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Land a Business Loan Despite Bad Personal Credit

Approach local bankers, informal investors, and peer-to-peer lenders, such as Prosper and Zopa, and talk up revenue history, accounts receivable, and inventory

By [Karen E. Klein](#)

I started a fabric and quilt shop in 2003 after finding myself a single mom. We expanded in 2007 but had problems with our new building. I found a new location, and my customers love it, but I'm in debt with no working capital, and my credit is shot due to the divorce. My business is sound, but banks are not lending even to folks with good credit. What do you suggest? —C.D., Los Angeles

You're in a tough situation, but so are lots of small business owners. Many people go through [personal problems that affect their credit ratings](#). And a majority of entrepreneurs report that their businesses have had rocky times in the past year, so you're not alone there, either.

But don't overlook the fact that you've got something a lot of entrepreneurs do not: a seven-year track record in business, presumably at least a few years of successful revenue history, and both accounts receivables and inventory. While banks may not lend you money immediately, establish relationships with a few local bankers now, and they may change their minds as you get your credit rating back on track.

DEFINING YOUR GROWTH

Meanwhile, revisit your business plan, suggests [RaiseCapital.com](#)'s CEO Rick Singer: "What is your business trying to achieve? What are its strengths and weaknesses? What do you want to accomplish over the next six to 12 months with this money?" Put together a brief document defining where your business is now and how you want it to grow.

Lenders and investors are typically wary about brand-new business ideas, but your shop's financial track record will count for something with both traditional sources and a few nontraditional funding sources, Singer says. You might tap into the ["friends and family"](#) circuit, if you haven't already. Add some of your most loyal customers to that list, particularly those who have been with you long-term and are invested in your growth.

Suppliers who are small business owners themselves might be another avenue for you. "Mom-and-pops who know you and know your track record of paying on time might be approached without jeopardizing the relationship. Larger corporations don't understand the roots of mom-and-pop shops, so they probably won't have an interest," Singer says.

MODERATING YOUR NEEDS

Depending on how much money you need, you might look to a microfinance organization such as [Accion USA](#), which offers small business loans up to \$50,000.

Moderating how much you need might also help you find a lender at such online sites as [Zopa](#) or [Prosper.com](#), says Prosper's CEO, Chris Larsen. "Someone who doesn't land at the top of the credit spectrum should be

thoughtful about the amount he or she is asking for. For example, do you really need \$5,000, or would \$3,000 be helpful to start? Lower loan amounts for those deemed to be riskier borrowers are more likely to fund," he says.

Prosper has a minimum credit score requirement of 640, so that may count you out. But if you can qualify for even a small loan, and you consistently make on-time payments, you may be eligible after six to nine months for a second loan at Prosper. "If you already have a loan on Prosper that you've been paying on time, this can send yet another signal to the marketplace that you may be more worthy of credit than your credit score conveys," Larsen says.

One of the most helpful strategies for you may be to escape your own negative feedback loop and meet other small business owners who are surviving in this economic climate. Women's entrepreneurial networking groups such as the [National Association of Women Business Owners](#) and [Make Mine A Million](#) are options you might pursue.

"You'll probably find there's more money out there than you knew existed," Singer says. "But if you don't ask, it won't work out. Have confidence in what you've built, and others will be confident also."

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