



*The Premier Business Management Firm
For Emerging and Growth Companies*

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Specific Information Lenders Require Before Committing to a Loan

LEGAL ENTITY, LEASES, LEASEHOLD IMPROVEMENTS, EQUIPMENT, AND SIGN

- 1. Legal Entity:** Lenders do not require that you have formed a corporation or limited liability company (“LLC”) when you make application for the loan. However before the lender closes on the loan you will need to have any incorporation documents prepared and filed by your attorney. The lender will require copies of your incorporation documents. The loan will be in the Legal Entity Name with the Owners personally guaranteeing the loan.
- 2. Leases:** Lenders do not require that you have a signed lease to apply for a loan. However you do need to have located the space you plan to lease and to have Letter of Intent (LOI) signed by the Landlord stating the terms of the lease (amount, taxes, common area costs, etc.). If the initial term of your lease is less than the term of your loan, the lease must provide for an automatic renewal so that the lease matches the term of your loan. We recommend that you have a commercial real estate agent help you negotiate the LOI and your attorney reviews your lease before you sign it.
- 3. Leasehold Improvements:** Also called tenant improvements or TI. Lenders do not require that you have entered into a construction contract or agreement with a general contractor before you make application for your loan. However, you must have a set of plans, specifications and at least one bid from a general contractor before they will review your Business Plan. Lenders want to be sure that you have established the actual cost to make the required improvements before they review your loan; lenders want to avoid you having insufficient funds to complete leasehold improvements. Lenders typically will not allow you to act as your own general contractor. Lenders often require the general contractor to have a bond or surety payable to the lender to insure that the general contractor can complete the leasehold improvements or the lender and you can get another general contractor to complete the improvements using the bond or surety of the original contractor.
- 4. Equipment:** Lenders want you to have firm pricing for any equipment that you need to purchase. You are not required to have a signed purchase agreement but you must have a firm price bid on the vendor’s letterhead when you submit your Business Plan. The cost of your equipment must include any transportation, installation or set-up costs, and training if required. Lenders usually require copies of your proposed equipment purchases as part of their review of your Business Plan.
- 5. Sign:** Lenders want you to have firm pricing bids on the vendor’s letterhead for interior and exterior signage. The cost of your signage must include any transportation, installation, and set-up costs.

PERSONAL CASH FLOW

Lenders will often require that you complete a personal cash flow statement. A personal cash flow statement details all of each borrower's monthly and annual income from any source. Personal cash flow is shown on a monthly basis.

Next each borrower will show all of their monthly fixed and variable expenses. The difference between the borrower's total monthly income and total monthly payments is either a surplus or a deficit. A surplus means the borrower has additional cash to use for personal living expenses, savings, or as a "cushion" to help make business loan payments.

If the borrower's monthly payments exceed her/his monthly income then the borrower does not have sufficient income to meet current living expenses or a deficit and it is very unlikely a lender will make a business loan.

The Personal Cash Flow statement also serves as another check for the lender. If the borrower is the owner/manager of the business, and her/his pre-business ownership monthly income after tax is \$4,000, and her/his total monthly expenses is \$3,000 she/he has a surplus of \$1,000.

Most lenders will want the owner/manager to have an annual salary from the business of \$30,000 to perhaps \$35,000 for the first year of the business's operation. A \$30,000 annual salary is \$2,500 before taxes per month and after subtracting her/his monthly expenses of \$3,000 (from the example in the previous paragraph) there is a monthly cash deficit greater than \$500. Unless there is another established source of income from another person (spouse, business partner or guarantor), it is very doubtful a lender will approve the applicant's loan.