How to Increase Your Chances of Getting Approved for

EQUIPMENT FINANCING

First Capital
BUSINESS FINANCE

Increase Your Chances of Getting Approved for Equipment Financing

If you're looking to increase your chances of obtaining financing for your equipment, we recommend you try to understand what a finance company is looking at when reviewing your application. Read on below to learn how to make your application a more likely candidate for approval.

Credit Strength (not just credit score, more history)
When it comes to credit, a lot of our previous clients assumed it was only based on their credit score. However, that's not always the case. Depending on the type of financing you're looking for, some programs will look deeper into your credit history, while some programs won't require a credit score at all.

"A & B Credit" programs will typically look at the credit depth, number of trade lines, revolving availability (the amount available on revolving accounts), length of credit history (how long has the applicant established credit), installment history (history of all installment accounts), comparable debt (meaning if the business owner and the business itself has taken out similar type of financing with other finance companies),

"C & D Credit" programs are typically for lower credit grade business owners, who have come across some difficulty in the past with making timely payments to their creditors. These programs don't typically require a specific credit score, but the credit is underwritten differently. Credit history, default payments, collections, judgements, liens, and previous bankruptcies or repossessions are looked at differently. Even business owners who have limited or no credit are typically classified in this group.

Time in Business
As you may already know, the majority of start-up businesses fail. Therefore, lending institutions will look more closely at start-ups, which often results in limited funding amounts. Most programs classify businesses under 2 years' time in business as a start-up. The longer a business has been operating, the more likely it is to get financing. Stating you've been in business for a certain number of years is one thing, but being able to prove it will be required once the underwriter has your credit application. If you have formed an LLC or Corporation, the underwriter will be able to check your start date by searching the Secretary of State where you registered your company. If you are a sole proprietor, you'll need to show proof by providing of the following alternative items:

- Fictitious business name filing/DBA (doing business as) filing
- Schedule C from the year you originated your business
- Insurance policy reflecting the business name from the year you originated your business
- Licensing (some cities/counties require business owners to be registered and have permits or a license to operate)

Keep in mind that even if you are a start-up business, this does not mean you can't get financing. In fact, we offer a wide variety of programs for start-up businesses.

Equipment: Type, Age, Dealer or PP
What some business owners don't realize is the equipment type, age, seller, hours/miles and condition have a lot to do with obtaining financing. First, it's very important to understand that the equipment you're looking to finance must be "business essential." Is the equipment necessary for your business and your type of business?

For example, if you own a restaurant, you should only be looking to finance equipment for your restaurant. You wouldn't be looking to finance a bulldozer, because that is not the type of equipment a restaurant would need to use in its day-to-day operations.

Other details, like the age of the equipment and the hours or miles (if it's a vehicle), are another key point, and in some cases, there are limitations to the age of the equipment. In addition, if you're looking to finance titled equipment (truck/van/bus, etc.) there are sometimes limitations to the number of miles the equipment has. Thankfully, we offer several programs with no limitations on age or equipment mileage. In order to qualify, just call one of our advisors at 888-565-6692.

The seller of the equipment will also have a lot to do with which program you qualify for. Whether you're buying this from a dealer/vendor or a private party, some programs have specific requirements depending on who the seller is.

If you're looking to buy a titled piece of equipment from a private party, it's easier to prove ownership because the seller can provide a copy of the title to show they are the rightful owner. However, if you're buying something that is non-titled, like used restaurant equipment, the seller would need to provide proof that they are the rightful owner of the equipment.

The private party seller can provide different documentation to prove they are the owner, like the original bill of sale or paid invoice from the vendor they purchased it from. If they financed the equipment, they can provide the payoff letter from the finance company or the UCC lien release. In some cases they can also provide an older insurance policy that lists the equipment description or an older tax return showing the equipment being depreciated from their taxes.

Cost of Equipment
Equipment cost is another deciding factor when it comes to financing equipment. Going back to the "time in business" section, if you're a start-up business the finance amount will be limited depending on which program you're looking to use.

For example, most start-up programs limit the financing at anywhere from $25,000 to $55,000. But that doesn't mean you can't get financing for more. There are different ways you can increase your finance amount, and that’s why it’s very important to speak to our advisors so they can help structure the transaction for you.

For larger dollar amounts you’ll sometimes need to provide proof of income, and, of course, we do have programs that don’t require proof of income. Unfortunately, there’s no possible way to list all our programs within this eBook. Guidelines change from time to time, and there are too many variables to list all of them. Again, speaking with one of our advisors will be a great deal of help in figuring out which route you should go down.

Industry
Depending on your industry, there might be some restrictions for specific programs. Some programs won’t allow “high-risk” industries such as adult entertainment, real estate, and oil & gas, to list a few. If you fall into one of those categories, this doesn’t mean you can’t get financing; however, you should speak to us first to see if we have a program that could help or a way to structure the transaction.

There are many reasons why some industries are considered high-risk:

1. **Equipment Type:** Due to the type of equipment, wear and tear on the equipment can be more than normal use (like forestry equipment), equipment that handles hazardous materials (pneumatic trailers transporting fuel), or lighting (LED lighting for marijuana cultivation).
2. **Location or Storage of Equipment:** If the equipment is not always located at your place of business because you might be mobile, this can pose a cause for high-risk. For example, if you are in transportation and doing over-the-road trucking, crossing state lines, the whereabouts and the wear and tear on the truck or trailer would be considered a higher risk versus a trucker who’s doing local work. Local work causes less wear and tear on the truck or trailer, and the asset is typically located within a specific state.
3. **Industry Stability:** Some industries might be more volatile and could pose a risk for instability in the business, which could possibly result in defaulting on the payments. Industries like oil & gas or sand fracking are good examples of volatile industries; there are very busy times, and then when the price of oil drops, there are very slow times.

Income Requirements
Being able to prove income will also be helpful when trying to get approved for equipment financing. A lot of our programs do not require proof of income, but to get better terms you’ll need to provide proof of income.

Additional Collateral
Depending on the strength of the applicant, there might be other solutions to get a transaction funded. Very few finance companies will explore other options once an applicant is declined. However, at First Capital Business Finance, we try to uncover every possibility before tossing in

the towel. A good example would be an application with limited personal or business credit history. Even if they have damaged credit, there are other solutions to get the transaction funded. But don't worry; if the business owner(s) or the business itself owns collateral, there might be other options. Not all collateral will be considered, but you can generally assume that we accept hard assets like construction equipment, manufacturing equipment, farming equipment, and titled vehicles like trucks and trailers. There is also a possibility if you own real property (real estate), whether that be land, commercial or residential property. This option is usually offered when the credit (need to write more)

Co-signers

A very common question from our clients is: "What if I get a co-signer with a better credit score than me?" Unfortunately, commercial financing guidelines are not like consumer financing.

If you have personally purchased a car, and the finance manager at the dealership told you that your credit was not sufficient for their auto loan programs, they would then ask you, "Would you happen to happen know someone who can co-sign with you?" Even if the co-signer was a friend or roommate, the dealership would not think twice! Unfortunately, commercial financing is not that simple.

Finance companies want to have all applicants involved in day-to-day business functions, and fully understand the financial responsibility when financing equipment. The majority of programs only want the business owner(s) on the transaction, though there are some cases where having a co-signer (additional personal guarantor) on the transaction might help.

Some programs will allow non-owners to co-sign but may often require them to be a blood relative. If you are asking a non-owner to be added to a transaction because they might have a better credit score than the business owner(s), it will not improve your rate, nor your terms.

Down Payment

Having the ability to pledge additional capital towards the purchase has advantages, and in some cases, it will make the difference of having an approval or receiving a decline for the financing.

As you have learned throughout this packet, there are times an applicant can improve their eligibility by improving their credit application. One way of doing this is by adding additional capital (increasing your down payment) or lowering your finance amount.

Most programs will have limitations on how much an applicant can get financed for. This can range anywhere from $5,000 to $5,000,000, and obviously the stronger the applicant, the higher the dollar amount you can get approved for.

This is especially important for start-up companies. Lenders want to see applicants have a vested interest ("skin in the game") in this new venture, and one of the best ways to show this is by having the applicant come in with a down payment. Depending on what program you qualify for, the down payment could be anywhere from nothing to 50%. Typically you'll find, the lower the risk, the lower the down payment. This is, of course, in the eyes of the finance company, so if you are considered a "less risky" applicant (someone with good credit, long time in business, and good business credit), the down payment will most likely be very low, if not nothing.

Then you have the other end of the spectrum: someone who might be a "higher risk" applicant (lower credit score, recent bankruptcy, little income, start-up business or very little time in business, or risky business industry). This may result in a larger down payment, anywhere from 10% to 50% down.

There are other factors that come in to play when an applicant has a lower score. If the applicant has lower credit but can provide proof of income, that can actually lower the down payment requirement. Just like we've mentioned before, it's always best to speak to one of our advisors to see what you will qualify for. It only takes a few minutes to set you on the right path for success!