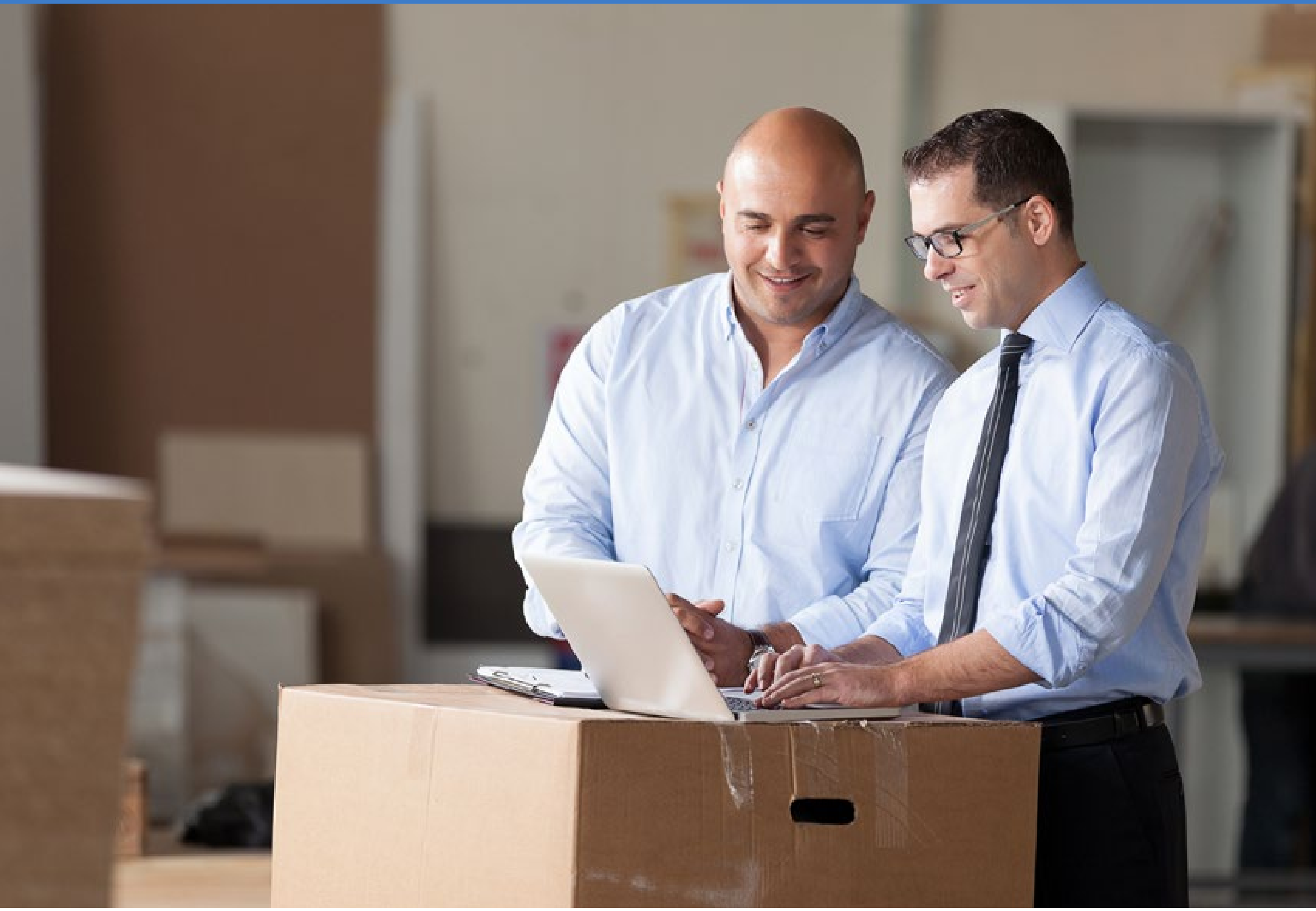

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5 Steps To Prepare Your Business For A Loan

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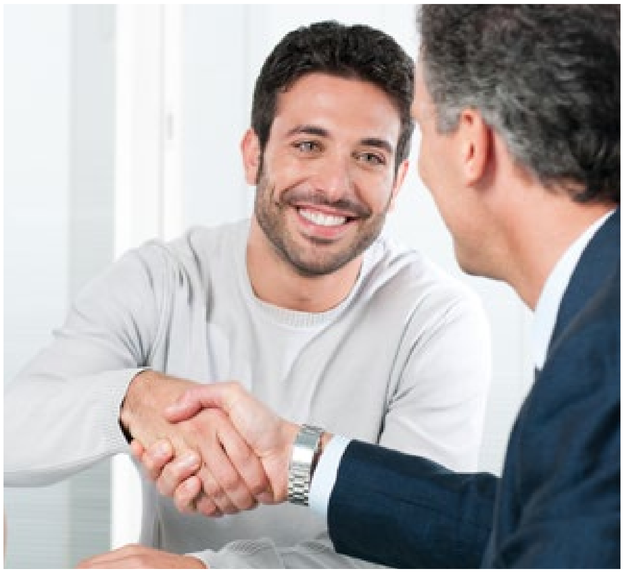
While it's common for businesses of all sizes to seek a financial institution's assistance to finance growth or ongoing operations, some still have questions about how they're evaluated for creditworthiness, and how to prepare for the loan process.

This resource offers a step-by-step guide for business owners, with the goal of providing information that can help would-be borrowers have a smooth loan application process.

STEP #1: DISCUSS YOUR NEEDS WITH A BUSINESS BANKER

When is it appropriate and practical to involve your banker in initial discussions about financing? In short, the answer is "immediately." He or she can provide important value early in the process by providing an overview of your loan options.



Generally speaking, business loans fall into one of two categories: long-term or short-term financing. Which you choose will depend on your business and its needs (current and future). For your banker to provide the most appropriate guidance, it's important that you're able to articulate your reason for needing the bank's help, including the scope of the project and how you believe it will benefit the company. Based on your description, your banker will begin to identify which of these may be your best option:

Long-term loans. Typically used for business expansion, acquisition, refinancing or working capital, long-term loans are usually loans of higher amounts (starting between $50,000 and $100,000) that are repaid monthly on a set amortization schedule. Terms can be anywhere from one to five years (or longer), with lower interest rates than short-term loans.

Some common uses for long-term loans include:

- Business acquisitions
- Commercial real estate
- Commercial real estate refinancing
- Construction loans and build-outs
- Long-term working capital
- Long-term equipment purchases and leases

Short-term loans. Unlike long-term loans, which require monthly payments, short-term loans are due in full at the end of the agreed-upon term. These loans are often used for needs such as the purchase of inventory, cash flow shortages, small projects, etc. There are a number of short-term loan options, including cash advances, invoice financing and line of credit loans.

STEP #2: GATHER INFORMATION

Securing a loan isn't necessarily complicated, but business bankers must review a number of documents and information in order to identify the best financing options for each borrower and determine the borrower's creditworthiness. Part of that information relates to your industry and sales market(s), your potential material price swings, labor needs and other factors. This will help the bank understand the potential for growth and your ability to satisfy orders.

When evaluating the future potential of your business, bankers look closely at the team leading and managing the business. Much of the success of a business is related to the capabilities of those running it, and experience, skills and a track record of success are important here.

SECURED OR UNSECURED?

Loans can be **secured** or **unsecured**. When your lender knows you well and is convinced your business is sound (in other words, a low risk) and they fully expect the loan will be repaid on time, they may be willing to write an unsecured loan, where no collateral is pledged. However, startup businesses will find it difficult to qualify for an unsecured loan, as there is no track record of profitability or cash flow.

A secured loan requires some kind of market valued collateral but generally has a lower interest rate than an unsecured loan. Since lenders expect to use the pledged collateral to pay off the loan should the borrower default, the bank will assign a value to it that's a percentage of its anticipated sale price.

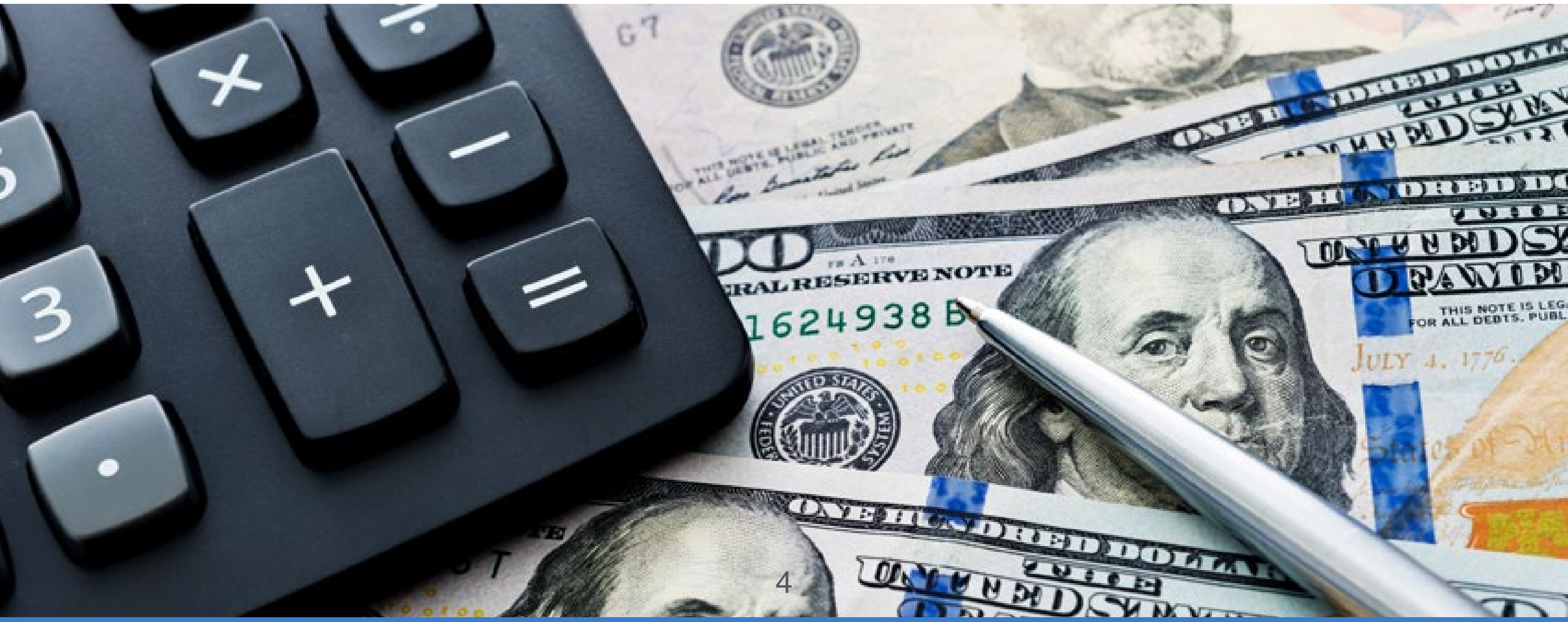
You'll also be asked to present documentation that demonstrates your business's ability to generate adequate cash flow to repay the loan. These documents include:

- The past three years' financials. When meeting with your banker, bring at least three years of the most recent balance sheets, cash flow statements and P&L statements.
- If you've taken out other loans, have these itemized, along with amounts, payments and interest rates.
- If you have loans currently, also provide that as part of your debt schedule. This will include all debts (credit cards, loans, etc.); specify amounts, interest rates and payments.

For a more comprehensive list of things bankers want and need to see prior to deciding on your application, refer to our blog post, The 5 Cs of Credit Analysis.

You may also be asked to provide personal financial information. This includes the past three years' personal tax returns and a personal financial statement. If the loan request represents a large expansion or a startup, expect your banker to want to review a formal business plan. Information about your personal finances is important because, in most cases, you will be expected to use your personal assets should the loan become impossible to repay using the company's cash flow or assets.

Finally, to fully prepare to meet with a bank, you should determine the value of your business. This is the amount a buyer would be willing to pay for your business and its assets today. The valuation will help the banker determine the amount of financing the bank is willing to lend and its interest rate. You may be able to provide a "back of the envelope" value, or you may want or need to engage a professional valuation firm. This will depend primarily on the amount of the loan you're seeking.



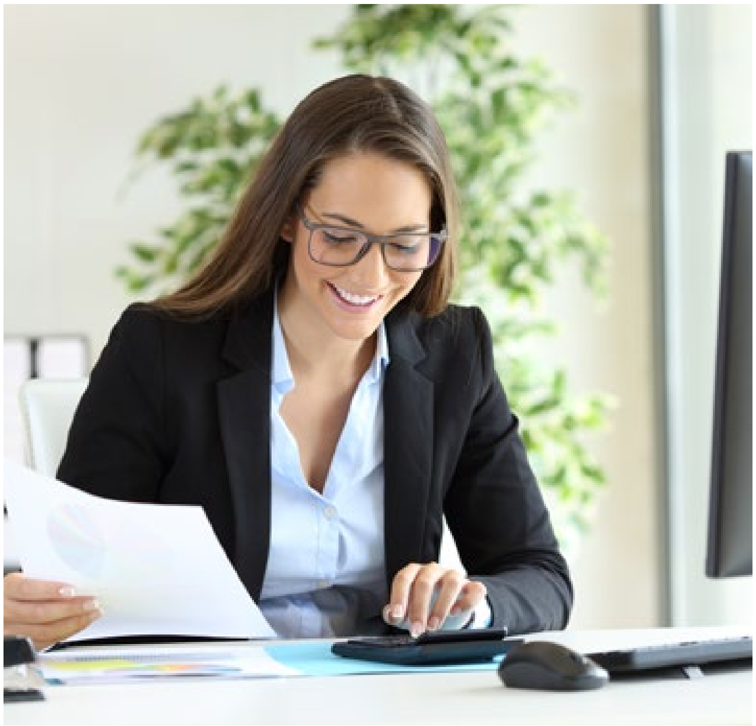
STEP #3: REMOVE POTENTIAL HURDLES

You'll be in a more positive place when applying for a business loan if "your house is in order." Here are some simple steps to take prior to meeting with a banker:

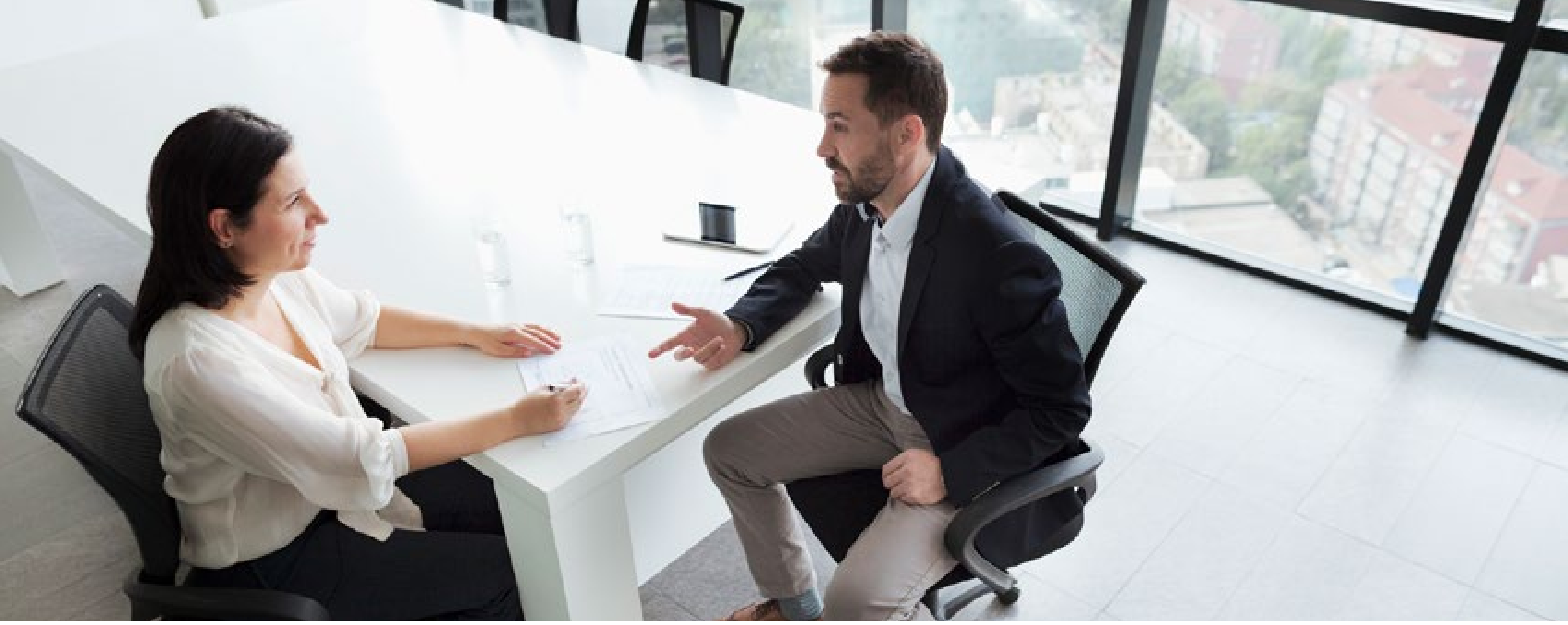
- Make sure there are no "skeletons in the closet" as it relates to your personal credit. In most instances, your banker is going to pull a personal credit report. Do your best to keep a positive payment history and clean up any outstanding issues that are affecting your credit score.

- Resolve any outstanding legal issues – or be able to explain them to the banker. Legal issues aren't uncommon, but a banker will want to understand their potential impact on the future of your business.

- If you have delinquent tax issues, be prepared to discuss their nature and how you plan to handle them.



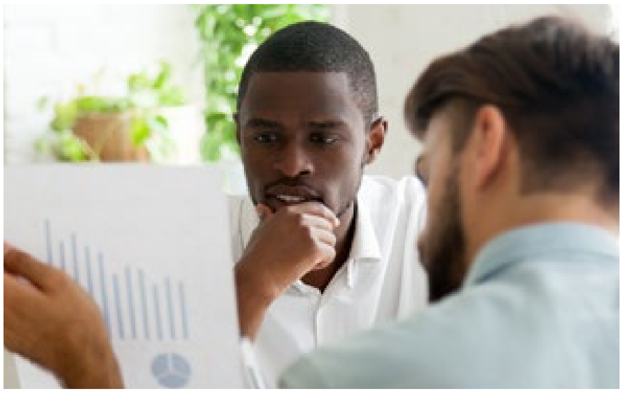
Unresolved issues don't necessarily have an adverse effect on your ability to secure a loan (depending on the severity and nature of the issues), but you must be prepared to explain and discuss them with your banker.



STEP #4: ASK YOUR BANKER THESE QUESTIONS

To make discussions with your banker even more productive, make sure you ask these important questions:

- **What is the bank's loan process?** Knowing what to expect could help you avoid missteps or delays. Seek to understand actions that must take place before the loan may be approved and, once approved, how long a period of time to closing, what must happen prior to closing, and what documents you need to bring to the closing.



- **Are loan approval decisions made locally?** If you're not working with a local/community bank, your loan application may have to be sent to and approved by an "outside" group unfamiliar with your business/industry/markets. This could affect both your approval and the time it takes for the process to be completed.
- **What administrative or reporting activities are required of me?** Some loans may require regular monitoring and/or reporting to help the bank understand the ongoing financial state of the company, and knowing what those requirements are will help you prepare for them.
- **What will our working relationship be once the loan is approved?** Business bankers can be a big asset to a business, especially if they regularly engage with you. Investors Community Bank and our bankers are determined to add value to every customer's business, offering expertise, guidance, insights and practical solutions to help you thrive.
- **What does this mean?** Not everyone "speaks" finance and occasionally bankers may use a term that their customers aren't familiar with. Don't be afraid to ask for clarification and explanations for anything that's unclear.

STEP #5: BE TRANSPARENT

The most important piece of advice we can offer related to the loan application process is to be open and accurate. Withholding information you consider negative will only become more concerning when the banker uncovers it himself or herself. Bankers don't judge; they simply want the facts. In fact, the more information you provide, the better – being forthcoming about any and all relevant information can shorten the decision-making process.

Whether or not you're approved for a business loan depends on many factors; planning, preparing and organizing the right information is only a small part of all that goes into making the decision. The five steps outlined here, however, can streamline the process and demonstrate your commitment to the overall process.

Visit our website today to learn more about our business bankers and start the conversation. Maintaining a trusted relationship with your banker may be one of the best things you ever do for your business.

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