SUGGESTIONS FOR START UPS AND THOSE SEEKING FINANCING

The Golden Rules for Start-Ups

1) **Cash is King.**
2) **Never spend a penny until financing is arranged.**
3) **Never buy what you can rent or lease until you are profitable and financially strong.**
4) **You need to create a Business Plan to know how much money is needed before profitability is realized, so the very first thing you have to do when you want to start a business (and before you spend any money) is to write a thorough Business Plan to use as a supporting document to accompany and justify a loan request.**

From The Banker's Point of View

1) **The only thing known about the financial projection in a Business Plan is that it is wrong, the question is, how much and in what direction? Businesses can get into financial trouble by doing much better than planned just as easily as doing much worse than planned. Therefore, two more projections should be made – one showing 25% more volume than planned and one snowing 25% less volume than planned. If the borrower can show that either extreme can be handled, he/she is in a much better position to obtain a loan.**
2) **There many places, such as http://score.org, book stores, libraries, software programs and the Web, etc. suggesting what should be included in the Business Plan. As a suggestion, one should give a lot of thought to an original opening sentence and not copy sentences created by software programs the banker has seen dozens of times before. Also, ones chances of getting a start-up loan might be improved if the person making a start-up loan request realizes the banker's role and thoughts when preparing their business plan.**
3) **While all aspects of a Business Plan are read, the three things that Bankers generally zero in on are:**
   a) **The Banker wants to make a loan, but only if the Business Plan and the person requesting the loan can generate a positive "warm and fuzzy" feeling that the loan will be repaid, however,**
      i) **The Banker knows that the Bank has a closet full of previous start-up loans that were never repaid,**
      ii) **The Banker has someone over him, who holds his paycheck, judging him on the quality of his loan recommendations.**
   b) **While all of the information in the Business Plan is important, the Banker basically zeros in on four areas, as it relates to the person requesting the loan and his presentation:**
      i) **How past credit has been handled,**
      ii) **Managerial experience in meeting a payroll and making a profit,**
      iii) **The reasonableness of the pro forma income and expense projections that shows enough profit is generated to repay the loan as well as provide living expenses for the borrower, and**
      iv) **Answers to questions generated by the Banker.**
   c) **If the Banker gets a negative feeling as a result of anything read, heard or learned, the loan request will not be granted.**
4) **Remember that the SBA only guarantees part of a loan, the borrower will need to have collateral for around 25% of the amount he/she wants to borrow.**

5) Even the first contact with the Bank has a bearing on the Banker's judgment. The Banker generally forms one opinion if a person desiring a start-up loan comes into the Bank with a business plan and asks to talk to a Banker about a loan. The Banker forms another opinion if a person desiring a loan plans ahead and phones the Bank and asks to speak with the Banker that handles SBA loans. When connected, he/she states they would like to have a meeting to talk about a business loan and asks what documents, besides the Business Plan, should be brought to the meeting.

Business Organization

1) If the start-up is going to be dealing with the public, which is very litigious, it should never be organized as a sole proprietor or partnership but as an LLC or Sub Chapter S corporation.

2) If the owners of a start up expect to make more than a living wage, the business should be organized as an S Corporation.

3) Proprietors, partners and LLC members pay FICA taxes on all profit they generate. Owners of an S Corporation should pay themselves a minimum salary and take the balance of the profits in dividends. A dividend is not subject to FICA taxes, thereby increasing take home pay by the amount of the FICA tax on the difference between total profit and salary.

4) Proprietors, partners and LLC members bear the expenses of their insurance and medical payments. An S Corporation makes these payments and they are treated as a benefit with the owners only having to pay the taxes on the amount of the medical and insurance payments.

5) Children of S Corporation shareholders can be given some shares of stock that will give them dividends (but not enough shares to put them above the lowest income tax bracket). This reduces the amount of income tax on owner's income and provides money to help pay for children's clothing and school expenses.

6) S Corporation shares should be issued as "No Par" shares, which means they can be sold for whatever anyone is willing to pay.

7) Not all S Corporation shares that are subscribed should be issued. Such unissued shares can be used in lieu of money for various purposes that might arise in the course of business.

8) All start ups should have a mentor (someone who has operated a like business at a profit) and knows the tricks of the trade that will take a start up months to learn. In an S Corporation, stock and or options can be used in lieu of cash.