Loan Decision Checklist

LoftyBiz 081 · Borrowing for Your Business: When Debt Helps and When It Hurts

These are examples, not promises. The people and businesses are illustrative. Figures are for general business education, not financial or tax advice. Prices and rates are examples, not recommendations. Results vary. Your numbers will be different. loftybiz.net

A loan is a tool, not a rescue. Debt does not create profit. It moves money from your future to today. Use this checklist before you sign, and again if you need to climb out.

The five-question loan test

1. What cash will this create? Write a number, not a hope. After the extra costs of running the thing you are buying, how much extra cash arrives each month?

2. Does it still work if things go wrong? Cut the expected gain in half. If the loan only works when everything goes perfectly, it does not work.

3. Can you cover the payments with room to spare? Take your average monthly cash left over before any loan payments, and divide it by your total monthly payments. Many lenders like to see at least about 1.25. Set your own bar, and leave room for a slow month.

4. Does the loan match the life of the thing you are buying? A short loan for a long-lived asset squeezes your cash. A long loan for something that is gone in a year means paying for it after it is gone.

5. What does it truly cost, and what are you promising? Ask for the total cost in writing, including fees. Check whether you can repay early without a penalty, and read what you are guaranteeing personally. Have an accountant look over the offer. Keep three months of loan payments in a separate reserve.

Worked example figures (Anneli, wholesale bakery) — labelled examples only, not recommendations

Item	Example figure	Note
Cost of the oven	about $38,000	A labelled example from the video
Loan term and rate	five years, about 8%	A labelled example, not a market rate
Monthly payment	about $770	A labelled example
Extra gross profit a month	about $2,400	After flour, butter, energy and an extra baker
Half-gain test	about $1,200	Still covered the payment
Coverage bar she set	1.5 (lenders often like about 1.25)	Her number came out close to 2
Asset life vs loan term	oven 10+ years, loan 5 years	A good match
Reserve	three months of payments	A safety habit
Payback pace	under three years at this extra profit	A labelled example, not a forecast

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How to work out your cover

Cover = average monthly cash left over before loan payments, divided by your total monthly loan payments. Type your own figures in the Sheet. A higher cover means more room in a slow month. This is general education, not a lending rule for your country.

If debt already hurts: five steps to climb out

1. Look at the whole picture. List every debt on one page: who you owe, how much, the payment, how often, and the full yearly cost, including fees.

2. Stop the spiral. No new borrowing to pay old debt.

3. Fix the leak that caused it. Debt is the symptom. Raise rates if you need to, ask for a deposit on big jobs, and chase unpaid invoices on a fixed day each week.

4. Talk to lenders early. Call before you miss a payment. Explain your plan. Ask for a lower payment or a longer term. A local business support service can help you plan the order to repay.

5. Pay the most expensive debt first. Keep up minimum payments on everything, and send every spare amount to the costliest loan. When it is gone, move to the next.

Worked example figures (Mauricio, car repair workshop) — labelled examples only, not recommendations

Item	Example figure	Note
Fast loans vs bank rate	close to ten times the bank rate	A labelled example of costly short-term debt
Monthly payments before	about $2,100	A labelled example, typed, not modelled
Monthly payments after	about $900	After both fast loans were cleared, in about eight mo
Time to clear the fast loans	about eight months	A labelled example, not a forecast
New habit	a small cash reserve	So the next slow month does not restart the cycle

Warning signs. If you see two or more, stop and get help early, from an accountant, a licensed adviser or a free business support service.

- Borrowing to pay other debt, or to cover a loss that keeps coming back.
- Daily or weekly repayments taking a large slice of your takings.
- Not knowing the full yearly cost of what you owe.

This week

List every debt your business has, with the payment, how often and the full yearly cost. Work out your cover. If a new loan is on the table, run the five questions, test it at half the gain, and ask for the total cost in writing. Keep the list in Systex (our own product, loftybiz.net).

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