

Seven Surefire Ways to Sabotage a Loan Proposal

In today's financial environment, banks have plenty of cash to lend but find themselves in a regulatory squeeze requiring that they issue loans only to the best applicants. Best is defined as being closest to zero risk. Gone are the days of the character loan to help you get over a crunch, or a confidence loan to fuel projected growth. A business start-up loan you ask? You had better rely on persistence.

If you are going to obtain a business loan, you need now more than ever, to do your homework. Do not try to take shortcuts with your friendly loan officer. Cover all the bases your first time out.

Here is a quick list of seven common errors or omissions found in failed loan requests.

- 1. Many applicants have not prepared the required documentation to support the loan proposal.** The most common is the omission of a sound business or strategic plan. Not every business loan requires a business plan, especially if the business has a history of a strong cash flow. However, most banks require existing businesses to produce two to three years of financial projections along with a description of the project and history of the business. A new business will need a full business plan to explain its cash requirements and management issues. For existing and new businesses, if a loan officer asks to see a three-year plan and it is not available, management looks bad.
- 2. Many small business owners actually go to a bank not knowing how much money they need to borrow.** Nothing is more frustrating to a lender than hearing, "How much can I get?" Always be specific about the loan amount and provide a detailed schedule that shows how you intend to use the borrowed money. Clearly demonstrate your need, and do not borrow more than you need.



- 3. If you do not document how you intend to pay the loan back, the deal is dead.** Ordinarily, business loans must be paid back through continuing cash flow. To demonstrate repayment, three years of historical financial statements and a current financial statement (balance sheet and profit and loss) are mandatory. Cash flow projections showing the impact of the loan for the first 12 months are a must. Make sure your financials are credible. Poorly prepared statements, especially internally prepared statements, are the kiss of death.
- 4. Many applicants are not realistic about how much and what type of asset-based collateral is needed to put their request over the top.** Don't expect to obtain a long-term loan (five years plus) secured by inventories or receivables (current assets). You must be prepared to reach into your personal net worth and put up the hard stuff, mostly real estate. If you show reluctance to offer what you have, doubt about your confidence and commitment to the enterprise creeps into the application, and the process gets tougher. Don't overstate the quick sale value of collateral; be realistic. Eventually, you will have to get appraisals, and if they come in short, you will have wasted everybody's time.

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5. Aggressive tax strategies that result in no year-end tax obligations because your firm claims no profit will result in no evidence of repayment ability in your application.

Federal tax returns, both personal and business, are the final determinant of company performance and management integrity. Always claim 100 percent of your income, and whatever you do, don't plead to your banker, "It's done all of the time." You've just revealed that there is a huge contingent tax liability looming out there that could result in the business being closed when you're sent up the river.

6. You should not ask the bank to do it all. Some applicants neglect the net worth component of the balance sheet.

If the loan request puts the bank in over four times your net worth, the application is on shaky ground. High debt compared to your stake in the business gives the bank excessive control over the operations, and the bank doesn't want to own your company. Keep things reasonable in owner's draw or officer's salary. Don't raise the possibility that the company is being milked.

7. Before you submit your loan application, go to the library or go to your local Small Business Development Center and find the latest edition of the Robert Morris and Associates' Annual Statement Studies.

The Statement Studies contain composite

balance sheets and income statements for more than 360 industries. This is valuable information for comparing your company to the industry, and more than likely your banker will evaluate your business based on this book or another that is similar, i.e., Dun and Bradstreet.

8. Don't be reluctant to tap into the vast amount of help to get a first-class loan proposal pulled together.

A good loan packager or accountant will charge for this service, but it will be money well spent if you're not sure you can tackle the job yourself. This is especially true if government programs are involved, such as the U.S. Small Business Administration. Preparing and submitting a business loan proposal can be a complex process, but with a common sense attitude and help from your banker, accountant, or a consultant from the Small Business Development Center, it will be a fruitful experience.

Keep in mind that banks are in the business of lending money. If you get turned down, keep trying. Your project may be the perfect loan for the banker down the street.

This section was contributed by Tony O'Reilly. He is the executive director of the Small Business Assistance Corporation and a member of the Georgia SBDC Advisory Council. The original article appeared in the Savannah Business Journal.

Financing Growth Roundtable

TEAM SBA debunks the myths and demystifies the process of bank financing—in plain English. You will learn how your loan application will be analyzed, what underwriting criteria are used, and how banking regulations affect the decision. We will answer your questions based upon your business model. Over the last five years, TEAM SBA has helped hundreds of entrepreneurs gain a better understanding of the financing process. To help you, we require that you have good credit, a solid business idea, and money to invest in your business.

March 18, 2005
9–11 a.m.

No admission charge
To register, please call the SBTDC at
734-462-4438.

This Cooperative Agreement is partially funded by the U.S. Small Business Admin-

istration. SBA's funding is not an endorsement of any products, opinions, or services. All SBA funded programs are extended to the public on a nondiscriminatory basis and available to individuals with disabilities.

Watch your mailbox for additional seminar details or log onto our Web site at:
<http://www.schoolcraft.cc.mi.us/bdc/seminars.htm#government>

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Upcoming Seminars and Events

RESERVATIONS REQUIRED for all seminars

For more information contact the Business Development Center at
734-462-4438 or infoREQ@schoolcraft.edu

How to Start a Small Business: From Vision to Reality

A three-hour seminar designed for those interested in learning a practical step-by-step process for starting a new business. The session will provide participants with a network and resources to use when questions arise.

\$25 per person

January 12, February 9, or March 9, 2005
9:30 a.m.–Noon

January 26, February 23, or March 23, 2005
6–8:30 p.m.

QuickBooks® Basics 2004: A Fast Start to Setting up Your Accounting System

QuickBooks: Basic 2004 gives you fast and easy tools to help save time, organize information in one place and manage business finances with confidence. The seminar is designed to give participants hands-on learning experience in setting-up and using QuickBooks®.

\$60 per person

6–9 p.m.

For more information on upcoming dates,
call the SBTDC at 734-462-4438.

How to Write a Business Plan: Your Road Map to Success

A one-time seminar providing an overview of what is included in a dynamic business plan. It is designed for new and existing business owners who do not currently have a business plan in place. Attendees will receive worksheets that outline the basic items in a business plan, allowing you to complete the plan on your own.

\$40 per person

January 19, or March 16, 2005
9:30 a.m.–12:30 p.m.

February 16, 2005
6–9 p.m.

How to Grow Your Business: Effective Marketing Techniques for Small Businesses

A three-hour, one-time seminar providing a comprehensive guide to re-evaluating your product or service, and how to effectively price, promote and distribute it. The seminar is designed for new and existing business owners who want to get an edge on the competition and successfully compete in the marketplace. Participants will learn how to identify and retain the right customers as well as how to develop a winning annual marketing plan with supporting budget.

\$40 per person

January 20, February 17, or March 17, 2005
6–9 p.m.

Certified: Woman Business Enterprise

The Michigan Women's Business Council invites women business owners to learn what it means to be certified as a Women's Business Enterprise. If you have a product or service that you would like to market to American corporations, here's your chance to explore certification. The Michigan Women's Business Council is a program of the Center for Empowerment and Economic Development, an SBA Women's Business Center. Please call WBC at 734-677-1444 to register for this seminar.

\$25 per person

April 20, 2005
9–11 a.m.



VA'S Center for Veteran Enterprise

Assisting Veterans and Service-Disabled Veterans

The Department of Veterans Affairs' Center for Veterans Enterprise (CVE) is geared toward promoting business opportunities for small, veteran-owned and service-disabled veteran-owned businesses. The CVE provides resource assistance in many aspects of business growth.

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There are more than 5.5 million veteran-owned and service-disabled veteran-owned small businesses in the United States. The CVE's mission is to provide outreach to each veteran's business and advise them of the many programs available.

By supporting and promoting intergovernmental and private sector initiatives, the CVE encourages the growth of veteran and service-disabled veteran-owned businesses. It also coordinates prime and subcontracting business opportunities for veterans with government and private sector buyers.

To better assist veterans nationwide, CVE has initiated VETBiz—the Veteran Business Portal Web site for the federal government. VETBiz, located on the Web at <http://www.vetbiz.gov/>, serves as the VA's central information resource on programs and services available to veteran entrepreneurs wishing to start or expand a business.

VETBiz offers useful links to resources geared toward assisting veterans with everything from business planning to financing.

Eligibility Criteria

Is your firm veteran-owned?

The term "veteran-owned small business concern" refers to a small business concern or publicly owned business that is at least 51 percent owned by one or more veterans. Its management and daily business operations are controlled by one or more veterans. If you were honorably discharged from the U.S. Armed Services, or, for National Guard or Reservists, were activated to federal duty, you have veteran status for this program.

Is your firm service-disabled veteran-owned?

The term "service-disabled veteran-owned small business concern" is a small business or publicly owned business that is at least 51 percent owned



by one or more service-disabled veterans. Its management and daily business operations are controlled by one or more service-disabled veterans, or, in the case of a veteran with permanent and severe disability, the spouse or permanent caregiver of such a veteran. A service-disabled veteran is a veteran with a disability that is service-connected.

What is the minimum disability rating needed to be declared a service-disabled veteran?

Public Law 106-50, the Veterans Entrepreneurship and Small Business Development Act of 1999, does not require any minimum rating. A veteran with a zero percent rating letter is eligible to self-represent as a service-disabled veteran for federal contracting purposes.

What type of documentation is needed?

Federal solicitations contain a provision for veterans to self-represent their status. For prime contract actions with federal agencies, an owner self-represents his or her status by action on the Small Business Program Representation, FAR 52.219-1, or the Offeror Representations and Certifications—Commercial Items, FAR 52.212-3. The owner's signature on the offer is all that is needed to be eligible for federal contracting.

To Contact the Center for Veterans Enterprise

Washington DC Metropolitan Area:
202-303-3260
Toll Free: 866-584-2344
202-254-0238
E-Mail: VACVE@mail.va.gov
Web Site: <http://www.vetbiz.gov>

U.S. Department of Veterans Affairs
The Center for Veterans Enterprise (00VE)
810 Vermont Avenue, N.W.
Washington, D.C. 20420

Excerpts from the CVE website at: <http://www.vetbiz.gov>

Subcontractors: Go With the Flow?

Congratulations! A prime contractor has approached you about performing government contract work and is offering what appears to be a great opportunity for your company. Perhaps you've already entered into subcontracts in the past with the same prime contractor and use the same old contract because, "We've never had a problem before and, besides, we'll work it out if anything comes up." Hidden dangers may be lurking in this approach.

Prime contractors usually send a purchase order and attach numerous pages of clauses. Sometimes clauses are incorporated by reference, listing only the clause by title—without even the text of the clause. It can be difficult and time consuming to find the full text of the clause, let alone the version applicable to your contract, since from time to time these clauses change.

You often face a dilemma: Do I risk losing or delaying this lucrative contract by researching, reviewing and negotiating it with the prime, or do I accept the contract as is and hope everything runs smoothly? The prime contractor states he must include these clauses because the government requires them in any subcontract. This is only partially correct. To be certain, prime contractors are looking out for their interests in the documents they use, but do you think they are looking out for your well being?

First and foremost, you should not sign the contract hoping there will not be a problem. Often subcontractors sign the agreement, only to find out later that the contract weighs heavily in favor of the prime contractor. Many times the prime will make concessions to the subcontractor because the prime needs the subcontractor's skills or services, but won't if the subcontractor doesn't ask. With a small amount of planning and knowledge, you can avoid problems and protect your interests.

The first step is to understand a few basics about the contract. A government subcontract is a hybrid involving both federal contract and regular commercial law. At one extreme, some FAR clauses in the contract between the prime contractor and the government must be flowed-down, or else the prime will be in breach. However, if the subcontract is for a commercial item (defined at FAR 2.101), the number of required flow-downs decrease dramatically.

At the other extreme, the prime contractor may take advantage of the subcontractor by including onerous clauses and special provisions not required by the government but included to give the prime an unwarranted advantage. For example, the prime could attempt to acquire all of the subcontractor's intellectual property, or the ability to terminate the contract at the prime's convenience.

In the middle of this spectrum are a number of clauses that are not required to be flowed-down, but are desired by the prime contractor. Some

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make good business sense to include, others do not. There also may be clauses the subcontractor wants included, but this will only happen if the subcontractor requests it. For example, you want the contract to include a clear expression of what is required in

order for you to get paid, so that once it occurs, you can demand payment. You also may want to clarify or condition the remedies you are providing under your warranty. These are only two examples—there are many more issues that may be important and will only get into the contract if you raise them.

An important and often overlooked clause to consider in the formation stage is a disputes clause. The prime contractor cannot just flow-down this clause from its prime contract because the government's dispute clause is based on the Contract Disputes Act of 1978, which grants jurisdiction to the Court of Federal Claims and the respective Boards of Contract Appeals in resolving disputes between the government and a prime contractor. This statute does not give these forums jurisdiction to resolve disputes between the prime and subcontractor, so the parties will need some other mechanism. This is a topic best addressed before a dispute arises.

Subcontractors can be at an enormous disadvantage if they allow the prime to dictate both the law applicable and the venue (place) used to resolve disputes, without regard to the reasonableness of the prime's demand. For example, a prime contractor with operations around the world could include a clause requiring that all disputes be decided in a foreign country or a distant state where the prime just happens to have an office. Such a provision puts subcontractors in a difficult position and often negates the merits of their position if a dispute arises.

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Upcoming Seminars and Events

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For more information contact the Business Development Center at
734-462-4438 or inforeq@schoolcraft.edu

How to Become a Government Contractor

Did you know the federal government purchases more than \$200 billion of goods and services a year? Find out what it takes to successfully sell your goods and services to the federal government and the State of Michigan. In addition, learn about the services and resources the Procurement Technical Assistance Center has available to help your company with the contracting process.

\$40 per person

January 13, February 10, or March 17, 2005
9 a.m.–1 p.m.

Federal Supply Schedules: Finding Your Way to GSA

General Services Administration Federal Supply Schedules are contracts that allow federal customers to acquire more than 4 million products and services directly from over 8,600 commercial suppliers.

Mike Klewicki a GSA expert, will educate clients on the many mysteries of the GSA procurement arena and FSS. This class is intended for businesses interested in learning about Supply Schedules, buying potential and marketing through a GSA Schedule.

\$40 per person
January 18, 2005
9 a.m.–Noon

Registration Assistance for Government Contractors

Procurement Technical Assistance Center clients looking for assistance completing their Central Contractor Registration, SBA's Procurement Marketing and Access Network (Pro-NET), the State of Michigan Vendor Registration, or any other online registration are invited to the PTAC for this seminar. Counselors will be available to help clients understand and complete their registrations, using the PTAC's computer lab.

\$15 per person

January 19, February 17, or March 24, 2005
9 a.m.–Noon

Wide Area WorkFlow Training

Wide Area WorkFlow is the Department of Defense's secure web-based Electronic-Invoicing Tool created to support DoD's goal of moving to a paperless acquisition process. Required by DoD, the WAWF application enables DoD vendors to submit and track invoices, as well as receipt and acceptance documents electronically. This seminar will explain requirements of WAWF and walk you through the process of registering and using the system for submission of appropriate reports to DoD.

\$40 per person
February 8, 2005
9 a.m.–Noon



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<http://www.schoolcraft.cc.mi.us/bdc/seminars.htm#government>

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Subcontractor also should consider the use of Alternative Dispute Resolution (ADR) such as arbitration, mediation or facilitation to resolve disputes outside the formal court system. Parties often select ADR because it is usually quicker, cheaper and more private than a judicial proceeding. ADR is usually flexible, while addressing the concerns of both parties in a fair and equitable manner. ADR can be a cost-effective alternative to filing a lawsuit to resolve disputes while still maintaining a good relationship with the prime.

The time to examine contract clauses is before you sign the contract, not after. You must con-

sider what obligations you are willing to assume before accepting the work. If you are not willing to comply with the contract as written, you should either pass on the deal or prepare yourself for the inevitable claim you will face when your breach is discovered.

George W. Ash is a member of the law firm of Foley & Lardner LLP in Detroit, where he specializes in government procurement issues. He may be reached at 313-442-6434.

Note: This update provides information of general interest presented in summary form, and does not constitute individual legal advice.

Past Performance Information Retrieval System (PPIRS)

The federal Past Performance Information Retrieval System (PPIRS) contains report cards assessing a vendor's past performance in doing business with the government. It is made available to government source selection officials who use the information as one of several factors in determining which company should be awarded a new contract. Contractors are encouraged to validate their own past performance information and to refer to records in PPIRS when preparing proposals. CCR provides the means to register them as a contractor user. To access PPIRS, the contractor must register a past performance point of contact in the Central Contractor Registration profile and generate a Marketing Partner Identification Number (MPIN). Your CCR POC is the only person with access to your company's active registration therefore you need to contact your CCR POC to establish the MPIN. Contractors may then log onto PPIRS using their DUNS number as a userID and their MPIN number as a password. It takes about a week to update PPIRS with newly activated MPIN numbers. New information is made available every Thursday morning.

Contractors who have successfully obtained an MPIN may find that there are no records available on them in PPIRS. This is either because the contractor has no contracts meeting the thresholds for report cards (in DoD, \$1M for services and information technology and \$5M for systems and operations support, \$100K for federal agencies), or because the reports have not yet been written. Contractors are encouraged to contact their customers to ensure that the reports are written. Information on collection and use of past performance data which is applicable to both

civilian agencies and DOD is identified in the OFPP guide, "Best Practices for Collecting and Using Current and Past Performance Information" available at <http://oamweb.osec.doc.gov/pbsc/library/OFPPbp-collecting.pdf>.

Further information on Department of Defense policies and procedures is available in the Guide to Collection and Use of Past Performance Information, at <http://www.acq.osd.mil/ar/pastperf.htm#policy>. Contractors who are having trouble accessing PPIRS or want additional information should contact the PPIRS Help Desk at (603) 431-9460 ext. 486. PPIRS is available at <http://www.ppirs.gov>.

Excerpt from <http://www.ccr.gov>

Absence of Procurement History

The Army, Navy and Air Force have recently removed all pricing from their procurement history files. The following statement is being used in reference to this issue: *Please see <http://www.usdoj.gov/oip/foiapost/2002foiapost13.htm> for an explanation of recent cases which have resulted in DoD guidance regarding the release of unit prices. Before unit prices are disclosed, the agency must ensure that the release will not result in substantial competitive harm to the contractor. The agency is working to resolve this matter and will restore the procurement history web site if and when it is determined appropriate. No set date has been established.*

Cost-Effective Six Sigma Training

Schoolcraft College Business Development Center offers a new approach to Six Sigma Training. The training is:

- ▶ Cost effective
- ▶ Delivered by experienced, well qualified instructors
- ▶ Offered at a convenient location
- ▶ Starting soon

Six Sigma Green Belt training can cost between \$2,500 and \$8,000 per employee. Schoolcraft College is piloting a program that would allow you to train your employees for \$1,800 per person. By bringing together small and medium size companies, we can create a consortium to take advantage of group pricing and pass the savings on to you.

Customized for Your Business

Each participant will identify a specific project from his or her work environment that will be addressed using the Six Sigma tools and philosophies. In addition, participants will use Minitab for project handling and reporting during this 64-hour program. Contact us for a more detailed description of the program.

We are also considering training consortiums for Supervision and Leadership, TS 16949, and welding. If you are interested in these topics or if you have other training needs, please contact the Business Development Center at 734-462-4441 or email bdc@schoolcraft.edu.

*With more than twenty years experience in training,
we look forward to serving you.*



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