

The Definitive Guide to Getting Loan Ready

Everything you need to know to
apply for a business loan and
resources to help you prepare



Are you considering applying for a business loan, but not sure about the process or what a lender will ask for?

First, you're not alone. Many successful entrepreneurs have questions and encounter obstacles before they succeed in securing a business loan.

Second, this guide is for you! It will lead you through a series of steps designed to inform, empower, and support. While we present this as a linear process, feel free to skip around. Depending on your situation, the order of steps may vary and you may want to work on several at once.

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Demystify Finance and Business Terms with our [Comprehensive Glossary](#)



01 Empowering Entrepreneurs to Take Charge of Their Business Journey

WELCOME! BEFORE WE BEGIN, WE'D LIKE TO EXPLAIN HOW WE APPROACH SUPPORTING ENTREPRENEURS LIKE YOU.

We believe you are capable, creative, and resourceful.

Rather than seeking to fix, we focus on empowering you so you can take charge of your business journey and chart your path.

We understand it can be lonely.

When you are working hard to start or grow a business, it's easy to feel alone. We strive to be a partner and an advisor. We also connect you to other resources so you can strengthen your network and build a team.

We understand we don't all start in the same place.

While we champion your growth, we also understand that entrepreneurs face different challenges and realities.

HOW DO THESE BELIEFS SHAPE THIS RESOURCE?

We breakdown a complicated and potentially overwhelming topic into smaller steps and components.

We also always try to explain specialized vocabulary or terminology.

We point you to other resources and present multiple voices and perspectives.

We hope some will resonate with you and be useful.

We let you choose your path through this material.

Ultimately, this is your journey!

ABOUT CRAFT3

Craft3 is nonprofit community lender focused on building a thriving, just, and empowered Pacific Northwest. We support entrepreneurs — especially those that have been denied access to opportunity — by offering responsible capital and tools, like this guide, to support you on your business journey.

MEET THE CRAFT3 BUSINESS SERVICES TEAM



Aldo Medina Martinez, VP

Business Services Program Lead

“Small businesses are the heart of our local economies, that is why my life's work revolves around empowering immigrant and folks of color to leverage entrepreneurship to create vibrant communities and build wealth for their families.”



Joel Navarrete

Business Liaison

“I am excited to be a part of Craft3 and directly contribute towards community development and financial empowerment for those who need it most.”

02 Unleash the Potential of Your Business with a Solid Plan

A business plan is a roadmap for you and any potential partners and funders. You'll also likely need a written business plan if you are seeking funding for a startup, for business expansion or for a business less than 2 years old.

A business plan:

- summarizes your business, how it is structured, and your plans for the immediate future
- explains who you will sell your goods and services to and how you will find your customers
- analyzes your competition and the competitive advantage your business has in the market
- identifies your strengths, weaknesses and what it will take to be profitable
- A business plan can help you strategize and chart your course. Business plans come in many shapes and sizes. You can find some great resources to help you get started online.

Online Resource

How to get Started on a Business Plan

Developing a comprehensive business plan is essential for launching and establishing your small business. It serves as your guiding force, attracting investors and helping you make critical decisions. A Business Plan can transform your vision into a tangible reality.

Use the QR code to access this guide from Intuit QuickBooks on [How to Write a Business Plan in 10 Steps + Free Template](#).



Just as applying for a loan is a process, so too is creating a business plan. Give yourself time and don't assume you can write one in a single sitting. Also, don't worry if you can't complete every single section. Whatever you can complete will help you and a written business plan is far more valuable than one that only exists in your head.

If you're looking for help, you can connect with your nearest [Small Business Development Center \(SBDC\)](#). You can also find a business mentor through [SCORE](#), a nonprofit that provides free services to entrepreneurs.

Downloadable Resource

Business Plan Template

Your business plan is the foundation of your business. Learn how to write a business plan quickly and efficiently with a business plan template from the [U.S. Small Business Administration](#). The final result will be a set of business plan that:

- summarizes your business, its structure and your future plans
- explains sales, services, and customers
- analyzes your competition and competitive advantage
- identifies strengths, weaknesses, and profitability



Use the QR Code to
download a Business
Plan Template



Our Customers

“Erika saw the value of what we were doing — and the value of myself and Jonathan Garrett my co-founder.” - Sundown H, Chesed Farms, Walla Walla

“When Sundown first connected with me, he had a solid idea but didn’t have a business plan. I recommended he work with the local Small Business Development Center on a business plan. He put in that work, came back to Craft3, and we were able to make a loan for him to build out a new warehouse space.” - Craft3 Senior Business Lender

03 Understanding and Using Financial Statements for Your Business

Understanding, creating, and using financial statements can help you make informed and strategic decisions about how to run and grow your business.

Unfortunately, financial statements inspire fear and anxiety for some entrepreneurs.

Entrepreneurs typically have many skills, but finance and bookkeeping are not always among them. Most lenders, however, will want to see financial statements before making a loan. And basic financial statements are not just a hurdle to jump over to get a loan. They are tools to help you understand your business.

While you don't need to become an accountant, increasing your comfort and understanding of basic financial statements can be very helpful. Below we explain the three most important financial statements:

- Profit and Loss
- Balance Sheet
- Cash Flow

Taken together, these three interrelated financial statements can give you powerful insights into your business' profitability, its financial condition, and expected cash flow. Let's take a high-level look at each one.

Craft3 meets customers where they are

When a creative and talented chef contacted us about a loan to turn his side business into a fulltime venture, he had a solid business plan and delicious products. But up to this point he hadn't done any formal bookkeeping.

We looked at his Square receipts and put together some financial projections before issuing a \$45,000 loan. We're often able to work with entrepreneurs who have strong businesses, but incomplete financials or unconventional bookkeeping.

1. Profit and Loss (also known as an Income Statement)

Generally created monthly, after bank reconciliation, a profit and loss statement lets you track revenue, monitor expenses, and know whether your business is profitable.

You can think of a profit and loss statement as two simple formulas.

Revenue - Cost of goods sold = Gross profit

Gross profit - Expenses = Net profit

Revenue can come from goods sold or services provided. Your cost of goods sold are your costs directly related to the product or service you sell. Your expenses are other, indirect costs not associated with goods sold or services provided, such as rent.

Your gross profit shows you the money available to pay operating expenses such as rent and payroll.

Your net profit shows you money available to reinvest in your business, pay taxes, or pay yourself.

Video Resource

Understanding and Using Financial Statements

Astrid Daniela Galvez, is owner of **ASNBS**, a QuickBooks ProAdvisor and Tax Specialist, and a trusted Craft3 partner. In this video, Astrid walks through the different types of financial statements and how to best utilize them to assess your financial health. Find out where your business is making a profit and identify areas for improvement.



Use the QR code to access a guide from Intuit QuickBooks on [Financial statements: What business owners should know.](#)



Craft3 Pro Tip

Don't worry if you don't understand everything about basic financial statements on your first read through. Take in what you can and feel free to skip parts that are confusing. Come back later and give the section a second read.

Aldo Medina Martinez
VP, Business Services Program Lead

2. Balance Sheet

A balance sheet is a moment in time snapshot of your business' finances. Generally created quarterly, it lists your assets and liabilities.

You can think of a balance sheet as a simple formula.

Current assets + fixed assets - liabilities = net value or equity

Current assets include accounts receivable, inventory, and cash, while fixed assets are less liquid and include furniture, equipment, and property.

Liabilities are often broken down into those due within 12 months and longer-term liabilities such as loans and mortgages.

**AT CRAFT3 WE'RE
COMMITTED TO HELPING
ENTREPRENEURS GROW
AND THRIVE.**

In addition to often being able work with incomplete financials, Craft3 offers resources to help you understand and create your own basic financial statements. Our network of professionals is part of the value of working with Craft3. We may not have all the answers, but we know someone who does. We also can connect you to certified public accountants (CPAs), bookkeepers, and other service providers.

3. Cash Flow

A cash flow statement is future-oriented and models the expected cash flowing in and out of the business. This can help you set sales and expense goals, plan for major expenses, and cope with seasonal fluctuations in sales.

Again, there's a simple formula.

Cash receipts (inflows) - cash disbursements (outflows) = cash surplus or shortfall

Cash receipts typically come from goods sold or services provided, while cash disbursements are your expenses.

Cash flow statements, by highlighting potential shortfalls as well as inflows, can help you determine your need for financing as well as your ability to repay a loan.

We hope this quick overview has helped you see the value of basic financial statements above and beyond the fact that they're usually required when you apply for a loan.

DOWNLOADABLE RESOURCE

[Financial Templates](#)

SCORE's finance templates will help you understand, create, and use financial statements and projections and help you make informed and strategic decisions about how to run and grow your business.

Helpful templates include:

- financial projections
- balance sheet
- profit and loss
- cash flow statement
- personal financial statement

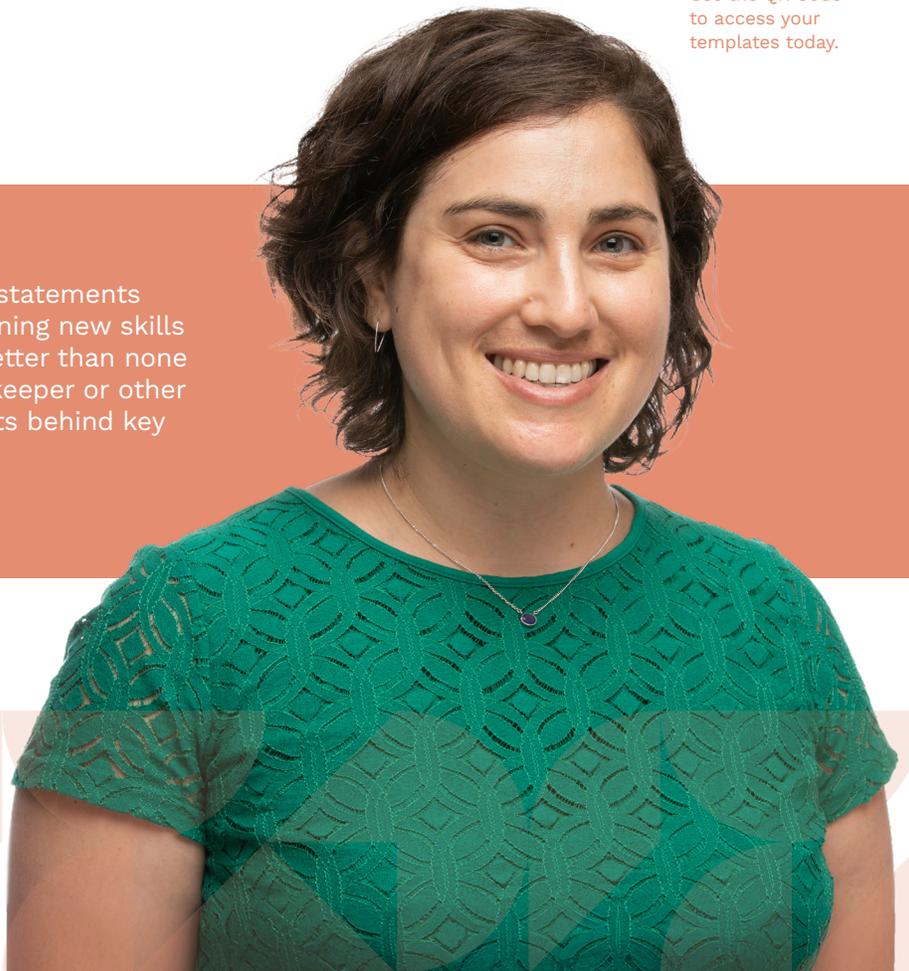


Use the QR Code
to access your
templates today.

Craft3 Pro Tip

It's OK if you're not able to produce financial statements that are up to an accountant's standards. Gaining new skills takes time. Partial financial statements are better than none at all. And if you end up working with a bookkeeper or other professional, understanding the main concepts behind key financial statements is very helpful.

Stephanie Lachman
VP, Business Lender



04 Determine if a Loan Can Help Your Business Succeed

Whatever a loan enables should improve your business and increase your profits.

A loan might help you increase productivity, lower your costs, or grow your sales. If it doesn't do one of those things, then debt likely isn't the answer — at least not right now.

For example, if you're thinking of using a loan to bail yourself out of a difficult situation, that's a red flag. As is not having a clear sense of how a loan will enable your business to succeed.

Do you have a simple and persuasive explanation for how a loan will improve your business?

- Yes. Congratulations! This is an all-important step in getting ready to apply for a loan.
- No. We recommend you don't apply for a loan right now and instead work on your business plan and determine how a loan fits into that plan.

How much can you afford to borrow?

The industry standard measure of this is your debt-service coverage ratio (DSCR). You can calculate your DSCR by dividing your cash flow (the net profit, plus any interest, depreciation, or amortization expenses) by your debt payments.

Your DSCR can tell you how much debt your business can afford.

Let's say you need a \$15,000 automatic pasta machine to really take your lasagna business to the next level. A quick DSCR calculation, however, shows you can only afford a \$10,000 loan.

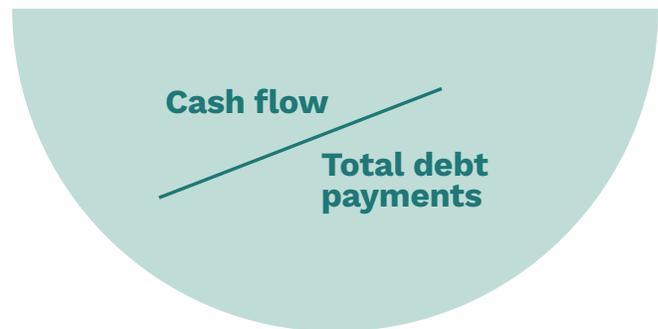
In this case, presuming you have no way to cover the \$5,000 shortfall, taking out a loan that only covers 2/3rds of the project cost is likely a bad idea.

Banks and credit unions will typically look at previous performance to see if that history will let you service the debt you're considering taking on. They often require a DSCR of 1.25 or greater.

At Craft3, we look at historic DSCR, but we also consider projections if your historic DSCR isn't high enough to support the loan.

While we want to connect you with capital, we never want you to take out a loan that isn't likely to help you succeed. Before applying for a loan, make sure you understand how a loan will drive the success of your business and that you seek to borrow only what you can afford. A responsible lender should be able to help you think through both of those.

CALCULATE YOUR DSCR



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05 Prepare to Discuss Your Business with a Commercial Lender

If you determine that your business would benefit from a loan and you're ready to start reaching out to commercial lenders, it pays to be prepared to talk about your business.

Typically, you'll talk to a commercial lender before submitting a full loan application. The lender will want to learn more about you, your business, and your financing needs.

Depending on what they learn, they may invite you to work with them and submit a full application. Or they may let you know why they don't think you're ready to apply quite yet.

If you are working with Craft3, whenever possible, we'll connect you with resources so you can get loan ready or otherwise progress on your business journey.

Talking to a commercial lender is an opportunity to make a positive impression. To help you prepare for this important conversation, the following table lists questions you can expect, tells you what a lender will be listening for, and includes space for your answer and notes.

Craft3 Pro Tip

I talk to a lot of entrepreneurs. I'm listening for their story, their business and what their needs are. I appreciate learning not just about what they're doing for business, but why and how they made the decision to be an entrepreneur. When conversations don't go well, often it's because of unrealistic expectations or lack of guidance.

Andrew Mattingly
VP, Business Lender



We suggest you read through the questions and then add your answers; if you don't yet have a ready answer, jot down some notes and questions to help you arrive at an answer.

Questions About You and Your Business	What a lender is listening for	Your Answers
What is your business?	<ul style="list-style-type: none">- a strong business idea with potential customers- how long your business has existed- the ownership structure of the business	
How does your business make money?	<ul style="list-style-type: none">- what you sell (goods or services)- what you need to be profitable	
What sort of entrepreneurial and/or business management experience do you have?	<ul style="list-style-type: none">- experience and temperament that show you succeed- past accomplishments that will help you in this venture	

Questions About Your Financing Needs and Situation

	What a lender is listening for	Your Answers
What do you need a loan for?	<ul style="list-style-type: none"> - what you will use the money for - how this will improve your business 	
How much cash did you, or are you able to, put into your business and this project?	<ul style="list-style-type: none"> - your commitment to and confidence in your business - your ability to withstand downturns or other unexpected expenses and events that often happen 	
How will you repay this loan?	<ul style="list-style-type: none"> - a clear path to success for your business - historical profitability or projections that let you repay the loan - available collateral (home or other assets) to help mitigate the risks of default 	

Keep in mind that a conversation with a lender is not a job interview or an interrogation. A lender will want to learn the basics of your business and how a loan will help you succeed, but if you don't know how to answer every question that's OK. In that case, a good response can be, "I don't know, let me think about that and get back to you."



Craft3 Pro Tip

Use your cell phone to record yourself answering questions

- This will help you gauge how comfortable and fluid you are. You might want to do a few takes before listening to your answer.
- Listen for parts that are strong as well as areas that might need more practice.
- How long are your answers? Around a minute can be a good approximate target. Much longer and you may be drifting or repeating yourself. Much shorter and you may not be providing the detail and specificity a lender will be looking for.

Megan Hulsey
VP, Business Lender

06 Thinking Like a Lender: Insights for Your Loan Application

Understanding your audience is helpful regardless of the situation.

If you're considering applying for a loan, insights into how a lender thinks can give you an advantage.

While lenders are not all the same, here are a few common concerns:

Lenders want to be repaid

This may border on the obvious, but it's worth keeping in mind. A lender will want to see a clear path to repayment and to understand the assumptions this depends on. Typically, loans are repaid out of a business' profits. As with a home mortgage or a car loan, a business lender will want to see an adequate margin so that if things don't go exactly to plan, there is still a path to repayment.

Lenders are interested in how invested you are in your business

How has your business been financed so far? Have you put cash or other equity into your business? When applying for a loan, are you willing to pledge personal assets?

Lenders want to understand how your experiences, skills and temperament will help you succeed

What have you done previously? What skills have you gained and what obstacles have you overcome? They will want to see that you are persistent and resilient. A lender will also want to know about your capacity and experience in running a business. Can you manage people, cash flows, and systems? If needed, how do you plan to learn new skills?

Lenders want to understand credit challenges in context

Credit challenges can make it harder or even impossible for an entrepreneur to qualify for a loan. At Craft3 we don't assume poor credit is a sign of poor character. We know it's often the result of circumstances beyond a business owner's control and not the result of poor choices. A lender will, however, want to understand the context behind credit challenges. Is there a good explanation? Is there a lack of credit history?

Craft3 can do deals with little collateral, but a willingness to offer personal assets as collateral indicates a confidence in your business that will likely instill confidence in a lender.



“As a banker, I often found myself saying, “No,” to good people with good ideas. Craft3, a mission-driven community development financial institution, can take more risks and make loans banks can't. For example, we're often able to finance good businesses with “bad” credit, so long as there's strong business opportunity and plausible explanations for any credit blemishes.”

Turner Waskom
EVP, Chief Lending Officer

PRACTICE

Practice how you will address the common lender concerns listed in the table below. Add your answers or notes.

How can you demonstrate that you'll be able to repay the loan?	
How invested are you in your business?	
What about experiences, skills, and temperament will help you succeed?	
If you have experienced credit challenges, is there any context that can help explain those challenges?	

07 Simplify Your Loan Application Process with these Document Tips

The final step in getting loan ready is often gathering the supporting documents a lender will ask for.

Here's what Craft3 requires:

- Signed application (NOTE: you can apply with an Individual Taxpayer Identification Number (ITIN))
- Two years of business and personal tax returns
- Personal Financial Statements from anyone who owns 20% or more of the business
- Two years of financial statements (profit and loss and balance sheet) plus year-to-date financial statements

If your business is new (less than 24 months old), we also ask for:

- Projections for the next 24 months
 - NOTE: If your business is established and has a historic ability to service the debt you are requesting, we typically don't require projections
- Business Plan



Gathering these documents and statements will take time

Very likely more time than you imagined. We suggest you start before you apply and break the task down into parts so you're not scrambling or spending a late night pulling everything together. Plus, it will serve you well to have this information readily available. Know that we are focused on simplifying the application process as we can and we aim to minimize the work required for you.

If you are seeking financing from a lender other than Craft3, make sure you know what documents they will require.

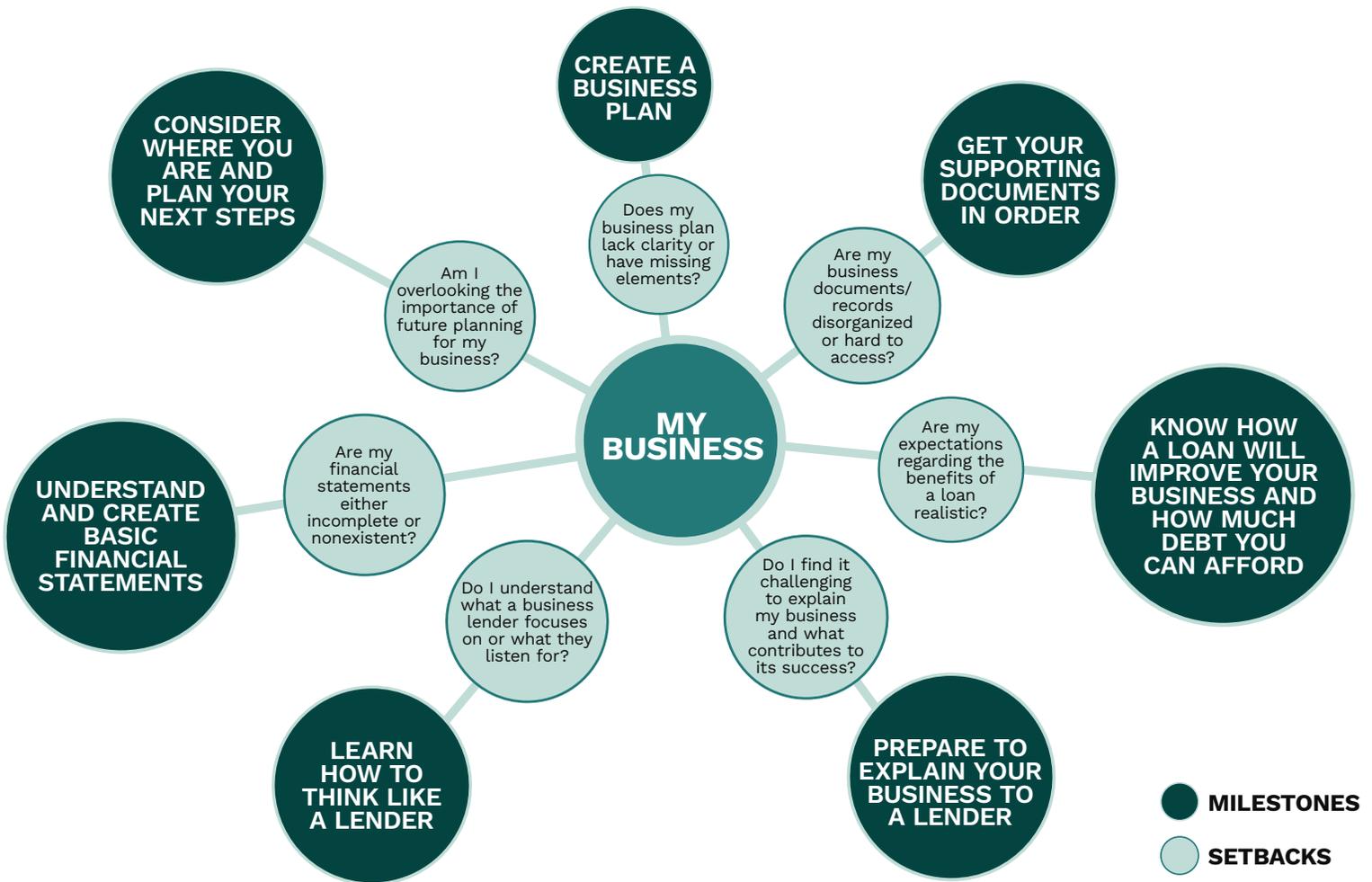
08 Get Ready to Apply for a Loan: Consider Your Next Steps

This resource is focused on what it takes to get ready to apply for a loan.

We hope the information, tips, links, and worksheets we've shared have helped you learn more about the loan application process and provided manageable steps for you to follow.

Now we suggest you take a step back and consider where you are in your journey. The graphic below shows some of the important steps in the getting loan ready journey. Notice that we're presenting this not as a timeline or set series of steps. Rather, we're putting your business at the center and showing you some of the key milestones and potential setbacks.

We understand that the order of steps often varies, that the business journey is typically full of twists and turns, and that you'll likely be working towards several milestones at once.





As you consider the milestones and potential setbacks, ask yourself:

<p>What steps have you completed?</p>	
<p>What do you see as the two most important next steps for you in getting loan ready?</p>	
<p>Are there any potential setbacks that you are worried about?</p>	

09 Plan your Next Steps to Get Loan Ready. Stick with it!

Much like launching a business, getting loan ready is a journey.

It takes time. You may experience setbacks. We urge you to stick with it!

To help you plan your next steps, you might consider your answers to the questions we asked you in the previous section.

What do you see as the two most important next steps for you in getting loan ready?

The two steps that you identified above can help you focus your efforts. In our experience, entrepreneurs are more likely to succeed when they:

- break large tasks down into more manageable steps
- have a plan
- revisit their plan every few months

At Craft3, we stick with entrepreneurs.

We want you to succeed. It's not unusual for us to work with an entrepreneur for months before they submit a loan application. During this time, we may help create financial statements or provide a referral to technical assistance or professional services.

Based on the work you've done and what you've learned, do you think you're ready to apply for a loan?

[Yes, I'm ready to apply for a loan!](#)

You can get started by completing our online [form](https://www.craft3.org/get-started) at <https://www.craft3.org/get-started>.

A lender will follow up with you to schedule a conversation.



[No, there's more work to be done.](#)

If you don't think you're ready now, that can be a valuable realization.

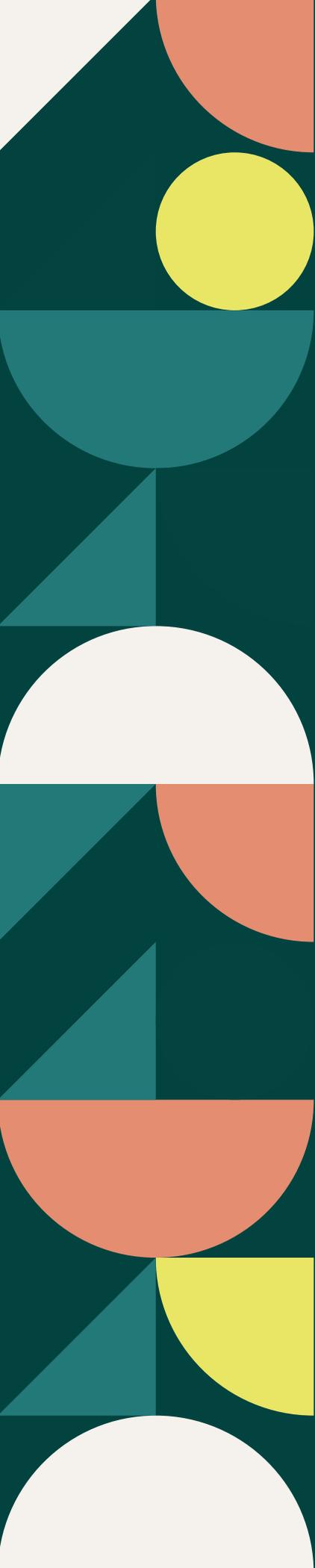
Our [website](https://www.craft3.org/tools/business) features additional tools to support your business journey: <https://www.craft3.org/tools/business>.



Thanks for spending some time exploring this resource.

And congratulations for investing and believing in yourself and your business.

Got questions? Contact us as LoanInquiry@Craft3.org.



craft3

p: 888.231.2170 **w:** Craft3.org
e: LoanInquiry@Craft3.org
s: linkedin.com/company/craft3

Craft3 is an equal opportunity lender,
provider and employer