

# How to Prepare a Loan Package

Text File

## Slide 1 How to Prepare a Loan Package

Welcome to SBA's online training course, How to Prepare a Loan Package. This program is a product of the agency's Small Business Training Network and is championed by the Office of Entrepreneurial Development.

## Slide 2 Introduction

The course is a self-paced training exercise designed to provide a basic overview of loan packaging. It is a practical program with real-world examples and helpful tips. The course is directed to small business owners who are interested in borrowing money ---- to start, grow or expand their businesses. You will find the course easy to follow and the subject matter indexed for quick reference and easy access. It will take about 30 minutes to complete. Additional time will be needed to review included resource materials and to complete the suggested next steps at the end of the course. The highlighted "next steps" at the conclusion of the program are an integral component of the course. They will help you apply what you have learned and engage you in the process of borrowing money.. When you complete the course, you will have the option of receiving a printed Certificate of Completion from the SBA.

## Slide 3 Course Objectives

This course has three key objectives:  
One, describe how to prepare a loan package for a lender.  
Two, explain how a lender will evaluate your loan request.  
And three, provide access to resources that can assist you in preparing a loan package.

## Slide 4 Course Outline

There are eight topic sections within the course. Each section covers a different aspect of loan packaging. The course leads with "full disclosure" – that is, candid facts about borrowing money. It then describes what a lender will need to know about your loan request and how to comply. It also covers in some detail, the components of a typical loan package and how to put the materials together in a meaningful way.

## Slide 5 Course Outline (cont)

Practical packaging tips are also provided to help prepare you before speaking with a lender. In addition, the training provides an overview of how your loan request will be reviewed. Care is taken to help you understand how a lender will evaluate your request. It also provides several "next steps" to start you in the process of preparing a loan package for a lender.

Lastly, numerous additional resources are identified to assist you.

You will notice a button in the top right section of each slide that says Course Outline. Clicking on that button will bring you to the course outline – which will give you quick access to any section of the course.

OK, let's get started. To advance to the next section, click on the continuation button on the bottom of your screen.

### **Slide 6 Full Disclosure**

In the spirit of full disclosure, several important issues need to be addressed upfront.

**First.** There is no such thing as 100% financing. You will be required to put money into the business, before a lender will provide financing. In some cases, some lenders will recognize “sweat equity” as a contribution to owner’s capital.

**Second.** Your credit history is important! If there are any credit issues that can be remedied, before meeting with a lender, do so. A lender may be able to make exceptions if you can document that a negative credit report was due to circumstances beyond your control. If this applies, include a detailed written explanation with supporting information in your loan package.

**Third.** A lender will probably ask for a personal guaranty, even if you are incorporated. It is unlikely this can be avoided.

**Fourth.** There is no such thing as a government grant for individual small businesses. Contrary to what some unscrupulous sales pitches will suggest, there are no government sources, including the SBA, that provide free money for opening or growing a for-profit small business. If it sounds too good to be true, it probably is.

**And lastly,** SBA does not lend money directly to small businesses, for any purpose, other than disaster assistance. Rather, SBA is a guarantor. It guarantees loans made by lenders to small firms. SBA provides a level of security to lenders, so they will provide financing to small businesses who might otherwise not be able to obtain financing from a lender.

### **Slide 7 So You Think You Need A Loan**

Getting a business loan is an age-old problem. Most entrepreneurs find it to be one of the greatest struggles they face.

While the process can be time consuming and even frustrating, your chances of being successful are greatly increased, if you are informed and well prepared.

Being informed..., means doing your homework and understanding the borrowing process. ---- Being prepared..., means putting together a meaningful loan package that addresses the most common questions a lender will ask.

Questions such as: - What is the specific purpose of the loan? - How much of a loan are you requesting? - When and how long will you need the funds? - How will the loan will be repaid? - What collateral can be used to secure the loan? - and, Will you provide a personal guaranty?

Answers to these questions, as well as supporting documentation are essential to the lending decision and will shape your lender’s response. Let’s look at each of these items.

### **Slide 8 Loan Purpose**

Clearly defining the purpose of a loan request is critical. A lender will review your financial requirements based primarily on two types of capital infusions, working capital and growth capital.

- Working capital is used to meet fluctuating needs that will be repaid during the company's next full operating cycle, generally one year.
- Growth capital is used to meet needs that will be repaid with profits over a select period of time - usually not more than seven years, although some SBA financing options may provide a longer loan maturity. If seeking growth capital, you will be expected to show how the money will be used to increase profits sufficiently to repay the loan in the agreed-upon time frame.

### **Slide 9 Loan Amount**

How much of a loan do you need to support specific business needs? This is the question you should address, NOT, how much can I borrow?

Clearly defined business needs should be tightly aligned with the amount of financing you are requesting. How accurately and convincingly you speak to this --- will often determine your lender's interest in your request and set the tone for further dialog.

Remember, 100% financing is not an option..... And, never ask to borrow money you don't need.

### **Slide 10 Loan Maturity & Terms**

A lender will want to know how long you need the borrowed funds.

The reality, however, for working capital or asset-based loans is that the loan maturity will be tied to the amount of time needed to satisfy specific cash flow issues or the life expectancy of the asset being purchased.

For instance, working capital loans or lines of credit would have short-term maturities, typically under one year. An asset-based or equipment loan, perhaps to purchase a business vehicle or machinery, could have a maturity tied to the lifecycle of the asset. This type of loan, typically would have a maturity of three to seven years. The key exception would be SBA guaranteed loans. Such loans could have maturities greater than ten years.

### **Slide 11 Repayment**

Loan repayment is a **big deal** to a lender. You should give serious and careful consideration to how your business will repay a requested loan.

A lender will examine past and projected financial statements to determine if your company can and will generate sufficient cash flow to service new debt, with on time payments. Remember, the lender will be looking for documented evidence and assurance that a given loan can and will be paid on-time and in full.

A lender's concerns are no different than your-own. If you were going to lend money to a friend or acquaintance, you would want assurances that the debt will be satisfied --- as agreed.

### **Slide 12 Collateral**

Collateral is another major piece of the financing pie. Lenders find comfort in using collateral to secure a loan. Remember, its all about lowering risk.

The question will be asked ----- so you might as well prepare yourself. What collateral do you have, or will you acquire with loan proceeds, that is available to secure your loan request? Examples of collateral include: real estate, inventory, savings, stock, equipment and motor vehicles.

For instance, a lender may secure a working capital loan with inventory and accounts receivable. In another example, a lender may secure an asset loan with the asset or equipment being acquired. In both cases, the lender would probably ask for a personal guarantee as well.

Lenders can be very creative in using collateral to secure a loan. Consider all of your options.

To prepare yourself, identify available collateral, estimate its value and be prepared to provide supporting documentation to justify its worth.

### **Slide 13 Personal Guaranty**

It is almost a certainty that you will be asked to provide a personal guaranty, if you borrow money for a small business. It matters NOT, that your business may be incorporated.

As we said earlier, it's all about lowering risk. A personal guarantee means that you are willing to pledge your personal assets to protect the lender, in a situation where you are unable to re-pay the loan.

### **Slide 14 Components of a Loan Package**

OK... Let's now consider what a loan request package should look like. It is important to point out..., loan packaging is not an exact science. In fact, loan packaging means different things to different people. A good package will tell a compelling story and answer most, if not all questions, a lender may have about your business and loan request. It will provide enough information and documentation so that your loan request is clearly understood and that your lender could discuss and defend it before a loan committee. There are three major components of a loan package, with some components containing multiple parts. Again, this is not an exact science and different lenders require different things. However, for our discussion and general purposes, we will focus on the following components: statement of purpose, business plan and financial statements.

### **Slide 15 Statement of Purpose**

The statement of purpose is a critical component of the loan package and is sometimes developed within a letter to a specific lender or is otherwise labeled the "executive summary" and is attached to the business plan.

How it is done is up to you..... What's important is that it be well written and informative, as it's likely to be the first thing the lender reviews.

It should include information about the request in terms of amount, purpose, duration, repayment and available collateral. It also should include a brief description about the business and include a crisp narrative outlining the positive effects the loan will have on the business.

Finally, this statement of purpose should include one or several paragraphs describing the amount of capital invested by the owners.

### **Slide 16 Business Plan or Plan Excerpts**

Having a comprehensive, well-thought-out business plan is essential to the financing process. You need a business plan before a lender will provide a loan. In fact, without one, even approaching a lender may be pointless.

A good loan package will include a current business plan or key excerpts from your plan. In addition to the statement of purpose, just discussed, and financial statements, which will be discussed in the next section, your loan package should include a current business plan or plan excerpts, with at least the following sections:

- \*Business description & vision
- \*Market definition and analysis
- \*Description of products and services
- \*And, a brief overview of your organization and management

If you do not have a business plan, or if you are not familiar with the components of a business plan, it is highly recommended that you take the time to educate yourself and to thoughtfully develop such a plan. At the conclusion of this course, there is section called “other resources.” You will find, in that section, a free online tutorial on how to prepare a business plan. Consider visiting the tutorial.

### **Slide 17 Financial Statements**

Financial statements are a critical and necessary component of a loan request package. They tell a story about the financial capacity and performance of a business.

A well prepared package will include four types of statements: cash flow statement, income statement, balance sheet and personal financial statement.

Each of these statements is discussed in the following sections.

### **Slide 18 Cash Flow Statement**

A cash flow statement is used to monitor and project incoming and outgoing cash, typically on a monthly basis. It helps you and your lender determine how much cash your business will have on hand at any point in time. If your business has or will have a negative cash position, it means that at a given point in time you have more money going out than coming in and you will probably not be able to pay your bills. Obviously, this type of information will get a lender’s attention.

Your package should include a current twelve month cash flow statement, projected for at least six months out. All cash projections should be realistic and supported.

Click on the hyperlink to view an automated Cash Flow Statement Template. Use the template to compose a current and projected cash flow statement when you are ready.

### **Slide 19 Income Statement**

The income statement is a measure of how a business has performed over a specific period of time, usually six months or one year. It measures all income less all expenses to arrive at the amount of profit or loss generated by the business for the period.

If your business is a new venture, your loan package should include a projected income statement, projected for twelve months out. If you are an existing business with a history, include income statements for the last three years, if available. Your lender may also request a current interim-income statement.

Click on the hyperlink to view an automated Income Statement Template. Use the template to compose an income statement for your business.

### **Slide 20 Balance Sheet**

The balance sheet represents the basic accounting equation: assets minus liabilities, equals net worth. It is a snap-shot of business financial capacity at a specific point in time.

If you are a new business, your loan package should include a balance sheet representing assets and liabilities, as of your planned opening date, and another, projected for twelve months after your opening date. If an existing business, include balance sheets for the last three years, if available. Click on the hyperlink to view an automated Balance Sheet Template. Use the template to compose a balance sheet for your business.

### **Slide 21 Personal Financial Statement**

A personal financial statement is a simple balance sheet measuring net worth. It identifies personal assets and debts to help a lender determine a borrower's net worth.

This statement is important to the overall loan request, because it helps the lender evaluate a borrower's financial capacity and ultimately the value of the personal guaranty.

Click on the hyperlink to view a Personal Financial Statement. Use the form to compose a personal financial statement your loan package.

### **Slide 22 Loan Packaging Tips**

OK..... We have talked about what a lender will want to know and what should be in a loan package. Let's now consider some helpful tips in pulling it all together. The loan package should:

- Be brief, to the point and easy to read. This is important.
- It should emphasize the management strength of your business. Convince the lender that you and your team have the skills, passion and expertise to be successful.
- Your loan package should present attractive projections that paint a realistic picture with substantiated assumptions
- Throughout the package you should weave in the theme: "this is how you will get your money back." Lenders want to know how and will they will get their money back.
- Importantly, proofread what you prepare. Better yet, have someone else go through it for spelling, grammar and style.
- And finally, learn from your mistakes. If you get rejected from one lender, find out why and FIX the problem.

### **Slide 23 Loan Packaging Tips**

After you submit your loan request to a lender, how will it be evaluated?

Your lender will review your request using three key credit factors. But first, its important to point out -- that lenders are in the business to make money and the way they make money is by making loans. However, a loan officer's career is based on not making mistakes.

**The bottom line.....** you have to convince the lender that you and your business are a good risk. Your character, capacity and collateral, among other credit factors, will be considered by the lender in making a loan decision.

- Character is actually a check on your financial status and personal credit history, including your previous loan payment record. The theory is -- people are creatures of habit -- if you have repaid prior debts on time and in full, you will likely pay this requested loan on time. Also considered is experience in the type of business you are trying to finance, including level of responsibility, education and business management training.
- Financial capacity is about having sufficient cash flow to pay-off a loan. This

underlies the importance of preparing a cash flow statement with future cash projections before presenting your loan request to a lender. Doing so indicates that you are knowledgeable about the cash coming into your business and being spent. In the lender's mind, it shows that you are "financially aware" and that you may be better able to avoid a cash shortage that would jeopardize making monthly loan payments.

- Lastly, while cash flow is the primary source of loan repayment, lenders will want a back-up or secondary source, as an "exit of last resort," should your business not prove profitable. Collateral is that secondary source and it is important to the lender because it lowers risk. Remember, it's all about lowering risk so the lender feels confident the loan will be paid on time and in full.

### **Slide 24 Next Steps**

Now that you have completed the course, take the next steps. Put what you have learned into action.

Step 1. Identify potential or existing financial needs for your business.

Step 2. Test the waters by talking with a local lender about types of loans available to small businesses.

Step 3. Talk with a mentor, business coach or SBA representative about all available small business loan products.

Step 4. Prepare a draft loan package and review it with a lender, mentor or business coach.

### **Slide 25 Additional Assistance**

Many resources are available to assist you. The following resources can help you build a foundation of knowledge.

- SBA has over 60 district offices located throughout the country to help you start and grow your business.

- There are more than **1,000 Small Business Development Center** locations around the country. **SBDC's** provide management assistance to current and prospective small business owners.

- SCORE is a powerful source of free and confidential small business advice to help build your business. More than 10,000 SCORE volunteers are available to share their wisdom and lessons learned in business.

- The Small Business Training Network is a powerful virtual campus.

- And finally, **Women's Business Centers** assist women in achieving their dreams by helping them start and run successful businesses. Some 90 WBCs are located around the country.

Click on these resources to learn more and access their assistance.

### **Slide 26 Other Resources**

Other specific and very helpful resources include:

SBA's financing information section on the Web; SBDC-Net; a free online business planning course; SCORE's business tools and templates; and an agency checklist of required documents for SBA loan guarantees.

### **Slide 27 SBA Financing Forms**

Additional resources to support the preparation of a loan package include a menu of SBA financing forms.

These SBA forms include a business loan application; schedule of collateral; balance sheet; income statement; cash flow statement and a personal financial statement.

### **Slide 28 Have a Question?**

Never let a question go unanswered.

This course has covered a great deal of material. And, there is much to learn and understand about borrowing money and preparing a loan package. If you have questions about any of the topics discussed in this course or other business questions, contact SBA or one of our resource partners. We will be glad help you.

If we do not have the answer to your specific question, we will direct you to a resource that does. Use the 800 number or referenced hyperlinks to contact us directly.

### **Slide 29 Course Completion Certificate**

CONGRATULATIONS ON COMPLETING THIS COURSE.

WE HOPE IT WAS HELPFUL AND PROVIDED A GOOD WORKING  
KNOWLEDGE OF NEW TECHNOLOGIES CAN BENEFIT SMALL BUSINESSES.

YOU EARNED A CERTIFICATE OF COMPLETION FROM THE SBA.

THANK YOU FOR PARTICIPATING IN THIS COURSE. WE WISH YOU THE VERY BEST IN THE FUTURE. CLICK  
THE PRINT BUTTON TO RECEIVE YOUR CERTIFICATE.