

GETTING LOAN READY TOOLKIT

Getting loan ready can be daunting and mysterious, but it doesn't need to be. We want to make the process as clear and transparent as possible. And we want to support and empower entrepreneurs, like you.

First, we hope to help you determine if a loan is the answer for you. Is a loan likely to help your business succeed, grow, and be profitable? We'll give you tools to help answer these important questions.

If you decide a loan is the answer, we want to let you know what you'll need to apply and qualify for one. You'll also find resources to support your preparations and help you grow as an entrepreneur.

Thanks to our terrific commercial lending and underwriting team, many of whom shared their expertise to help create this toolkit. Our team (some of whom are listed below) brings a diversity of experience in banking, community development, coaching, accounting and more. They're committed to meeting entrepreneurs where they are and helping them succeed.



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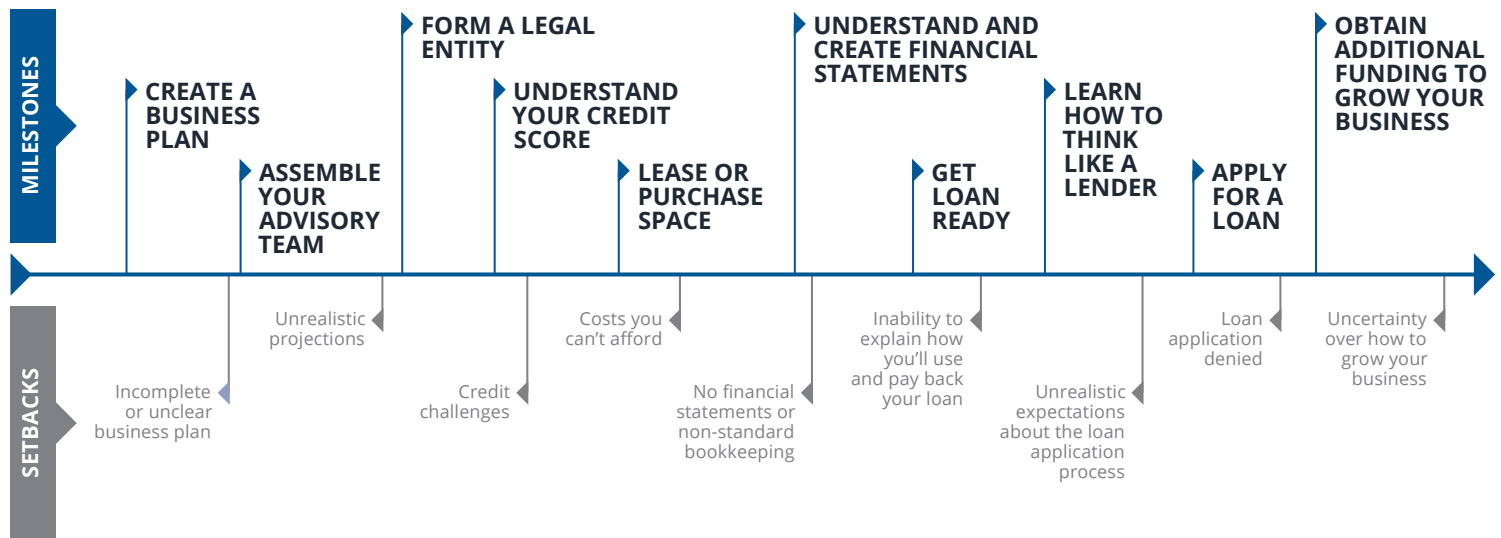
▶▶ STEPS

1. Consider your business journey
2. Assess whether debt is the answer
3. Prepare to talk to a lender

4. Get your supporting documents in order
5. Plan your next steps

▶▶ STEP 1: CONSIDER YOUR BUSINESS JOURNEY

The graphic below shows the business journey as a timeline. In practice, it's often full of twists and turns, and the order of the steps can vary depending on your business and your situation. **Applying for a loan is rarely one of the very first steps and it's also never the last step.**



The tasks below can help you decide whether you're ready to apply for a loan or if your energies would be better directed elsewhere.

- Where are you in your business journey?**
Mark the steps you feel you've completed with a check.
- Consider the work that remains**
Circle what you see as the two most important next steps for your business.

▶▶ STEP 2: ASSESS WHETHER DEBT IS THE ANSWER

A loan can propel your business forward and help you succeed. But debt can also be a weight that holds you back. Before you apply for a loan, we recommend you ask yourself two questions.

How will a loan improve your business?

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 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.

WHAT IS A BUSINESS PLAN?

A business plan describes your company, explains the products or services it offers, and outlines goals and plans.

A business plan can help you strategize and chart your course. Many lenders or other funders require one, especially if you're a startup business. You can find resources and templates at [Small Business Administration](#) and [Small Business Development Center](#) to help you create a business 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.

$$\text{Calculate your DSCR} = \frac{\text{Cash flow}}{\text{Total debt payments}}$$

- » Don't worry if you don't have exact figures. An estimate can still give you a rough idea of how large a loan you can afford.

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.

▶▶ STEP 3: PREPARE TO TALK TO A LENDER

Once you've determined that a loan could help your business and that you're ready to apply, you'll likely have some work ahead of you. 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 this is the case, 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 table below lists questions you can expect, tells you what a lender will be listening for, and includes space for your answer and notes. **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 answer and notes
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 answer and notes
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"> » 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 	

Tip: Practice answering the questions above. Record yourself on your cell phone and listen to your answers to learn about your strengths and areas that might need more work or practice.

▶▶ STEP 4: GET YOUR SUPPORTING DOCUMENTS IN ORDER

When you do apply for a loan, you'll need to submit supporting documents. Here's a list to help you know what to expect and get organized.

APPLICATION CHECKLIST

All applications require

- 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

▶▶ STEP 5: PLAN YOUR NEXT STEPS

We hope this toolkit has helped you determine whether you're ready to apply for a loan. Take a moment to review Steps 1-4 and consider your responses to the questions we've posed.

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

YES

You can get started by completing our [online form](#). A lender will then follow up with you to schedule a conversation.

NO

If you don't think you're ready now, that can be a valuable realization. Our website features additional [Resources to Support Your Business Journey](#).

We'll also keep in touch over email and send you regular tips and resources.

HAVE A QUESTION? LOOKING FOR HELP?

We're here for you. Email LoanInquiry@Craft3.org or give us a call 888-231-2170 ext. 505.

FEEDBACK

LET US KNOW WHAT YOU THINK

We made this Toolkit for you. We hope it's useful! We'd love to hear any feedback you'd like to share as that will help us improve. Marketing@Craft3.org