



## **New Business and Startup Initiative: A Partnership of the SBA, the Federal Reserve Bank, and the SBDCs in the Cleveland District**

*Lending to New and Startup Businesses, though difficult, can be done in a prudent manner given proper due diligence that ensures the success of the entrepreneur so that jobs and wealth are created.*

*Prudent lending ensures that all the right variables or ingredients are in place to make the new or startup business a success.*

**The following is a list of the variables or ingredients that were derived from lender roundtables in the Cleveland District:**

**This is not meant to be a definitive list.**

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**Business Plan:** Showing the viability of the business idea. The business plan should include projected financial statements, including profit and loss, cash flow, and a balance sheet. Projections should be based on realistic assumptions; when possible supported by letters of interest from potential buyers.

**Credit Score:** Borrower must have good personal credit. A low credit score indicates that further investigation should be taken to determine the reasons (i.e. medical, divorce, etc.).

**Equity Investment:** Borrower must have “skin in the game.” There is no 100% financing. Equity of 20-30% -- the more equity the better especially when the lender views the business as inherently risky, such as restaurants.

**Collateral:** All worthwhile business collateral must be pledged, but in the event of a collateral shortfall the SBA guarantee can mitigate the risk.

**Liquidity in Reserve:** A secondary and perhaps a tertiary source is suggested (i.e. a working spouse, etc.). There are always bumps in the road that even a sufficient equity cushion may not be able to cover.

**Cash Flow:** Must have sufficient cash flow to not only amortize the debt but also to cover 6 to 12 months of operating expenses. Loan proceeds can be used to supplement cash flow for the 6 to 12 month period.

**Minimize Initial Cash Outflow:** Examples are home-based business, or renting instead of buying.

**Experience:** Experience in the business or related business experience is a must. If that is not possible, a general manager with experience should be brought in and provided with an equity incentive.