

FACT SHEET

HOW TO PREPARE A LOAN PROPOSAL

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Borrowing money is a common business activity. Typically, a lender requires certain information: the amount of money needed, the intended use, the length of the loan, and how the money will be repaid. A borrower should provide a complete picture of the loan request. This is accomplished through preparation of a well-structured and documented loan proposal.

This publication provides guidelines on how to prepare such a loan proposal. These guidelines will help current or prospective business owners establish good working relationships with potential lenders.

Business owners must plan before developing a loan proposal. Lenders respect and prefer to deal with individuals who make a special effort to plan their financial needs. A well-structured and documented loan proposal demonstrates a business owner's credit risk attributes. It also shows that top management personnel know what to expect from their business.

Focus planning on preparing, writing and shaping a loan proposal for the intended loan officer and financial institution. Planning improves your chances of getting a loan proposal accepted.

Benefits

The standard loan application form is designed to gather the required information, but usually does not adequately describe the business goals and operational strategies or the capabilities of the company management.

Preparation of a well-structured, documented loan proposal provides these benefits:

- It often forces thorough research of a business and development of a written plan for its operation;
- It provides an opportunity to identify company goals and develop appropriate strategies;
- It reduces the time a lender must spend deciding whether to accept or reject a loan proposal;

- It reduces the time a borrower must take to provide additional information to the lender;
- It identifies potential business problems, allowing time for plans or adjustments to be made; and
- It lays the groundwork for intelligent and frank lender/borrower communications.

Format

There is no standard format for preparing a loan proposal. The style and format of an appealing proposal varies among financial institutions and the lending officers within them. In many financial institutions more than one lending officer will review a specific loan proposal. In some cases it will be reviewed by a senior lending officer, other credit department personnel and even members of a special loan committee. A loan proposal must be written and structured in the style and format preferred by the financial institution and the lending officers. Regardless of the style and format of the proposal, it must clearly and accurately describe your business and portray its potential for success.

A loan proposal is usually not required of a potential borrower. It will not cause approval of a poor loan. It will illuminate the attributes of the loan, good and bad.

Some guidelines for preparing a loan proposal are:

1. Identify the lender's informational needs.
2. To enable you to include all pertinent written information, determine who in the financial institution will review the loan proposal.
3. Prepare the proposal in an orderly format that enables the lender to make a decision as quickly as possible.
4. Write and target the proposal for the lender(s) to whom it is to be presented.
5. Be realistic in the proposal and keep it short, factual and to the point. A typed, double-spaced proposal should be seven to twelve pages long, not including supporting financial statements. Introduce the proposal with a one-page cover letter. To expedite the review process, provide at least two extra copies to the lender.

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Table 1. What to Include in a Loan Proposal.

Topic	Number of Pages	What to Cover
Cover page	1	List the name of the business and of the borrower, date of request, amount of money being requested, purpose of the loan, source of repayment, address/telephone number of the business and type of business. Include a table of contents in the second half of the cover page to direct readers to specific information.
Business	4	Explain the business' history, products, industry, marketing strategy, major customers, management structure and key personnel, and number of employees. Also describe the experience and management capabilities of the principals in the company; and, if the business is sole proprietorship, include a resume of the owner.
Proposal	1/2	State the amount of capital requested and terms of the financing requested (time period and length of loan), sources of primary and secondary repayment (sales, profits and collateral), and interest rate desired. Also list and describe any equipment to be purchased as part of the loan request.
Justification	1/2	Indicate why the lender/investor should favorably accept the proposal. Why is the proposal a good loan or a good investment?
Financial statements	1/2	Show in condensed form: a projected balance sheet and a profit and loss statement covering the period for which the loan is being requested, plus historical comparative income statement and balance sheet data for 2 to 3 years. Prepare a cash flow projection for the same period to demonstrate how the loan will be repaid.
The future	1	Comment on where the company will go over the next 3 to 5 years (business objectives, strategies, plan of action).
Supporting information	1/2	This optional section includes provision of the principals' personal financial statements, personal income tax returns and reference letters attesting to their managerial experience, character, honesty and integrity.

An outline of what typically should be included in a loan proposal is shown in Table 1. Modify as needed to suit the lender and financial institution.

Summary

Loan proposals should provide a lender with as complete a picture as possible of a business' goals, operations and financial requirements. It should por-

tray the soundness of a business' operating plans, the capability of its management team, the credibility of its financial statements, its potential profits, and the adequacy of its capital investments. By presenting this type of information, business owners demonstrate that they are on top of managing their business operations and that they are sound credit risks.

For Further Reading

Alexander, Don H. *Banking for the Non-Banker*, Seattle: Don H. Alexander & Associates, 1974.

Bangs, David H., Jr. and William R. Osgood, *Business Planning Guide*, Portsmouth, NH: Upstart Publishing Company, Inc., 1981.

Murphy, John F. *Sound Cash Management and Borrowing*, U.S. Small Business Administration, Small Marketers' Aid No. 147, U.S. Washington, D.C.: January 1972.

Texas Agricultural Extension Service. *Building Strong Relations With Your Bank*, L-1124, College Station: TAEX.

"The Five-Minute Financing Proposal." *The Business Owner*, January/February 1978, pp. 14-15.

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