



## If You Don't Want Your Financing Rejected You Need To Know The Answer To These Eight Questions.

### 1. Collateral Damage

#### What Collateral do you have?

Canadian Bankers are very cautious compared to U.S. banks. They want to know that they'll get their money back if the loan is not repaid on time. What assets do you have that they can secure (and sell) if the loan doesn't work out? Do you have any equity in real estate that they can mortgage; or stocks and bonds that they can hold? They are almost certainly lending to YOU, not your business.

### 2. DSR / DSC (Debt Service Ratio or Debt Service Coverage)

#### What's your DSR or DSC?

They will look at your Cash Flow Forecast to see how much free cash flow your business will generate to cover the loan payments. (You do have a Cash Flow Forecast or Cash Flow Statement, don't you?) Bankers want DSRs of over 1.2 . That means that your business has free cash flow that is at least twenty percent more than the loan payments.

### 3. Spending Money

#### How will you allocate the funding?

Your lender wants to know that you know EXACTLY what your start-up costs will be? You should have a detailed list of the items you will need to start the business and their costs. Examples are: Store fixtures - \$26,000; Lighting - \$8,000; Web Site - \$7,000; Opening Event - \$4,500; etc.

### 4. B & E

#### Where do you break even?

Break Even Point or Break Even Level. This is the sales number where your business starts to make monthly profits. If your Gross Margin is 50%, Variable Expenses are 10% and Fixed Expenses are \$8,000 a month; you break even with Monthly Sales of \$20,000. If your sales are less than \$20,000 you're losing money, and if they're higher than \$20,000 you're making money.

### 5. FICO

#### What is your credit score (Credit Rating)?

FICO is an acronym for Fair Isaac Company; they developed the formula that calculates your credit score. Actually, your lender won't ask you for your FICO score; they will check it out themselves. It is a great idea for you to find out your score before you apply for financing. Lenders prefer a FICO score of over 700, and the higher the scores of you and your partners, the better chances you have.



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There are often a couple of simple things you can do to improve your score fairly quickly. You can get a full credit report including your FICO score for under \$25 from either Equifax Canada or TransUnion Canada.

## 6. Eating Money

### **How will you survive while your business is in start-up mode?**

Do the Income Statements show a reasonable salary for you, the business owner? If not, how will you pay your own living expenses?

## 7. Pie In The Sky

### **How realistic are your sales forecasts?**

For start-up businesses, forecasting your sales is one of the most difficult calculations, and in my experience, entrepreneurs usually make the same mistakes. They estimate that sales volumes will be larger and earlier than is usually the case. Most entrepreneurs over estimate their sales and underestimate the time it will take for the first sales dollars to come in. Lenders know this, so be prepared to show the lender that YOUR sales forecasts are really conservative and based on real market analyses.

## 8. Skin Game

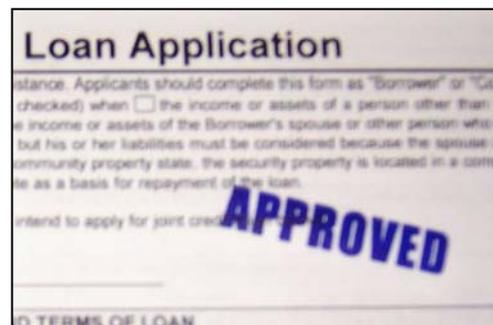
### **How much equity (skin) do you have in the business?**

How much money are you putting in the business compared to how much financing you are requesting? Most lenders want you to have at least one third of the amount you're borrowing. So, if you want to borrow \$75,000, you should have at least \$25,000 to invest in the business.

These tips to help you negotiate with your lender and get the financing you need were prepared by:

Barry Sharp,  
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We've been helping businesses like yours get the business plans they want and the financing they need for nearly 30 years.



**Call Barry now at 1 (800) 661-9842 And Start Building Your Future.**

*Barry Sharp is founder and president of the Vancouver-based consulting firm [AMA Management Ltd](http://www.amamanagement.ca), which provides [business plans](#) and consulting advice for owner-managed businesses.*

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