

10 Tips to Help You Prepare to Apply for Commercial Financing

Applying for commercial financing can be intimidating. For many people, it is uncharted territory. Here are ten tips to help you prepare to approach a lender or financing broker.

1. Prepare an overview of the business

Prepare a concise overview. Be ready to present what the business does, ownership and management, typical gross margins and average monthly sales. Remember, you are introducing your business to a person who may never have heard of your business before.

2. Be specific regarding the money you need

Many borrowers believe that being flexible regarding the amount of money you need is a positive attribute. It is not. It is best to make your request clear, specific and realistic. This will demonstrate your preparation, knowledge and professionalism. It will build the lender's confidence that you know what you're doing and are a reasonable credit risk.

3. Document how you will use the money

Have estimates, quotes and other materials ready to document how your business will use the money. Be specific. Example: "We will use the funds to purchase [item]. Here is the estimate." Also, do not mix business and personal financing needs in your request.

4. Be realistic regarding when you need the money

A quick timeframe limits the amount of due diligence a lender can perform. So be realistic. As a general rule, the faster a lender is asked to fund a loan, the more uncomfortable they will become and, in turn, the higher your interest rate and fees may be.

5. Know how you will make the payment

Know your financials inside-out and understand how you will operate your business to generate enough cash flow to make the required loan payment. For example, if sales will need to increase, be prepared to discuss your plan to make that happen.

6. Have financial statements ready

Be sure to have your business's financial statements and reports ready and be prepared to speak to them. These materials include: two years of tax returns, current profit and loss statement, current balance sheet, any projections for the business. If you do not have these documents, be prepared to clearly explain why. Missing data makes lenders uncomfortable.

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7. Prepare an inventory of current assets

Prepare an itemized list of everything your company owns that has value. Lenders are interested in inventory, equipment, real estate and other owned assets. Providing this information can help your business obtain favorable lending options and rates.

8. Be ready to discuss existing loan agreements

Be prepared to discuss your business's existing loan agreements and covenants. Lenders need assurance that a new loan will not violate any of your existing covenants and that your assets aren't already encumbered. A lender or broker can assist you with this.

9. Seek and secure expert counsel

The larger the loan, and the more leveraged your business will be, the more important it becomes to have a team of experts to provide you with counsel. Surround yourself and your leadership team with knowledgeable professionals whom you trust.

10. Be opened minded

After reviewing your company's financial picture, including a review of your business's assets, a financing professional may present funding options that are unfamiliar to you or that you haven't previously considered. These options may have additional fees or higher rates, but may better support your business's operational and growth goals.



6 Questions Lenders are Asking in Light of COVID-19

Lenders have expanded their due diligence as a result of the COVID-19 pandemic. They are now asking these additional questions during the loan application process:

- What customers, in what sectors, are generating the majority of your revenues?
- Do you generate revenues on a project basis or under longer term contractual agreements that provide long-term revenue visibility? If by contractual agreements, how far in the future can you project your revenue?
- Why do you think your business will not be/has not been impacted by the coronavirus pandemic, financially and operationally?
- What are your contingency plans in case your business is impacted by the pandemic, or a resurgence of the pandemic, financially and operationally?
- How many and what type of sources of liquidity can you access in case your business slows down?
- Does your business have any major fixed costs or financial obligations that could negatively impact cash flow if revenues drop?