don't have management experience, consider finding a partner or employee who does);
- an explanation of the company's products or services;
- an operations plan; and
- a marketing plan.

All of these documents should focus on how your company will achieve your revenue goals and explain how it differs from the competition.

### Exercise 3: Self-Assessment Loan Readiness Checklist



Go back to the details about Rosa and Albert's business that we discussed in **Exercise 2** on page 27 so that you can help determine whether they are ready to pursue a loan with the bank. Make assumptions as needed.



Later, use the **Loan Readiness Checklist** on page 37 to determine whether you are ready to pursue a loan.

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Because financing decisions affect the success of your business, it is important to ensure that you are ready to take out a loan and that you understand the costs of your borrowing options. You may not have answers to all the questions in this exercise at this time; therefore, you are encouraged to revisit the tool after this training. Any incomplete or pending answers can become action items on which to consult with your support network before going to a potential financing source. You can reach out to local technical assistance providers such as the SBA initiatives mentioned earlier in this training, or to business owners who use the products, services, or lending products that you are considering.

The following checklist includes questions that you can ask yourself during the loan-shopping process. It also includes blank space to record additional questions and notes as appropriate for you and your business.

## Self-Assessment Loan Readiness Checklist

Considering these questions can make it easier when you apply for a loan. If you don't know the answer to a question, don't worry! Lenders will generally work with you to get the information needed to evaluate your application. Provide detailed explanations where appropriate. If your business ownership is divided among various people, each owner should complete the checklist questions marked with an asterisk (\*). There are two copies of this checklist: one for you to complete for Eco-Grow Solutions during Exercise 3, and another, attached as Appendix 2, for you to complete for your own business.

### Loan Readiness Checklist

#### PERSONAL INFORMATION

- |   |   |
|---|---|
| <p>1.* Do I have the past 2–3 years of <b>personal tax returns</b>? Am I delinquent or indebted to the U.S. government?</p> <p><i>Note: If you are delinquent or indebted, this could be a disqualification for participating in government programs.</i></p> | <p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Explanation/Plan of Action:</p> |
| <p>2.* Do I know how much <b>cash</b> and the <b>value of personal assets</b> that I have contributed to my business (i.e., owner's equity value on the balance sheet)?</p>   | <p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Explanation/Plan of Action:</p> |
| <p>3.* Have I reviewed my <b>personal credit reports</b> for inaccuracies? What is my personal credit score?</p>  | <p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Explanation/Plan of Action:</p> |
| <p>4.* Do I know <b>what payments my business can afford</b> toward a business loan considering all my other income and expenses, and whether I can afford to cover any business shortfalls?</p>  | <p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Explanation/Plan of Action:</p> |

#### BUSINESS INFORMATION

- |  |   |
|--|---|
| <p>5. Do I have a full and short version of a <b>business plan</b>?</p> <p><i>Note: Lenders typically expect 5–10 pages.</i></p> | <p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/></p> <p>Explanation/Plan of Action:</p> |
|--|---|



### Loan Readiness Checklist

6. Do I have the past 2–3 years of **business tax returns** (including supporting schedules)?

Yes  No  N/A   
**Explanation/Plan of Action:**

7. Do I have 1–2 years of **business financial statements** and other financial projections, including cash flow?

Yes  No  N/A   
**Explanation/Plan of Action:**

(If not, tax returns generally suffice for smaller business applicants)

8.\* Do I have documentation of **business ownership** and changes to ownership over time, if applicable? What percentage of the business belongs to each business partner?

Yes  No  N/A   
**Explanation/Plan of Action:**

9. Do I know what **corporate structure** my business is registered as (LLC, Sole Proprietor, C-Corp, S-Corp)? Do I have my business incorporation documentation?

Yes  No  N/A   
**Explanation/Plan of Action:**

10. Do I have a **succession plan** or life insurance policy?

Yes  No  N/A   
**Explanation/Plan of Action:**

11.\* Have I reviewed my **business credit reports** for inaccuracies?

Yes  No  N/A   
**Explanation/Plan of Action:**

12. Do I have all other information and documentation that the lender has requested?

Yes  No  N/A   
**Explanation/Plan of Action:**

### INFORMATION THAT HELPS DETERMINE THE APPROPRIATE LOAN AMOUNT AND TYPE

13. Do I constantly need money to cover production/service costs that my **cash flow** can't cover?

Yes  No  N/A   
**Explanation/Plan of Action:**

### Loan Readiness Checklist

<p>14.* Do I have an existing <b>relationship with</b> one or more <b>bankers or lenders</b>?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p>15.* Do I know how much money I seek to borrow? Have I ensured that the <b>amount is sufficient for its purpose</b>?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p>16. Type of Loan</p> <p>a. What type(s) of loan(s) do I need (installment, line of credit, etc.)? Can I explain in detail why I need a loan?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p>b. Is the loan for <b>working capital</b> or other short-term expenses?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p>c. Is the loan for purchasing a <b>computer or technical equipment</b>?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p>d. Is the loan for <b>covering expenses</b> until my customers pay their invoices?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p>e. Is the loan for fulfilling a <b>large order</b>?</p> <p><i>Note: You must itemize the proposed use of loan proceeds for the lender's consideration.</i></p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>
<p>17.* What <b>assets</b> will I use as collateral †, for the loan? Will adding business assets, extending personal guarantees, or having a cosigner assist in getting approval for the loan?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>  <b>Explanation/Plan of Action:</b></p>

†A cross-collateralization agreement is when collateral for one loan is used as collateral for another loan. A cross-collateralization clause in a loan contract stipulates that the property used as collateral for the original loan may also be collateral for any other loans that the customer takes at the same institution. This collateral could include personal assets to satisfy business debts. Talk to an attorney who specializes in financial contract law to understand the full extent of your liability before signing any financing agreements.



## Key Points To Remember: Financing Options And Sources

Here is a summary of what we learned in the second section of this training:

- **Types of financing** available for your business include self-financing, angel investors or venture capitalists, crowdfunding and peer-to-peer lenders, lines of credit, and installment loans.
- Understanding the features of traditional **lines of credit and installment loans** can help you evaluate other financing options that you are considering.
- Your business may qualify for **government programs** such as loan guarantees from the SBA, USDA, and various state and local governments, depending on the purpose of the loan, revenues, and other characteristics such as business location and ownership.
- **Financing** accounts receivable, leasing, inventory, factoring, and merchant cash advances are alternatives that should be carefully evaluated and may not be available at banks.
- Your **chances of getting a loan** may improve by (a) understanding how lenders use your personal and business credit histories, (b) understanding the Five C's of Credit, (c) maintaining separate personal and business records, and (d) **preparing to apply for a loan** before contacting the lender.

Useful resources from **Section II**:

- References to government resources and programs
- Items marked with the star icon
- **Small Business Financing Checklist** (helps you ask the right questions of potential financing sources and determine the risks and benefits of each option)
- **Loan Readiness Checklist** (helps you prepare to pursue a bank loan and determine the appropriate type of financing based on your business life cycle, the purpose of your loan, etc.)



## SECTION III: AVOIDING FRAUD AND SCAMS

Businesses, whether large or small, need to avoid fraud and scams. Work with your bank and other advisors to mitigate these risks.

You can protect your business in the following ways:

- **Establish secure online banking protocols**
- **Prevent forged checks**
- **Protect business debit cards**
- **Reconcile your accounts regularly**

Many federal agencies strive to help you understand how to protect yourself and your business from cybersecurity incidents and fraudulent activities that compromise your company's proprietary information, your customers' information, and the integrity of your business assets, such as bank accounts.

**Note:** Electronic payments are generally protected by federal consumer protection laws: The Electronic Fund Transfer Act (EFTA) (15 USC 1693) and the Consumer Financial Protection Bureau's implementing regulation, Regulation E (12 CFR Part 1005), offer protections to consumers who use electronic fund transfers and remittance services from financial institutions or others. The EFTA and Regulation E define a consumer as a person and therefore do not apply to businesses. No federal laws offer similar protections to businesses.

## Federal Bureau of Investigation Resources for Small Businesses

According to the Federal Bureau of Investigation (FBI), internet crime schemes result in millions of dollars in losses to victims through various methods:

- **Business email compromise:** A sophisticated scam that targets businesses working with foreign suppliers and companies that regularly perform wire-transfer payments. The scam compromises legitimate business email accounts through social engineering or computer intrusion techniques to conduct unauthorized fund transfers.
- **Data breach:** A leak or spill of data released from a secure location into an untrusted environment.
- **Denial of service:** An interruption of an authorized user's access to any system or network.
- **Email account compromise:** A scam that targets the general public and professionals associated with a business. Perpetrators use compromised email addresses to request payments to fraudulent entities.
- **Malware/scareware:** Malicious software intended to damage or disable computers and computer systems. Perpetrators sometimes use scare tactics to solicit funds from victims.
- **Phishing/spoofing:** Forged or fake electronic documents. Spoofing generally refers to the dissemination of email forged to appear as though it were sent by someone other than the actual source. Phishing, also referred to as vishing, smishing, or pharming, is often done with a spoofed email. It is the act of sending an email falsely claiming to be from an established, legitimate business to deceive the unsuspecting recipient into divulging personal, sensitive information, such as passwords, credit card numbers, and bank account information. These personal details are collected by directing people to visit a specified website solely set up to steal their information.
- **Ransomware:** A form of malware that targets human and technical weaknesses in organizations and individual networks that cuts off access to critical data or systems. Ransomware is frequently delivered through phishing emails, resulting in the rapid encryption of sensitive files on a corporate network. When the victim organization determines it is no longer able to access its data, the cyber perpetrator demands a ransom payment, typically in virtual currency such as Bitcoin, in exchange for regaining access to the data.

Other frequent instances of internet fraud, according to the FBI, include business, credit card, or internet auction fraud; investment schemes; Nigerian letter fraud; and nondelivery of merchandise.

You can find more on the most common complaints and scams, including information on internet crime schemes and prevention tips, in the annual reports of the FBI's Internet Crime Complaint Center ([www.ic3.gov](http://www.ic3.gov)).

## Federal Trade Commission Resources for Small Businesses

The Federal Trade Commission (FTC) is another agency that seeks to protect consumers, including small businesses and nonprofits, by stopping unfair, deceptive, or fraudulent practices in the marketplace.

The FTC's Division of Consumer and Business Education works to help you learn how to avoid scams targeting small businesses, protect your business computers and networks, keep your customer and employee data safe, and protect your company's bottom line.

According to the FTC, scammers frequently target small businesses by using deceptive tactics to:

- get businesses to pay for supplies they didn't order;
- donate to fake charities; or
- trick them into giving scammers access to their network or downloading malware that can corrupt the company's computers.

If you are a home-based business—or if you are in the market for a job, investment, or business to run in your off-hours or as an encore career—some very convincing promoters are out there who promise high returns, low risk, and golden opportunities just waiting for the right buyer. Take the time to ask questions that can keep you from getting ripped off. Go to [www.consumer.ftc.gov/jobs](http://www.consumer.ftc.gov/jobs) for tips on how to avoid various types of scams.

Small business owners can protect themselves and their business from scams if they know how to spot them. Visit [www.ftc.gov/smallbusiness](http://www.ftc.gov/smallbusiness) for the following resources:

- "Small Business Scams," a publication based on FTC cases, includes the telltale signs of the most common scams targeting small businesses.
- "Protecting Your Business From Fraud" is a video that provides tips on avoiding scammers who try to get small businesses to pay for office supplies, business directory listings, or internet services they haven't ordered.
- FTC blog posts provide updates on the latest scams targeting small business owners. For example, the blog entry "Business buyer beware" alerts business owners to deceptive payment-processing practices and highlights specific cases. For more information about cases and proceedings, a database is available in the Enforcement section of the FTC website ([www.ftc.gov/enforcement](http://www.ftc.gov/enforcement)).

The following are additional business guidance and workshops from the FTC:

- **Getting credit:** At [www.ftc.gov/smallbusiness](http://www.ftc.gov/smallbusiness), you can find plain-language guidance on securing credit for your company by searching for “Getting Business Credit,” which explains your rights when seeking a business loan. The FTC is responsible for enforcement and education under the Equal Credit Opportunity Act, specifically for nonbank financial service providers such as car dealerships.
- **Fintech:** According to the FTC, fintech/marketplace lenders are typically nonbank financial platforms that leverage technology to reach potential borrowers, evaluate creditworthiness, and facilitate loans. Marketplace lending can provide an avenue for consumers and small businesses to quickly obtain loans that might not be available from traditional sources.
- **Credit and debit cards from customers:** By law, businesses must take steps to ensure that charges to customers’ credit cards, debit cards, phone bills, and other accounts are authorized. This also applies to mobile payments. It is illegal to bill customers for automatic shipments without their express consent. For more information about compliance standards for payments and billing, search for “mobile payments,” “credit card payments,” and “billing” at [www.ftc.gov/smallbusiness](http://www.ftc.gov/smallbusiness).
- **Cybersecurity:** Technology is the backbone of many small businesses. From accounting, marketing, and human resources to promoting the business and conducting transactions with customers, small business owners depend on technology, even if it’s only a computer and phone. The FTC’s “Start With Security” resources (at [www.ftc.gov/smallbusiness](http://www.ftc.gov/smallbusiness)) are the centerpiece of the agency’s cybersecurity guidance for businesses, featuring ten lessons that any business, regardless of size or type, can learn from the FTC’s data security cases. For each lesson, the FTC has created a brief video to explain the principles in simple terms that everyone in your company can understand.

Useful local resources include the local Small Business Development Center, Women’s Business Center, SBA district office, banks, CDFIs, local economic development organizations, chambers of commerce, and other organizations that provide financing and assistance to aspiring and existing entrepreneurs.

# FOR MORE INFORMATION

## National Resources

### **USA.gov**

[www.usa.gov/business](http://www.usa.gov/business)

This official portal of the United States government provides guidance and resources to help you start or finance your business, get government contracts, comply with business laws and regulations, and more.

### **U.S. Small Business Administration**

[www.sba.gov](http://www.sba.gov)

Answer Desk: 1-800-827-5722

The SBA website provides resources, answers to frequently asked questions, and free online tools, including information on writing business plans, buying or selling a business, government contracting, accounting, attracting investors, cybersecurity, fundamentals of crowdfunding, customer service, and more.

### **SCORE**

[www.score.org](http://www.score.org)

SCORE is a nonprofit that provides counseling, mentorship, and training, as well as free online resources such as templates for business, finance, and marketing plans; how-to guides; self-paced modules on financing, contracting, and cash flow management; and more.

### **America's Small Business Development Center Network**

[www.americassbdc.org](http://www.americassbdc.org)

You can find Small Business Development Centers (SBDCs) at many colleges and universities. SBDC counselors provide business training and consulting, including business-planning and loan-packaging assistance, and can connect you with regional and local business resources and lending institutions.

### **Women's Business Centers**

[www.sba.gov/tools/local-assistance/wbc](http://www.sba.gov/tools/local-assistance/wbc)

This national network of centers is designed to level the playing field for women entrepreneurs, who still face unique obstacles in the business world. The network provides comprehensive training and counseling on a variety of topics in several languages.



**Financial Literacy and Education Commission**

[www.mymoney.gov](http://www.mymoney.gov)

1-888-My-Money (696-6639)

MyMoney.gov is the federal government's one-stop shop for financial education resources from more than 20 agencies.

**Consumer Financial Protection Bureau**

[www.consumerfinance.gov](http://www.consumerfinance.gov)

The CFPB's Consumer Tools menu (see main navigation on the website) has useful information for entrepreneurs in two sections: "MoneyTopics" addresses frequently asked questions, key terms, and tools on consumer finance topics of interest, including bank accounts and services. Under "Guides," you will find self-paced guides on topics such as "navigating the military financial lifecycle."

**Federal Trade Commission**

[www.ftc.gov/tips-advice](http://www.ftc.gov/tips-advice)

The FTC's Tips and Advice page includes a "Business Center" tab that has five sections: Advertising and Marketing, Credit and Finance, Privacy and Security, Selected Industries, and Protecting Small Businesses. Each section has videos, self-paced materials, guides, publications, and other information.

**Federal Deposit Insurance Corporation**

[www.fdic.gov](http://www.fdic.gov)

The FDIC encourages bank lending to creditworthy small businesses. It also encourages small business owners with inquiries or concerns about the availability of credit to contact the FDIC Small Business Hotline at 1-855-FDIC-BIZ or [www.fdic.gov/smallbusiness](http://www.fdic.gov/smallbusiness).

Resources for small business owners who want to conduct business with the FDIC are available at [www.fdic.gov/buying/goods](http://www.fdic.gov/buying/goods).

For more information about the Money Smart for Small Business curriculum and the Money Smart Alliance, and to learn about FDIC events, visit [www.fdic.gov/moneysmart](http://www.fdic.gov/moneysmart).

## Local Resources

[To be completed by MSSB Training Host]

## Post-Survey

Now that you've gone through the training, see what you've learned.

1. Which of the following is NOT a banking service? Select all that apply.
  - a. Business checking account
  - b. Business debit card
  - c. Business credit card
  - d. Real estate sales
  - e. Financing receivables
  - f. Line of credit
  - g. Term loan
  - h. Cash management
  - i. Merchant services
  - j. Payroll processing
  - k. Financing fixed assets
  - l. Wealth management (SIMPLE IRA, 401(k), SEP)
2. The Electronic Fund Transfer Act and the Consumer Financial Protection Bureau, which is responsible for enforcing the act, offer protections to consumers, not businesses.
  - a. True
  - b. False
  - c. It depends
3. To help protect against fraud, most banks can link an operating account to a payroll account. The payroll account will have what's known as a \_\_\_\_\_.
  - a. Bond protection feature
  - b. Zero balance feature
  - c. Call provision feature
  - d. Checking account reconciliation feature
4. Positive pay services are a cash-management feature that many commercial banks offer to help protect your account from \_\_\_\_\_.
  - a. Overdraft, so that the balance always stays positive
  - b. Being subject to Automated Clearing House (ACH) and check fraud
  - c. The bank's failure
  - d. Running out of cash when you are a cash-based business
5. Most banks will not permit direct depositing for a business.
  - a. True
  - b. False
6. Which of the following is a cash-management service a bank might provide? Select all that apply.
  - a. Online banking
  - b. Sweep account
  - c. Remote deposit scanner
  - d. Lockbox service
  - e. ACH debit processing

7. Which of the following best describes a lockbox service?
  - a. A service that maintains records on paying employees
  - b. A service in which payments to a business are mailed to and processed by a bank
  - c. A service for accepting and processing online payments
  - d. A service that provides a secure place for business valuables, such as ownership documents
  
8. Which of the following best describes the term “loan guarantee”?
  - a. A promise that a bank makes to keep interest rates at a certain level over a contracted period of time
  - b. A promise to allow a borrower to back out of a loan if it does not suit the borrower’s needs
  - c. A promise that a borrower makes to receive a loan
  - d. A promise made by a guarantor to repay a loan if the borrower does not repay it
  
9. Checking accounts can be coded to sweep funds *from* or *to* a line of credit.
  - a. True
  - b. False
  
10. Select all that is true about FDIC deposit insurance.
  - a. FDIC insurance covers all deposit accounts, including checking and savings accounts, money market deposit accounts, and certificates of deposit.
  - b. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.
  - c. The standard deposit insurance covers 401(k) investments in stocks, bonds, and mutual funds.
  - d. You need to purchase a private insurance policy for standard deposit insurance.

# Evaluation Form

Please fill out this evaluation form for the Money Smart for Small Business Banking Services training.

## Training Rating

1. Overall, I felt the training was (check one):

excellent

very good

good

fair

poor

Please indicate the degree to which you agree by circling a number.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
2. I achieved the training objectives.	1	2	3	4	5
3. The instructions were clear and easy to follow.	1	2	3	4	5
4. The PowerPoint slides were clear.	1	2	3	4	5
5. The PowerPoint slides enhanced my learning.	1	2	3	4	5
6. The time allocation was correct for this training.	1	2	3	4	5
7. The instructor was knowledgeable and well-prepared.	1	2	3	4	5
8. The participants had ample opportunity to exchange experiences and ideas.	1	2	3	4	5

Please indicate the degree of knowledge/skill by circling a number.

	None		Advanced		
9. My knowledge/skill level on the subject matter <b>before taking the training.</b>	1	2	3	4	5
10. My knowledge/skill level on the subject matter <b>after completing the training.</b>	1	2	3	4	5

## Instructor Rating

11. Instructor name:

	Poor	Fair	Good	Very Good	Excellent
12. The instructor made the subject understandable.	1	2	3	4	5
13. The instructor encouraged questions.	1	2	3	4	5
14. The instructor provided technical knowledge.	1	2	3	4	5
15. What was the most useful section of the training?					

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16. What was the least useful section of the training, and how could it be improved?

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## GLOSSARY OF TERMS

**Automated Clearing House (ACH):** The ACH Network is an electronic fund transfer system that processes payroll, direct deposit, tax refunds, consumer bills, and tax and other payments. ACH Network operating rules and guidelines are published by the National Automated Clearing House Association (NACHA).

**Automated Clearing House (ACH) debit and credit processing:** ACH debits are when you provide your authorization to a company to arrange a payment from your bank account to the entity being paid. Direct payment of mortgages and loans are examples of ACH debits from your bank account. ACH credits are when you initiate the payment to be sent from your bank account to the entity being paid. Direct deposit of payroll and government benefit payments are examples of ACH credits that a business would pay to another entity.

**Bundled accounts:** Bundling is packaging multiple types of accounts together—such as a savings account or checking account with a certificate of deposit, credit card, individual retirement account, or consumer loan—to offer bank customers a convenient way to streamline their finances.

**Consumer Financial Protection Bureau (CFPB):** The CFPB is an independent agency of the U.S. government that protects consumers from unfair, deceptive, or abusive practices and takes action against companies that break the law. The CFPB provides information and tools that help consumers make financial decisions ([www.consumerfinance.gov](http://www.consumerfinance.gov)).

**Business banking services:** For the purposes of the Money Smart for Small Business Banking Services module, business banking services are all products and services available to businesses.

**Business credit history:** A record, sometimes also referred to as a business credit file or profile, of a business's ability to repay debts and its demonstrated responsibility in repaying debts (see **personal credit history**).

**Debit block:** A debit block protects your bank accounts from unauthorized electronic charges.

**Disbursement:** The spending, distribution, or payout of money.

**Earnings credit feature:** A daily calculation of interest paid on idle funds that is used to offset banking fees. This feature enables customers with larger deposits and balances to pay lower fees on their checking accounts.

**Electronic Fund Transfer Act (EFTA):** The U.S. Congress passed the EFTA in 1978 to protect individual consumers who engage in electronic fund and remittance transfers.

**Fee schedule:** A list of fees for applications or services provided by financial institutions.

**FICO® credit score:** A number used to predict how likely you are to default on credit obligations. Companies use credit scores to make lending decisions. FICO stands for the Fair Isaac Corporation.

**Lockbox services:** A service provided by banks for companies to receive payments from their customers. Business customers are directed to send payments to a special post office box instead of going to the company. The bank retrieves the payments and deposits the funds into the company's bank account.

**Merchant processing company:** A party that provides transaction processing for a business to accept credit and debit cards. Some banks act as their own card processors, while others sell the services of third parties. For example, banks may issue Visa or Mastercard credit cards, but Visa and Mastercard are card networks, and Total Systems Services provides merchant processing services.

**Merchant services:** A category of financial services used by U.S. businesses authorized by financial service regulators. Merchant services allow a business to accept credit or debit card transactions using online ordering or point-of-sale systems.

**Personal credit history:** A record, sometimes also referred to as a consumer credit file or profile, of an individual's history of managing credit. It includes information on individual credit accounts and those closed within a period of time.

**Point of sale (POS):** A term used for all applicable retail, store, checkout, or cashier systems that process the electronic transfer of payments (that is, credit or debit cards, or mobile payments) for goods or services.

**Positive pay services:** A cash-management feature offered by many commercial banks to help protect accounts from ACH and check fraud.

**Prepaid/preloaded card:** A prepaid card is used to access money that you load onto the card before using it.

**Prime lending rate:** Also called the base rate, this is an interest rate determined by individual banks based on Federal Reserve rates. The rate is used as a reference for many types of loans, such as those to small businesses and large corporations.

**Real-time gross settlement:** The Federal Reserve banks provide a real-time gross settlement system that enables participants to initiate fund transfers that are immediate, final, and irrevocable once processed. Depository institutions and other financial institutions that hold an account with a Federal Reserve bank are eligible to participate. This service is generally used to make large-value, time-critical payments.

**Remittances:** See **wire transfer**.

**Second-chance checking accounts:** These accounts are available for individuals who may have mismanaged a checking account in the past. Second-chance accounts don't

have all the features of standard checking accounts and have higher fees and more restrictions than traditional accounts. They can help people rebuild their banking history and are more convenient than the alternatives of using check cashing and purchasing money orders.

**Security token:** A portable device that authenticates a person's identity electronically by storing certain personal information.

**Settlement:** See **real-time gross settlement**.

**Wire transfer:** Any electronic transfer of money from one person to another. Transfers made from the United States to other countries are considered "remittance transfers" under federal law.

## Appendix 1 : Small Business Financing Checklist

The purpose of this tool is to encourage entrepreneurs to work with bankers, small business counselors, and technical assistance providers or other expert advisors to help them make informed decisions when seeking financing and before signing financing agreements or loan contracts. There are two copies of this form: one for you to complete for Eco-Grow Solutions during Exercise 2, and this one here in Appendix 1, which you should complete for your own business.

### Financing Options Checklist

#### 1. Business Financing Opportunities

- a. Is your small business eligible for a **federal, state, or local government loan guarantee** or other small business program?
- b. Which lenders offer such programs?\*
- c. Have you conducted a **reputational search** of the lenders from which you are seeking financing, or have they been recommended by trusted advisors?

*Note: Seek expert advice to evaluate all financing options.*

- d. Do the lenders offer **business training**, or have you asked for their recommendations for technical assistance?

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#### 2. Financing Agreement/Loan Contract

- a. Have you discussed potential **financing terms** with the lenders, including rates, duration, and covenants to expect in a loan agreement?
- b. Have you **felt pressured** by any lender to make a quick decision on accepting and signing financing documents without understanding them?

*Note: Insist on enough time to get the information and advice you need.*

- c. Are the **lenders available to answer your questions**? Do you have their customer service contact information?
- d. Do you have a certified public accountant, business mentor, or other professional who can help you **review the documents**?

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#### 3. Loan Cost

- a. Do you understand **the loan repayment schedule** and breakdown of the principal and interest amounts due over time?
  - b. Are any financing options **short-term** (less than six months)? If so, have you analyzed other options carefully by comparing the costs of different loans?
  - c. Do you know the **interest rate** on each proposed loan, whether it is variable or fixed, and how it is calculated into your payments?
  - d. What **other loan fees**—including origination, late, or prepayment fees—are there?
  - e. Do you understand the **total amount** required to pay off the loans at any time during their terms?
-



**Financing Options Checklist****4. Payment Terms**

Do the loans require **monthly payments** or a different type of schedule (for example, daily or weekly)?

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**5. Type of Financing**

- a. Are the offers a loan, a **merchant cash advance**, or something else?

*Note: An advance is not debt but provides upfront funds in exchange for a portion of future credit and debit card sales.*

- b. **If obtaining an advance**, are you aware of the repayment process, restrictions, and total cost?
- 

**6. Ability to Repay**

- c. Do the lenders require information to **assess your ability to repay the loans**?
- d. Are the lenders asking how you will **repay the loans**?
- e. Do you know if your **projected cash flow** will accommodate projected loan payments?
- f. Do you understand **what happens if you are unable to repay the loans**?
- a. Do you understand the **risks of losing property that you pledge as collateral** if you don't repay the loans?
- 

\*State or federally sponsored small business programs and loans may have convenient terms. Check the SBA website ([www.sba.gov](http://www.sba.gov)) and state and local government websites to identify programs that apply to your line of business or business ownership structure. This checklist may help you assess such opportunities.

## Appendix 2: Self-Assessment Loan Readiness Checklist

Considering these questions can make it easier when you apply for a loan. If you don't know the answer to a question, don't worry! Lenders will generally work with you to get the information needed to evaluate your application. Provide detailed explanations where appropriate. If your business ownership is divided among various people, each owner should complete the checklist questions marked with an asterisk (\*). There are two copies of this form: one for you to complete for Eco-Grow Solutions during Exercise 3, and one here in Appendix 2, which you should complete for your own business.

### Loan Readiness Checklist

#### PERSONAL INFORMATION

- 1.\* Do I have the past 2–3 years of **personal tax returns**? Am I delinquent or indebted to the U.S. government?

*Note: If you are delinquent or indebted, this could be a disqualification for participating in government programs.*

- 2.\* Do I know how much **cash** and the **value of personal assets** that I have contributed to my business (i.e., owner's equity value on the balance sheet)?

- 3.\* Have I reviewed my **personal credit reports** for inaccuracies? What is my personal credit score?

- 4.\* Do I know **what payments my business can afford** toward a business loan considering all my other income and expenses, and whether I can afford to cover any business shortfalls?

#### BUSINESS INFORMATION

5. Do I have a full and short version of a **business plan**?

*Note: Lenders typically expect 5–10 pages.*

6. Do I have the past 2–3 years of **business tax returns** (including supporting schedules)?

7. Do I have 1–2 years of **business financial statements** and other financial projections, including cash flow? (If not, tax returns generally suffice for smaller business applicants)

- 8.\* Do I have documentation of **business ownership** and changes to ownership over time, if applicable? What percentage of the business belongs to each business partner?

9. Do I know what **corporate structure** my business is registered as (LLC, Sole Proprietor, C-Corp, S-Corp)? Do I have my business incorporation documentation?

10. Do I have a **succession plan** or life insurance policy?

### Loan Readiness Checklist

11.\* Have I reviewed my **business credit reports** for inaccuracies?

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12. Do I have **all other information** and documentation that the lender has requested?

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#### INFORMATION THAT HELPS DETERMINE THE APPROPRIATE LOAN AMOUNT AND TYPE

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13. Do I constantly need money to cover production/service costs that my **cash flow** can't cover?

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14.\* Do I have an existing **relationship with** one or more **bankers or lenders**?

15.\* Do I know how much money I seek to borrow? Have I ensured that the **amount is sufficient for its purpose**?

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16. **Type of Loan:**

- a. **What type(s) of loan(s)** do I need (installment, line of credit, etc.)? Can I explain in detail why I need a loan?
- b. Is the loan for **working capital** or other short-term expenses?
- c. Is the loan for purchasing a **computer or technical equipment**?
- d. Is the loan for **covering expenses** until my customers pay their invoices?
- e. Is the loan for fulfilling a **large order**?

*Note: You must itemize the proposed use of loan proceeds for the lender's consideration.*

---

17.\* What **assets** will I use as collateral<sup>†</sup> for the loan? Will adding business assets, extending personal guarantees, or having a cosigner assist in getting approval for the loan?

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<sup>†</sup>A cross-collateralization agreement is when collateral for one loan is used as collateral for another loan. A cross-collateralization clause in a loan contract stipulates that the property used as collateral for the original loan may also be collateral for any other loans that the customer takes at the same institution. This collateral could include personal assets to satisfy business debts. Talk to an attorney who specializes in financial contract law to understand the full extent of your liability before signing any financing agreements.



**Notes:**

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## **MONEY SMART for Small Business**

**Banking Services  
PARTICIPANT GUIDE**

**2019**