DO’s and DON’Ts of WRITING a LOAN PROPOSAL

Loan proposals are typically used by existing businesses to request financing. Loan proposals are also used by those who are seeking financing to purchase a business. The loan proposal is not as lengthy as a business plan; however, developing a loan proposal still requires time and effort to convey the information that a lender needs in order to make a loan decision. Included below are suggestions for do’s and don’ts of writing a loan proposal.

- **Do keep in mind that lender must have information about your business in order to make a decision in a small business loan.** A lender cannot make a decision on your loan request without adequate written information/documentation on the business. A loan proposal is a tool that should be used to communicate critical aspects of your business.

- **Do make sure the information contained in your loan proposal is up to date.** Make sure the loan proposal contains up to date information about your business including any changes in business operations or future plans for the business. Current financial statements should also be included.

- **Do make sure your loan proposal presents a professional image.** While a loan proposal typically contains less information than a full business plan, the loan proposal should still be presented in a professional manner.

- **Do keep the audience in mind when developing your loan proposal.** Typically, lenders see many proposals throughout the course of a year and work with a variety of business types. A lender will most likely not be an expert in your industry, so explain any relevant technical and operational terms in detail.

- **Do make sure that projected sales and expenses are reasonable.** When constructing financial projections, be conservative in estimating your revenues. Lenders may view over-inflated sales as unrealistic and unattainable. Consider all possible costs and avoid underestimating.

- **Do explain how the proposal relates to the financial projections.** You should always include a narrative explaining the assumptions you used to arrive at the dollar value of sales, expenses, etc. You must demonstrate your numbers are reasonable.

- **Don’t assume the process of obtaining a business loan is the same as obtaining a personal loan.** The process for obtaining a small business loan is typically more complex than obtaining a personal loan, auto loan or home loan. More detailed information is required, and it is more challenging to obtain approval.

- **Don’t assume that you’ll have an answer to your loan request in a couple of days.** Obtaining financing for a small business can be a lengthy process. Don’t wait until the last minute to try and obtain a small business loan. It is important to plan for anticipated financing needs.

- **Don’t handwrite your loan proposal.** A handwritten proposal does not convey a professional tone. Provide a typewritten, well-organized proposal to your lender.

- **Don’t keep relevant information from the lender.** The lender has access to your credit history; therefore, do not try to hide financial information. It is important to be honest and open with your lender about all aspects of your business and your personal financial situation.

- **Don’t assume that your lender has the same level of optimism as you do about your business.** Lenders are risk averse, so while it may be clear to you that your business will succeed, you must demonstrate your plan for success to your lender in your loan proposal.

- **Don’t assume that you can pull together a loan proposal in a couple of hours.** It will take time for you to gather all of the documents and information you will need for your loan proposal. In addition, you will have to develop portions of your loan proposal including the written explanation of your business history and future plans, marketing strategies, management and personnel requirements and prepare financial projections for the business.