

How Business Loans Work

How Business Loans Work

For many businesses, managing cash flow is a constant struggle. Even companies with millions of dollars in annual revenue can often find themselves in desperate need of capital. Some small business owners use their personal funds to finance their daily operations. Others pursue financing options with their local bank. Below, you'll learn how [business loan](#) work so you'll be prepared to find the financing options best-suited for your business.

It Starts With A Plan

Financial institutions want to see your business plan before they agree to give you a loan. In effect, they want to ensure their risk is minimal. Your plan should include the amount of money your business needs, how you'll use the money, how you intend to grow your business and the steps you'll take to repay the loan. Most business financing options begin with your business plan.

Interest, Collateral And Personal Liability

Once a bank, credit union, or any financial institution agrees to grant you a business loan, you'll be required to sign a promissory note. This note binds you to repaying the loan amount at a stated interest rate. To further minimize their risk, banks typically ask for collateral to secure the loan. That way, if your business is unable to repay the loan, the bank can take possession and sell the collateral. The collateral can be the equipment your business uses, your accounts receivable and even your company's inventory.

In the event your company is unable to repay a [business loan](#), the lender can sue for recourse. If your business is structured as a corporation, the bank or credit union can sue your company, taking possession of the collateral or the assets of the business used to secure the loan. If you're operating as a sole proprietor, the lender can sue you personally, putting your personal assets at risk.

Getting Started On The Right Foot

Many business owners underestimate the cash flow needed to operate their companies. A business loan can help smooth the rough patches. But, the process of securing a business loan can be confusing to the uninitiated. It begins with a thorough business plan. Once the lender is comfortable that there's little risk in granting you a business loan, you'll agree to an interest rate. Then, you'll offer collateral to secure the financing.

Business loans aren't complicated. But, they do require planning. As your business grows, you'll find more flexibility in your financing options this can include [Commercial Mortgages](#). Until then, your understanding of how business loans work can dramatically influence your chances of getting your next loan.

About the Author

I write for [General Finance Centre](#)

Source: <http://www.spivo.com/articles>