



## Preparation Matters When Applying for a Business Loan

*By James A. McCormick, Senior Vice President Commercial Lending, Century Bank*

Lenders let the documents do the talking when a business applies for a loan, which is why a well-prepared loan application articulates why the business needs the money, what it plans to do with it and what other obligations it has.

Most bank lenders have their own proprietary loan application paperwork for the borrower, but all lenders want the same basic information. While the lender will obtain credit reports and scores independently, documentation brought to the loan discussion will demonstrate the borrower's ability to repay the loan.



**Financial bona fides:** Most lenders want proof that the business and its owners have the means to meet loan payments and cover the business's operational expenses. So they want to see financial documents, including three years of income taxes filed by the business and by any owner with a stake greater than 20 percent. This is especially important when owners assume personal liability for the loan, which is the norm.

Some lenders require financial statements or projections and a year's worth of personal and business bank statements. If the loan involves above-average risk or the purchase of real estate, the lender will likely require collateral as a hedge against default. It doesn't hurt to prepare a collateral document that authenticates the worth of high-value business or personal property that could be used to secure the loan.

**Full transparency:** The business borrower must provide personal background information, including any aliases, past addresses and criminal and educational records. The lender will pull credit reports to evaluate how consistently the business owner pays his bills and how burdened he is with debt. The borrower should correct blemishes and mistakes on a credit report before applying for a loan, as errors can lower a credit score and hurt the business's chances of getting a loan. If the business has a credit report in its own name, the lender will study those as well.

**The business plan:** Lenders expect a loan request package to include a complete business plan with financial statements and projections, a profit and loss report, cash flow analysis and balance sheet. Most want evidence of the borrower's management or business education and experience, especially if it's a first-time venture, and might want to know who else is on the management team. A current résumé and pertinent diplomas or certificates should be all that's needed.

Bank lenders will typically verify the business's legal standing by reviewing articles of incorporation, partnership agreements or franchise agreements; up-to-date business licenses and registration documents; and copies of contracts and leases the business has signed with vendors, landlords and others. This shows the lender the business is playing by the rules and protecting its legal interests.

Business owners who don't have all of the recommended records should nevertheless sit down with their lender to determine which documentation is essential.

While businesses have any number of online lenders to choose from, they usually do better when they establish a relationship with a local community bank lender before they need cash. That personal relationship can mean a lot if the business faces unexpected problems and needs to renegotiate loan terms.

For information about small-business loans, visit [www.mycenturybank.com/business-commercial-loans.htm](http://www.mycenturybank.com/business-commercial-loans.htm).

*Finance New Mexico is a public service initiative to assist individuals and businesses with obtaining skills and funding resources for their business or idea. To learn more, go to [www.FinanceNewMexico.org](http://www.FinanceNewMexico.org). Sponsored by:*



ACCION

