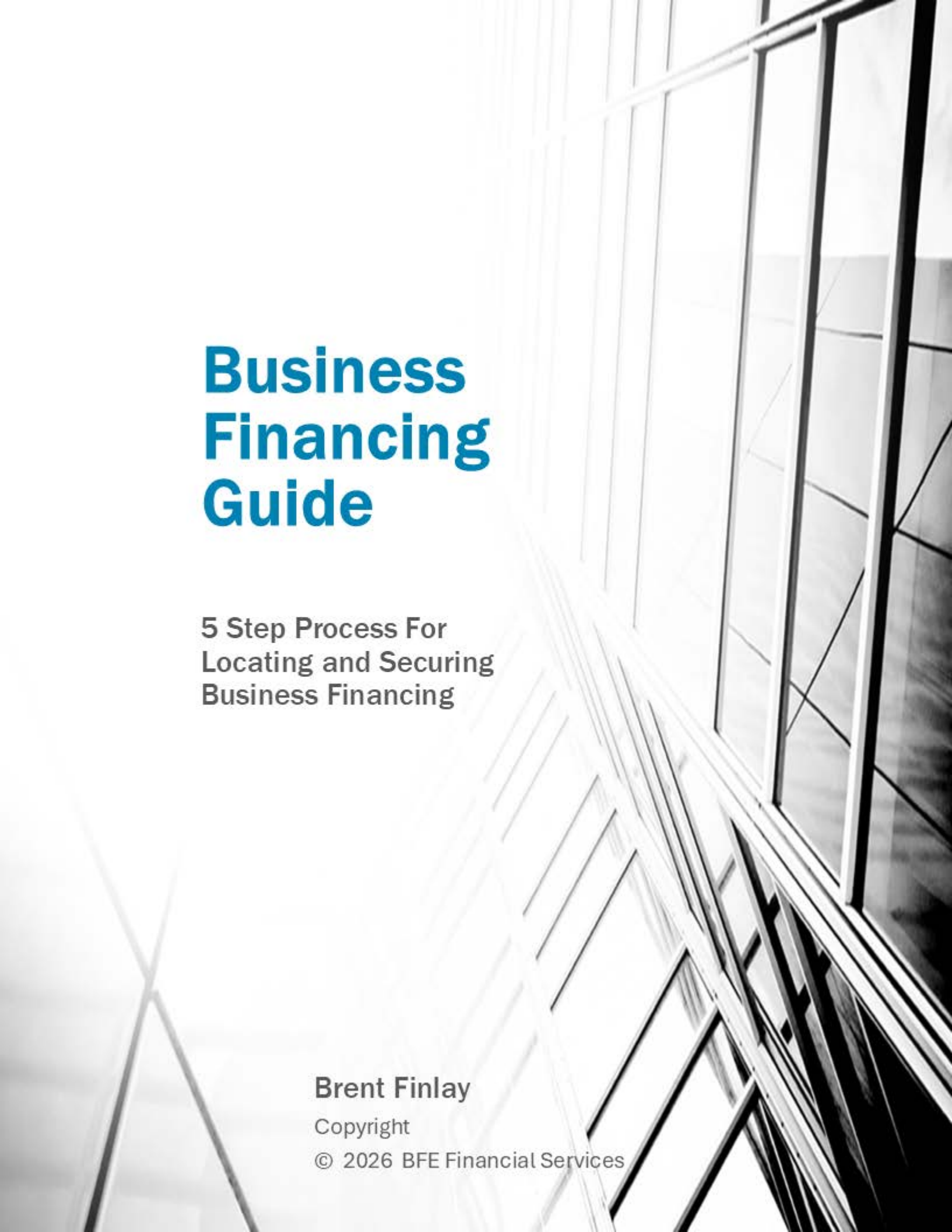

Business Financing Guide

5 Step Process For Locating and Securing Business Financing

Brent Finlay

A Five Step Process, Proven and Refined over 20 Years, That Helps You Locate And Secure Business Financing For All Business Types, Industries And Applications.

Here's What You Will Discover In This Report:

- √ The 2 main problems that can make the business financing process hard.
- √ The 3-part objective that makes up every business financing goal.
- √ Why business financing is about Fit not Brand
- √ The 3 criteria for qualifying sources of business financing
- √ How to properly assess finance company fit
- √ Strategies for managing the financing application process
- √ Why you need to check the accuracy of your credit reports
- √ The two most important financial statement ratios
- √ How your accountant, and their engagement, can impact your application
- √ The most underestimated parts of the business financing process
- √ 5 ways lenders use bank statement information to assess your application
- √ Best way to minimize underwriter bias, assumptions, and false conclusions.
- √ What to do if your application for business financing gets declined.
- √ The difference between standard and non-standard requests
- √ How paranoia can assist the funding process.
- √ An effective mind set to get approval conditions signed off

How To Locate And Secure Business Financing

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Free Resources

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C. You can also send me an outline of what you're current problem, challenge, or requirement is through my contact form at https://bfefinancial.com/contact-us/ . I'll review what you send over and provide any feedback I think would be relevant.

Foreword

This report explores the world of debt financing for Canadian Small and Medium sized businesses (SME's) and works at both demystifying how the debt financing market works and providing you with strategies, tips, and steps to get better results when you're trying to locate and secure any form of debt-based financing including loans, lines of credit, mortgages, and equipment leases.

I wrote this report because I've seen too often how business owners and managers can struggle with the business financing process. Business financing can be hard to figure out … sometimes really hard … which can cost you a lot of money and even your sanity when you can't get capital in place when you need it.

Here's why….

At the risk of oversimplifying it, the basic belief that most people have is that getting credit or financing is pretty easy.

As young adults, people get their first credit card … then the bank we deal with asks us if we want to open a line of credit … every time you check out from a major retail chain, they offer you additional credit cards … and when we go to the dealership to purchase a car they approve us for a loan or lease right on the spot.

Most of the time all that stuff is pretty easy to get in place if you have a job and make all your payments on time.

Then we gravitate to buying a house, which is harder to get financing for, but really not that much harder.

Even in the world of business financing, I estimate that around 80% of the time is not that difficult to get financing for what I call standard requests for amounts less than $250,000, that can be approved and funded in a reasonable amount of time, with a reasonable level of complexity.

But around 20% of the time, business financing does not fit into the easy box and can be a real struggle for business owners and managers to figure out.

And there wasn't any real education or training process for learning about how to deal with what I call the non-standard business financing request which can be much more difficult to figure out.

In simple terms, a non-standard request is when there are elements of your financing request that don't fit into most lender products or programs.

If you're having trouble locating and securing business financing for whatever reason, this is likely what you're dealing with, and this is where I spend the majority of my time working with small and medium sized business owners and managers.

Back in the late 1990's, when I was working in finance roles for large corporations, everything I worked on was hard, and I needed to learn how the finance marketplace worked inside and out in order to do my job.

That was normal for me.

When I started to work on acquisition projects to acquire smaller businesses, I quickly realized that SME's did not have the same level of

finance knowledge and typically didn't have much in the way of internal or external support systems to draw from either.

I discovered that most business owners and managers tended to look at business financing totally backwards, which is largely the product of their personal financing experiences that I went over earlier.

As consumers, we are conditioned to access capital from whoever is shouting the loudest, mostly through filling out an online form, and clicking a button.

Consumer financing is easy because its largely based on a credit score and a paycheck, which almost everyone has.

But business financing is more challenging due to every business being somewhat unique, making the assessment process for an application for financing much more difficult.

In business financing, there is no guarantee the lender shouting the loudest is a fit for what you need.

Business financing is all about where does your capital request, and business profile, fit a lender's requirements?

Personal or consumer financing is a highly competitive battle among major brands to secure your business. Business financing is about trying to find a lender that wants your business regardless of what their advertising might be broadcasting.

For instance, a major bank can continuously advertise all over the place that they provide financing to SME's, but what does that really mean? How does it relate to a specific business financing request?

This is why it's backwards from consumer financing.

As a business owner or manager, you have to qualify the lender first to determine who can actually help you.

When I decided that I'd had enough of working in the corporate world, I packed up my tent and set up my own shop as a financing consultant for small and medium sized Canadian businesses.

Over the last 20 years, I've helped hundreds of Canadian SME's with their financing strategies as well as helping them locate and secure business financing.

Through a lot of trial and error, I developed my own process to work through any business financing requirement with most of my time spent working on debt financing assignments

In this report, I'm going to show you the exact process I follow to locate and secure business financing for all my clients.

The process is the same every time outside of a few modifications to fit the specific financing requirement.

I've broken everything down into 5 Steps that starts with what you need financing for and takes you through lender qualification, application, approval, and funding.

You can follow the whole process from beginning to end, or just zero in on the steps you're having trouble with.

And while I can't guarantee you any specific outcome, if every time you need capital and you apply this proven approach, you're likely going to achieve better and better results.

Locating and securing business financing is always going to be a process of hitting a moving target, with lenders coming and going, lender offerings and interest levels continually changing, and global economic conditions and regulations impacting the money supply.

My 5 Step process is designed to increase your probability of hitting the bullseye and getting the capital you need, for terms you're prepared to accept, by the time you need it.

Writing this report is a privilege.

I genuinely feel that writing this report is an honor because after decades of trial and error, I get to share my observations about how to successfully locate and secure business financing.

The fact that you are reading this report means you think that I may have some answers to your financing questions and with that comes a responsibility to keep the book free of the BS and hype that the world of finance is awash in.

With that in mind, I want to assure you that what I'm revealing is grounded in reality.

And on the subject of keeping it real, the process I've provided is designed for you to follow and implement in your business. That doesn't mean you have the time and patience to learn and apply everything yourself.

There can simply be too many pieces in your financing Jig Saw Puzzle to figure out. Lender selection can be brutally hard to get right at times. Self assessing what type of financing you qualify for is not always easy if you don't have a lot of finance knowledge. Developing a proper application package that tells the right story can be challenging for some. Then there's application strategy. And completing approval conditions. And more.

Chances are some of you will need a hand and that's what I'm here to do. I'd like to see if I can help you put all the pieces of the financing Jig Saw Puzzle together.

So please reach out to me if you'd like to discuss a business financing problem, challenge, or requirement that you're stuck on, or need assistance with, so I can see if I can help.

In the meantime, this report will still provide significant value by way of a business financing education that reflects over 30 years of in-the-trenches experience, insights into what works, what doesn't, and why.

And more than anything else, the greatest value will be the realization that business financing is something that you can get better and better at if you understand how the market works, and follow a process that helps you improve your probability of success each and every time you need to locate and secure business financing.

How To Locate and Secure Business Financing

In the highly fragmented business financing marketplace, business owners and managers can sometimes struggle to locate and secure the business financing they require.

It can be difficult to quickly figure out which lenders and financing options are the best fit for your financing needs.

Either you have too many financing options to chose from for the more straight forward standard requests, or not enough for the more challenging non- standard requests.

The process for locating and securing business financing is further complicated by business owners and managers not taking greater control of the financing process and giving all the power and control to lenders.

A lender's goal is to cast a wide net, attract leads, screen candidates, and determine which deals they're interested in.

It's definitely a volume game for them.

They pick the applications that fit their lending model and can end up approving and funding a small percentage of the deals they actually receive.

Remember that they are selectively determining what applications interest them and who they want to deal with.

So why can't you do the same?

Why can't you be the one doing the filtering and screening?

Most Lenders say NO way more than they say YES, and there can be lots of variability between what get's approved and funded today compared to what got approved and funded last year or will get approved and funded next month.

Spending time working with lenders or brokers that can't help you get the financing you need is not only a waste of time, but it can also cause you considerable financial distress if the right type of business financing isn't available when you need it.

So whether you're trying to get business financing for a standard or nonstandard request, the solution for getting better results is going to be the same …

… take greater control of the financing process.

This is exactly what I'm going to show you how to do.

Here is my 5-step process for locating and securing debt financing facilities (such as business lines of credit, term loans, mortgages, and equipment loans and leases) for any type of business or financing request.

As a review, here are the 5 steps.

1) Clearly Define Your Business Financing Goal or Objective

2) Identify the Most Relevant Lenders.

3) Create an Application Package that has at least an 80% probability of generating an approval you'll be seriously interested in.

4) Manage the Application Process.

5) Meet the Conditions for Funding.

As I already mentioned this process is designed for business owners and managers to take greater control of the business financing process and improve their probability of getting better and better results over time.

For simplicity, I'm going to collectively refer to banks, credit unions, trust companies, life insurance companies, crown corporations, asset-based lenders, equipment leasing companies, and other finance companies as lenders.

Regardless of the source of financing, the process you need to follow is going to be the same for any type of debt provider or lender.

My 5-step process can also be used for any type of business financing application.

Okay, let's get into the process.

Step 1

Define Your Business Financing Goal

Your business financing goal is always going to include the following 3-parts…

1. the financing amount that meets your requirements,
2. the terms and conditions you're prepared to accept,
3. the certain point in time when funds are required.

Every business financing request will be for a specific amount of money/capital which will be used for a specific purpose.

Every potential offer of financing from a lender is not going to be acceptable to you, so it's important to establish the strike zone of what you're prepared to accept and work with.

Getting clear on when you need money to flow is also extremely important and helps determine when you need to start the process and what lenders you should be considering.

The three parts are connective and interdependent, and each one must be covered off if you want to achieve the goal.

Let's go over some examples.

Note: Each example is simplified to illustrate the business financing goal. In reality, the requirements, terms, and conditions are typically going to be more extensive in most cases which is why it's so important to clearly state your business financing goal and then focus all your efforts towards achieving the goal.

Example #1 - Business Growth

A manufacturing company has an opportunity to utilize a higher percentage of its capacity and increase output by 30% from new customer contracts and orders. The current line of credit will not provide enough working capital for the projected increase in the accounts receivable and inventory levels required to increase sales.

The company's projections require an increase in working capital of $1,000,000. A new lending facility would need to be able to leverage/margin at least 80% of the accounts receivable and 40% of the inventory in order to generate enough working capital for the business.

The incremental sales will generate a 30% gross margin and provide the company's targeted net profit of 5% of gross sale provided that the cost of working capital does not exceed 20% per annum.

To take advantage of the incremental contracts, order, and expressions of interest, additional working capital will need to be available in 60 days.

Goal Summary:

Financing Amount:	$1,000,000
Purpose:	working capital for financing AR and inventory
Requirements:	Leverage at least 80% financing of AR Leverage at least 40% financing of Inventory
Terms:	Cost of financing no greater than 20% per annum
Point in Time:	60 days

Example #2 - Commercial Construction

A commercial developer wants to build commercial condos on a ready to build property and plans to presell 50% of planned units prior to the commencement of construction. The construction budget is $10,000,000.

The land owned by the builder, is worth $2,000,000, and is free and clear of any liens or encumbrances. The developer would like a land loan for 50% of the value to start the project and then a construction loan for 70% of the construction budget in agreed upon draws that fit its cash flow model.

The targeted cost of financing is 10% over a 24-month term. All financing costs are to be capitalized into the loan and initial construction is to begin in 4 months. The "As Complete" valuation of the project is $15,000,000.

Goal Summary:

Financing Amount:	$1,000,000 + $7,000,000 = $8,000,000
Purpose:	Land loan + construction financing
Requirements:	50% LTV on property 70% financing of construction costs
Terms:	Cost of financing no greater than 10% per annum Capitalize interest into loan 24-month loan term
Point in Time:	4 months

Example #3 - Debt Consolidation and Equipment Refinancing

A road construction company that also provides rental equipment just completed two years of poor financial performance and is looking to access equity in owned equipment through sale and leaseback where the incremental capital to be raised will be used to consolidate existing debt and to provide additional working capital to fund its turnaround.

Debt consolidation is partly required to pay up CRA accounts and equipment loan arrears that accumulated over the last 2 years when cashflow was in decline. The total financing request is $2,000,000 and will be put into place through the sale and leaseback process where the resulting capital lease has a nominal buyout amount.

Other buyout options will also be considered. The Forced Liquidation Value (FLV) of owned equipment is $3,000,000 which will require a lender to provide 65% of the FLV to generate the required capital.

While the cost of financing target is 12%, the business is prepared to consider a rate as high as 18%, provided the repayment term is at least 4 years and the prepayment penalty is no greater than 3 months interest on outstanding principal.

Time is of the essence due to pressure from CRA and existing lenders to catchup the arrears so financing needs to be in place in 30 days. Because some of the equipment to be refinanced are rental assets, a new financing facility will need to allow for equipment rental to continue.

Goal Summary:

Financing Amount:	$2,000,000
Purpose:	Debt Consolidation through Equipment Refinancing via Sale and Leaseback
Requirements:	65% of FLV Equipment rental as an allowed use
Terms:	Cost of financing 12% to 18% per annum 4-year lease term Maximum 3-month interest on prepayment End of term buyout options to be considered
Point in Time:	30 days

While the business financing goal is the same for each example …

> *… to locate and secure business financing that meets your requirements, for terms and conditions you're prepared to accept, by a certain point in time…*

… the 3 part goal is different in each example provided as it can be for every business financing request.

A well defined and realistic goal is critical for the remaining steps in the overall process as each step builds off the previous one.

Step 2

Identify The Most Relevant Lenders

In the simplest terms, the most relevant lenders are going to be the ones that can allow you to achieve your 3-part business financing goal.

Not all lenders are going to be able to do that.

Before I get into lender qualifying in more detail, let's first go over how the debt financing market is organized and why lender qualifying is so important.

First off, all lenders get the money they lend from somewhere else. Sources of debt lending are some combination of deposits, reserve leverage, equity, bonds, and other loans.

Larger lenders lend with each other, to each other, and to smaller lenders.

Large lenders like many of the banks lend money to businesses on a retail basis and to other more specialized lenders on a wholesale basis. Everybody gets their money from somewhere else, and most sources of lending are leveraged from some combination of debt and equity.

Why is this important?

It's important in the sense that they all acquire their money for X, mark it up and sell it to you for Y, if you fit their risk model.

It's basically all the same.

The part that's different is how money is priced and packaged according to application and assessment of risk.

The difference between lenders is their financing models which includes how they qualify borrowers, and how they manage risk.

Major banks typically provided the lowest cost forms of business financing to small and medium sized business, provided the business can qualify for it.

The idea that major brands, like chartered banks in Canada, are better options, and that they can do more for you than other lenders, is not always going to be true.

Business Financing is about Fit not Brand.

The definition of "Business Financing Fit" is how does your request for financing, combined with your business profile, meet the lenders requirements?

Which also means that the lowest cost options aren't automatically the best options or best fits either.

Consider the rapid development of the Private Debt market. According to www.muzinich.com, the market has roughly doubled in size over the last 5 years. Estimates put the total size of the market at around $1.5 trillion USD to $1.6 trillion USD in 2023, up from approximately $1.0 trillion USD in 2020 and under $400 billion in 2018. This represents a compound annual growth rate of 20%. It has grown rapidly due to major banks reducing their lending to SME's since the 2008 financial crisis.

It doesn't mean Private Debt is cheaper than big bank financing. But Private Debt is filling a void in the market created by less business bank lending, providing much needed capital to businesses in various industries in the process.

Where do they get their money from?

Some combination of debt and equity just like everyone else which can include wholesale lending from major banks.

The point here is that the specialty lending market is growing with lender models developed to fit unmet needs in the market.

Major Banks are largely focused on residential and commercial real estate, syndicated lending, and wholesale lending. Direct lending to SME's is becoming a smaller and smaller part of their overall portfolio.

This is not to pick on banks as a lending source. Banks and Credit Unions will continue to be significant lenders to small and medium sized businesses in Canada.

The Question then for any lender is … are they a good fit for your business financing requirements, and are they a good fit right now?

It's your challenge as a business owner or manager to figure out where each of your business financing requests fit at any given point in time, and to understand that your lender fit is going to vary based on what you're trying to do and when you're trying to do it.

Here's an example.

Company A gets approved and funded through a chartered bank two years ago. Two years later, they have a new capital need, apply with the same bank and get declined despite solid financial performance. They also can't get approved and funded through any of the other major banks. Company A finally gets approved and funded through a specialty

lender who in turn gets most of the funds for the deal through the original chartered bank.

Retail and wholesale.

Assessment of risk, lender model, and borrower Fit.

Lender brand names don't determine lender relevance … deal fit, at a particular point in time, does.

Lenders that you've done business with in the past, can be relevant in the future, but not if deal fit doesn't exist.

This is why it's so important to be really clear about what you need and what you're prepared to accept, and then diligently qualify potential lenders to find the ones that can actually provide you with most or all of what you're looking for, by the time you need it, and rule out all the ones that can't.

If you can't find relevant lenders for what you're seeking, then you're either going to need to change your strike zone or defer your capital requirements in order to provide time to develop better lender fit.

The criteria for qualifying lenders is based on …

1. Your business financing goal
2. Your business background (industry, size, time in business, etc.)
3. Your business financial and credit profiles…

The process of qualifying lenders applies these 3 criteria against the lender's financing requirements and risk assessment parameters.

You apply these criteria through the following the methods …

- Review your goal and profile against a lender's published information regarding their credit box and lending criteria available on their website, social media accounts, and marketing collateral.

- Work with a broker or business financing consultant that has a direct working relationship with targeted lenders and can help you determine lender fit.

- Email and/or call a lender directly to go over your financing goal, business background, financial profile, and credit profile. This is not a "selling the positives" communication. It's about discussing the specifics to determine fit…nothing else.

  Why?

  Because if you do a great job selling a lender over the phone, emphasizing all the positives, but don't get into all the pertinent details, the lender will likely tell you, "that sounds great … I look forward to seeing your application".

  Which means you've effectively given all the power back to the lender, allowing them to qualify you instead of the other way around.

If there isn't enough information available from the lender, or lender personnel to answer all your qualifying questions, then remove the

lender from your list. Any lender that can't clearly communicate what they're looking for is not typically worth your consideration.

Take control and keep control of the process.

Lender qualifying starts with …

Your Business Financing Goal

As we've already gone over, your goal is broken down into 3 parts.

1. the financing amount, the application of funds, and the related requirements
2. The terms and conditions you're prepared to accept
3. The point in time when funds are required.

Part 1 - Financing Amount

Lenders within specific Lender categories will have deal size ranges that can immediately disqualify them.

For instance, a commercial construction lender that has a minimum deal size of $3,000,000 isn't interested in a $1,500,000 application.

Equipment financing and leasing companies typically fall in ranges $0 to $150,000, $150,000 to $1,000,000, and greater than a $1,000,000. Falling outside of a lender's target range allows you to disqualify them before you go through the trouble and effort of applying and having them disqualify you.

Part 1 - Application of Funds

The specific application of funds often will disqualify a lender that otherwise would appear to be a good fit.

Taking the commercial construction example again, a lender that is prepared to consider commercial condo or commercial owner-occupied

projects but may not be prepared to do them in a particular geography, or at a particular location within an acceptable geography.

Equipment loans or leases for rental equipment can be hard to secure because most equipment financing and leasing programs will not advance funds for a rental application.

Lenders that provide working capital facilities often will not finance accounts receivable on construction projects where holdbacks are required.

If you're application of funds is outside of what a lender does, then remove them from your list.

Part 1 - Related Requirements

These are requirements that are directly connected to what you need capital for and must be addressed in your financing request for any approval to be useful to you.

For instance, a company can be approved for 100% of the acquisition costs of a certain type of equipment, provided that the equipment is readily available, and sold by a North American OEM dealer.

If the company wants to purchase the equipment from an overseas manufacturer, where the equipment needs to be built over 6 months, where a series of progress payments will need to be paid by the lender to the manufacturer prior to shipping, then the approval in hand is worthless as it doesn't meet the related requirements of the capital request.

In part two of the financing objective, the focus is on the terms and conditions your prepared to accept.

Part 2 - Terms

Terms are the structure of the financial facility (loan, line, mortgage, lease) that make up a financing approval.

This includes

- cost of financing
- down payment requirements if any
- repayment term
- administration costs
- required guarantors
- ongoing financial reporting
- prepayment privileges
- end of term buyouts if applicable
- and so on.

When lenders don't provide the specific terms that you are seeking, then they either need to be disqualified from your target lender list, or you must revise your business financing goal if you want to apply to them.

When it comes to lender terms, some will be black and white and unchangeable, and others may have some flexibility. As a general rule, most lenders work within a narrow range for their lending terms which should be known in advance of application so that you can determine if an approval granted to you is going to be able to provide the terms you seek.

Part 2 - Conditions

Conditions are what is required to get from approval to funding.

Approvals are almost always conditional on something. Conditions can include things like

- insurance coverage
- security registrations
- appraisals
- other third-party assessments
- vendor approvals
- delivery and installation
- payment process
- and so on.

While an individual request for financing can have unique conditions, most lender conditions are standard with all their approvals so it can be valuable to have a good idea of what the potential conditions could be for an approval from a specific lender.

Conditions are not a trivial item.

Many business owners and managers view approval conditions as a semi automatic list of things that need to get done before funding is advanced. While that characterisation of approval conditions can be true, there are also many approvals that never get funded because all the conditions could not be met.

The word **All** is important here.

Let's say you have a deal with 10 conditions, and you meet all of them but are struggling to satisfy the last one outstanding. Lenders can potentially revise or eliminate a condition, but it's not a guarantee by any stretch.

They don't necessarily give you marks for making a good effort either. And I've seen deals never get funded where a condition was addressed by the borrower, but not to the satisfaction of the lender.

So it is something to take seriously.

And understanding a lender's standard approval conditions can help qualify or disqualify a lending source from your list.

In part three of the financing objective, you need to see if your timing requirements can be met.

Part 3 - Timing Requirements

If you need capital by a certain date, then you need to make sure the lender can accommodate your timing. While getting an absolute commitment to fund by a certain date would be nice to determine in advance, this is more of a reasonableness exercise to see if it's possible for a lender to accommodate what you need.

Bridge lending is a great example of lender selection partially determined by timing requirements.

Bridge financing solutions are often created out of the need to get capital in place after the first attempt at arranging financing has failed or been delayed.

Let's say a business has a fast-approaching deadline where capital is required. If the deadline is not met, there will be some type of economic cost to the business.

Let's say the fast-approaching deadline is the closing date of an accepted offer to purchase of a property. The buyer has got an approval for financing, and is working through the lender's conditions, but the closing date is now only 2 weeks away, and the buyer has

determined that it is impossible to meet the approval conditions by the closing date and no extension is available from the seller.

The buyer is facing a huge economic cost if the deal doesn't close on time including …

- The deal has a $200,000 non-refundable deposit.
- The property has gone up in value since the deal was finalized.
- And the buyer's business needs access to the building right after closing for key operations. Trying to locate and secure a suitable alternative property at this point would be disastrous to the business.

From a timing perspective, the first question is whether or not the buyer properly qualified the current lender with respect to the buyer's timing requirements. Sometimes, despite your best efforts to qualify your timing requirements, the deal still can't get funded on time.

However, many times, this type of deal is set up for failure right from the beginning when the targeted lender was not properly qualified for the buyer's timing requirements.

With an approval in hand, the buyer might get a second chance to close the deal on time, if they can locate a bridge lender that is capable of providing the necessary funding by the closing date.

In this situation, a bridge lender needs to quickly assess the likelihood of the initial lender paying them out in the near future without having to spend a month doing a repayment assessment, which allows them to move quickly to approve and fund the deal.

The buyer is going to pay more for financing to get the deal closed on time. But the incremental cost of bridge financing is a small fraction of what the total economic cost would be for not closing the deal.

A lender's ability to meet your timing requirements can be a very difficult thing to accurately assess.

Here are some things to consider when qualifying lenders for their ability to meet your timing requirements.

1. The larger the amount of financing required, the longer the financing process is likely going to take.
2. The more complex the financing request, the longer the financing process.
3. Time and cost of money are typically inversely related with lower cost financing taking longer to get into place than higher cost financing.
4. Whatever you're estimate of the amount of time required to get financing in place, add a buffer of at least 20%.

Your Business Background

Your business background can disqualify a lender faster than just about anything else. The most common background items to use in lender qualifying include …

- Business Legal Form
- Principal Owners
- Time in Business
- Geographic Location
- Industry
- Outstanding Lawsuits
- Former Bankruptcy

Lenders can have specific rules about different elements of your business background that are built into their risk management model.

As an example, for time in business, the following ranges are common …

- 0 to 1 year
- 1 to 5 years
- greater than 5 years.

Most lenders consider you to be a start up business until you file your first annual business income tax return.

From 1 to 5 years, your personal and business credit are typically reviewed and personal guarantees required as a condition of any approval.

After the business has filed 5 years of financial statements, there is greater reliance on business financial results and business credit.

Your business structure can be …

- sole proprietorship
- partnership
- or corporation.

While all business lenders will typically consider applications from corporations, the same is not always true for sole proprietorships and partnerships, and if they do consider these two, the rates and terms provided may not be the same as what is available to corporations.

Don't assume that all business structures and profiles are always viewed the same by all lenders.

Just about all lender applications will have a business profile section to complete, so its worth you're time to find out in advance if your current business profile is going to be one that a targeted lender is going to be able to work with.

Your Business Financial and Credit Profiles

Targeted lenders can be further narrowed down by your financial and credit profiles.

Lower rate lenders will require stronger financial and credit profiles than higher cost lenders as cost is associated with risk.

So in general terms, the stronger your financial and credit profile, the lower the risk, and the lower the rates … but also the more rigid the terms and conditions.

Lenders don't typically post their rates on their websites, and they are not likely going to tell you in a text, email, or over the phone what rates you could qualify for without receiving an application from you.

But they can provide you with the rate ranges they consider.

If they're not in your expected rate range, remove them from your list. Just make sure you're being realistic as to what type of rate range you should be able to qualify for.

If your credit is bruised or you haven't had a great financial year, that doesn't mean you can't secure financing, but it could mean the cost of financing will be higher with less favorable terms and features available to you, which has a direct impact on lender selection.

It also means that you need to be focusing on lenders that will look at more moderate to weak credit and/or financial performance.

Past lender relationships don't necessarily mean a lot either if you're capital requirements and/or financial profile no long meet their lending criteria.

Let's quickly go over your business financial and credit profile.

Your financial profile includes …

- your credit reports available from third party reporting agencies.
- the financial results you've achieved during your time in business.
- the level of third-party financial review applied to your annual financial statements.
- the third-party accountant that performed the work.

Credit Reports

There are standard third-party credit reports for both individuals and businesses. There are also third- party credit reports compiled and available for certain industries and financing applications.

Lenders can also compile their own internal credit scoring system based on both internal and external data sources.

For an individual or a business, credit reports typically will provide an overall score, historical credit activity provided to credit reporting agencies by lenders you work with or have done business with, and credit related events from the public record such as collections, judgements, liens, lawsuits, and other derogatory items.

The purpose of a credit review is to determine the level of financial responsibility for an individual and/or a business.

The credit score by itself doesn't necessary provide enough information, especially for the newer credit profiles of young adults and newer businesses. As an example, you can have a great score, but very little reported credit. So most lenders will look at both the credit score and the makeup of the credit history to get a more complete picture of your credit responsibility.

That being said, as an initial screening process, there are numerous lenders that have minimum credit score requirements. As I've mentioned previously, lenders work on a volume basis, and one of the first ways to screen out applications is by applying a credit score from an internal or external credit scoring system.

A simple, objective measurement like a credit score is an easy way to reduce the number of applications that need to be manually assessed.

For example, banks like to see FICO scores of 675 or higher for individuals. Business credit will depend on the third party reports they utilize and their interpretation of those metrics.

As a business owner or manager, it's important to understand what type of range your credit score and profile falls into before applying to a lender in order to gauge whether or not you're likely to meet their credit requirements.

Remember that lower cost financing will require stronger credit scores and stronger overall credit profiles.

There are two ways to self assess your credit which you can then utilize for lender qualification.

1. Periodically review your personal and business credit reports. You can do this through paid reporting services and free reporting services on the personal side. Free reports don't typically provide all the information that paid reports do, but they can give you a good indication of what your overall credit profile looks like.

2. From your own accounting and administrative records, review your personal and business credit accounts to determine
    a. the amount of credit you're currently utilizing (credit cards, lines of credit, term loans, mortgages, etc.) both in your personal name and business name.
    b. if you are up to date with all your payment obligations.
    c. what your credit utilization levels are.
    d. if there are any derogatory items that have occurred over the last 24 months.

Whether you're using third party reports or your own information, self assessment is used to determine the following …

- The amount of credit available to you.

  The more reporting credit you have and the longer you've had it, the higher your potential credit score can be. More reported credit indicates a higher level of responsibility which has the potential to help generate a good credit rating.

  On the flip side, if everything else in your financial profile is strong, but you only have $500 of reported credit through one personal credit card, and nothing reporting on your business, your

credit score is going to be very low because there's not much to base it on.

If you don't have a lot of reporting credit, work towards getting more. Credit cards and lines of credit all report monthly to credit reporting agencies and are excellent tools to build personal and business credit.

- The amount of credit you're utilizing.

  The use of credit cards and lines of credit will go up and down throughout the year. But an application for business financing is focused on a specific point in time. If you have high credit utilization when you make an application for financing, then your credit score can end up being significantly lower than during times when your credit utilization is lower.

  Part of business financing strategy is to make sure your credit utilization is below 30% of available credit for 60 days prior to applying so that there is no negative impact on your credit score.

- Derogatory events over the past 24 months.

  Derogatory events are any negative items that show up in your credit report and reduce your credit score. These include things like …
    - Late payments
    - Excessive inquiries
    - Collections
    - Judgements

- Liens
- Consumer proposal
- Bankruptcy
- Legal actions

If you have had derogatory items over the last 24 months, they will have negatively impacted your credit profile.

For lower cost lenders, the presence of derogatory items, and their severity, can lead to an automatic decline.

Regardless of what lenders you target, all derogatory items should be proactively explained in your application with respect to how they came about and what you've done to resolve them. If some are unresolved, then you need to explain the steps you're taking to get them resolved.

As an example, let's say your business has an outstanding lawsuit where the business, and yourself personally, are being sued by a client. You are confident that the suit is unfounded and that the legal process will end up dismissing it. Correspondence from your lawyers that support your explanation are provided as part of your application package.

> *Note: One key advantage of accessing your credit reports and reviewing them in detail is to see if there are any errors being reported. Errors can include collections or judgements that have been settled but still show as open and outstanding on your credit reports.*

> *Lenders assume that everything on a credit report in your personal name and your business name is up to date and accurate. It's your responsibility to make sure that's the case.*

If there are errors that negatively impact a lender's credit assessment it can lead to an automatic decline with no opportunity for explanation if one wasn't proactively provided with your application package.

Whether through credit report review or self assessment of accounting and administrative records, it's important to understand the strength of your credit profile when applying for business financing, especially if you want to focus in on lower cost lenders.

If you have weaker credit when you're applying for business financing, then you need to take that into consideration when qualifying and selecting lender targets.

Financial Results Assessment

Lender review and assessment of your third-party accountant prepared historical financial statements is a key qualifying step in the business financing process.

Annual financial statements provide information in a standard format that has been prepared and compiled by accounting professionals. Most lenders will input information from your historical financial statements into their scoring systems to assist in their risk assessment process.

The amount of historical financial statement information required is going to depend on the lender's underwriting requirements.

For instance, for business age of 5+ years, there are lenders that will approve business financing for different requests on an application only basis where historical financial statements are not required at all.

At the other end of the spectrum, there are lenders that will require historical financials statements from 1 to 4 completed years on each and every application they review.

The financial statement assessment process will vary from lender to lender, but for the most part, the primary assessment is around

1. balance sheet leverage
2. debt servicing capacity.

For balance sheet leverage, the main focus area is debt to equity ratio where the total amount of debt (borrowed money owed to third parties) on the balance sheet is divided by total equity (share capital + shareholder loans + retained earnings).

For debt servicing capacity, the standard calculation is to divide annual net available cash flow by the annual debt servicing requirements (lender payments due in the next 12 months).

Net available cash flow is typically determined by calculating EBITDA (earnings before long term interest, depreciation, and amortization). There can be variations to the EBITDA calculation, but if you take the business net income and add back long term interest, income tax, depreciation, and amortization expenses, you'll have a good representation of EBITDA.

For lender qualification, lower cost lenders such as banks, are looking for …

- debt equity ratios of 2:1 or lower
- debt service coverage ratios of 1.25 or higher

If your historical financial statements don't fall into these ranges, you're not likely going to get approved for bank financing.

These ratios are viewed to help determine the business risk profile for lenders.

Canadian lenders like Credit Unions, BDC, FCC can have an upper debt/equity range of 2.5/1 to 3.0/1 with a debt service ratio of 1.10 or higher.

Asset based lenders with broader financial and credit boxes will have different risk levels and pricing tiers set up based largely on your financial statement ratios and your credit profile.

By calculating your own financial ratios, you can gain insight into what lender category you're most likely to fit into and use that knowledge in your lender assessment.

For example, if you have a debt/equity ratio of 8/1 and a debt service ratio of 1/1, it doesn't mean you can't locate and secure business financing. But it does indicate that you're not likely going to be able to get bank financing and that you need to focus in on lender programs that work with higher risk financial profiles.

Accountant Review and Preparation

> The last major component of your business financing and credit profile, is the level of accountant review applied to your annual financial statements and the accountant that did the work.

There are three levels of accountant review …

- Compulation
- Review Engagement
- Audit

… with Compulation being the lowest level of review.

Lenders will put greater reliance on the higher review levels which can impact approvals, rates, and terms.

The accountant that prepares the financial returns can also matter to a lender.

At the very least, most lenders want a CPA to sign the financial statements.

For larger deals, lenders prefer accounting firms with several partners to provide greater assurance that there is independence between the accounting firm and business owner.

Smaller accounting firms, or even one person shops, have less checks and balances in place to provide the level of independence that lenders are looking for.

There is also a lot of fraud in the business financing market and the quality of financial statements becomes more and more important to lenders as the deal size increases.

If you're trying to access lower cost debt and/or large capital amounts, both the level of accountant review and the accounting firm that completes the work can impact your application success.

By providing a high-level overview of your financial and credit profile, you can further eliminate lending sources.

This is extremely important.

Applying and hoping that weak financial performance or credit issues won't impact your application is not helpful to the process.

In fact, this type of approach can be damaging in several ways.

- First, you're not likely to get approved for what you require if you haven't been realistic with your lender targeting.
- Second, every application will likely negatively impact your credit through additional credit inquires, making the overall process progressively harder.
- Third, you could run out of time and miss an opportunity or worse.

Focus in on where your capital request fits right now and avoid where it doesn't.

So that's a quick review of the lender selection process that I've used with all my clients over hundreds of deals.

Too often proper lender selection is overlooked, and applications are filled out and submitted to lenders that have no chance of approving AND funding your financing request.

The process of selecting what lenders to approach starts with …

- Your business financing goal
- Your business background (industry, size, time in business, etc.)
- Your business financial and credit profiles.

When you apply these three things against lenders you're aware of, or are considering, you can quickly whittle down the total market to a hand full of lenders that have the ability to help you achieve your goal.

If you don't come up with any lender options, then you may need to reassess your financing goal.

Step 3

Create an Application Package

Create an Application Package that …

- has at least an 80% probability of generating an approval you'll be seriously interested in
- has a reasonable and achievable path to funding.

There's a lot that goes into this step.

Oversimplifying the application package is quite common and leads to many of the problems business owners and managers have with the business financing process.

Now that you've determined what part of the lender market you need to focus in on, it's important to develop an application package that is going to proactively provide lenders with everything they want to see to clearly understand your business financing request, your ability to service the debt, and to grant you an approval.

A well-prepared application package does not guarantee you're going to get approved and funded, but it does increase your probability of success.

In my experience, well prepared application packages, provided to the right lenders, typically carry at least an 80% probability of generating an approval you'll be seriously interested in.

This step comes after lender selection because the lenders you choose to apply to may have specific application information requirements that you need to include in your package.

That doesn't mean you can't put together a standard application package first.

In fact, every business should always have an up-to-date financing application package on hand so there aren't any unnecessary time delays locating, compiling, and explaining core business information when you need to apply for business financing.

The reason I've put this down as Step 3 is to make sure that any submitted application package is designed to meet the information requirements of the targeted lender(s).

Some lenders will require more information, and some will require less.

Each application for financing you make will be for a different amount and a different purpose, so your application package always needs to be modified to fit your current financing request.

The value of the application package tends to be a grossly underestimated part of the business financing process.

This is an area of the overall process that drives me crazy.

I'm pretty logical about most things … perhaps to a fault.

I believe that if you give someone information about your business, that you should make sure its clear, relevant, and understood so its less likely it can be misinterpreted.

But this is rarely the case with most business financing applications.

How do I know this?

Because several lenders have told me this on multiple occasions.

I have one lender that I do a lot of business with that says their analysts fight over my application submissions when they come in.

Why?

- Because the request is relevant to what they're able to lend.
- The information package is well laid out and organized.
- They receive all the information they need to assess the request.
- Everything provided is explained.

… which is a refreshing change from many of the application packages they receive.

Great information disclosure and presentation gets more serious consideration than applications that are hard to read, harder to follow, incomplete, inaccurate, and many times confusing.

If you target the right lenders, and you clearly tell them what you want and how you qualify, then…

- the probability of getting approved is going to be higher.
- the probability to getting an approval you are prepared to accept is going to be higher.
- the probability of getting an approval you can get funded is going to be higher.

Approvals that you're not going to be interested in for whatever reason don't have much value.

Approvals that have funding conditions that you're not going to be able to meet also have limited value.

This is why Lender Selection and Application Package Preparation are the two biggest factors in getting an approval that you can accept and get funded in the time you have to work with.

Sorry for the rant, but I can't overstate how valuable an information package is that is …

- highly relevant
- comprehensive
- properly explained
- easy to follow and understand
- clear and concise

Ok, let's get into Step 3 in more detail.

Here's an equipment loan or lease example.

The application package starts out with the what and the why.

- What specific equipment do you want to acquire or refinance?
- Why do you want to do this?
- What is the financial implication to the business?

The specific equipment needs to be well described including providing…

- manufacturing year
- make
- model
- purchase price or estimation of value.

If you're acquiring the equipment, you will need to provide one of the following …

- invoice
- estimate

- quote
- advertisement

… from the seller of the equipment for sale.

All equipment in your application package needs to be supported by multiple pictures of the equipment including pictures …

- from different sides
- of the serial number plate or VIN plate pictures
- of the odometer (if applicable)
- of the operating hour meter (if applicable)
- of the engine hour meter (if applicable)

If available, it's also helpful to provide an electronic brochure, or online page link, where all the equipment specs can be located.

The more detail the better.

Understanding the equipment, its use, and where it's coming from are the first boxes a lender needs to check off on an application to determine if what you're trying to do fits their credit box.

Because you have prequalified your lender targets, you already know that your targeted lender is able to provide a loan or lease for the type, age, amount, origination source, and use of your equipment.

Providing good, comprehensive information about what you need financing for, why it's required, and what the financial impact will be to the business, allows the lender to quickly check these boxes and move on to the next steps of review which includes …

- Business history and background
- Marketing and operational overviews
- Historical financial statement review

- Current year financial statement review
- Financial Projections
- Credit and Covenant Review

The amount of information that is required for each of these sections is directly relevant to the amount and complexity of your equipment financing request or any other type of business financing request.

For example, for a standard equipment financing request of under $300,000, many of these sections are not required at all and the ones that are may only require very basic information.

Most of the applications I work on are for non-standard requests where more information is going to be required and need to be explained.

Business History and Background

Here you need to cover…

- business commencement and background.
- original founders
- the progression forward from start to current day.
- key events or milestones
- present business form and owner(s)
- what the business does
- how it operates.

This is basically telling an origin story.

Don’t underestimate the value of providing the story of who you are, how your business came into being, what you do, and all the things that have happened, good and bad, along the way.

A good story by itself will not likely get you approved for financing. But it certainly helps paint a picture for the underwriter assessing your request, and in my experience, improves your chances of success when combined with relevant financial and credit support information.

Think of you application write up as a condensed and customized business plan that explains everything about your business that is relevant to your financing request and excludes all the non relevant sections of a standard business plan template

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Historical Financial Review

The historical financial review goes over the past completed financial years that are covered off by the accountant prepared financial statements you are including in the package.

This is a very important section of the application package as it affords you the opportunity to provide explanation and background regarding both the key financial metrics, but also any outliers that are not adequately explained by the notes to the financial statements.

Telling an accurate story about the recent past years through your financial statement review proactively provides clarity and explanation to an underwriter for obvious areas that will draw their attention when reviewing financial statements.

Underwriters are looking for trends, both positive and negative, so make sure they're understanding what they're reading.

If the numbers, as presented, provide a clear financial picture, showing reasonable balance sheet leverage and sufficient cash flow to cover costs and service debt, then not a lot of explanation may be required.

But if there are any unusual factors or events that negatively impact or distort your financial results, you're going to need to explain them.

This removes the need for assumptions or underwriter bias to fill in any gaps in the information provided.

Clearly explaining any pertinent details about the business that would not be obvious when reading the financial statements is a critical element in the application process.

It's always important to remember that what's obvious to you may not be obvious to someone else and that's where bad assumptions and false conclusions come from.

Many business owners will also expect that an underwriter will just reach out to seek explanation or ask questions if anything isn't clear.

This does happen, but not as often as you might think.

When it doesn't happen, the lack of explanation can lead directly to an application decline.

And any explanation after the fact rarely works.

Once a deal is declined it's rare that a lender will reconsider, even if a clarification of the facts is provided.

Current Year Financial Review

For the current year when the application is made, interim financials may or may not be required, depending mostly on the size of the deal.

At a minimum, most lenders will want to review at least the last 3 months of business bank statements.

When they do this, they are looking for a number of specific things.

- First, they will look at deposits and see if money is regularly coming into the account from customers and third-party sources to show that the business is regularly completing work or selling products and getting paid.

  If there aren't regular business deposits, or the sources look to be coming from non-customers, then the cash inflows need to be proactively explained and supported.

  Lack of an explanation as to how the timing of your inflows are received and managed can lead to negative assumptions and conclusions.

- Second, the bank statements are reviewed to see if you're continuously carrying a positive cash balance that is sufficient for your day to day working capital requirements.

  If your bank balance is near zero most of the time, or goes negative, the underwriter will take a negative view of that presentation.

  If there is a logical explanation for a low, or at times a negative bank balance, it needs to be proactively included in your write up.

  For instance, if you have a revolving line of credit attached to your bank account, it may keep your bank balance at or near zero most of the time, so it's important to show your line of credit account statements as well to support the working capital you have available.

- Third, the bank statements will be reviewed for negative entries, primarily NSF cheques. Any NSF payments need to be proactively explained, otherwise their presence can lead to an automatic decline.

  Why?

  Because lenders view NSF's as a failure to manage cash flow and to not make payments as promised.

  So when they appear, your application is scored negatively for them unless you proactively explain what they are, why they happened, and what you did to correct the situation from reoccurring.

- Fourth, bank statements are reviewed for disbursement to see any regularly occurring payments and/or unusual disbursements.

  Regularly occurring payments can include loan payments, lease payments, and rents. If there are payments representing obligations that were not disclosed in other parts of the application, the underwriter is either going to be asking what they are or decline the application for a lack of disclosure as it may appear to the underwriter that you are carrying more debt than you disclosed, or they think you can manage.

- Fifth, the bank statements are also a form of business verification.

  Do they show the correct business name and address provided in other areas of the application package?

Some lenders will require bank statements to be stamped at the branch to verify authenticity as more and more bank statements are being fraudulently altered by applicants.

Other lenders will use third party services such as https://www.flinks.com/ that work with lenders to verify your banking transactional information.

In addition to bank statements, interim financial statements from the business bookkeeping system can also be required.

At a minimum, this should include …

- a current balance sheet
- an income statement covering the business year you are currently in.

In addition to the income statement and balance sheet, lenders may also require you to provide …

- aged accounts receivable
- aged accounts payable reports
- and an inventory reports if applicable.

The interim financial statements show the current state of the business and how it's trending from the last year end and against the current year budget if one has been drawn up.

Once again, it's not a good idea to leave the interpretation of any financial statements you provide up to chance.

Proactive explanation of key items and outliers allows an underwriter to check the box in your favor versus filling in information gaps with assumptions.

If the information is fairly clear, make it clearer.

The only cost is the time it takes to do it, but the value can be considerable if it helps generate an approval you're prepared to accept.

Financial Projections

The last part of financial review is your projections or forward-looking statements.

Not all applications require detailed financial projections, but all lenders want to understand where the business is headed, even if that's only explained verbally and not through actual proforma financial statements.

Going back to the equipment financing example, for just about any equipment purchase, there is a direct or indirect financial impact.

For instance, if you're replacing older equipment with newer equipment, the newer equipment could provide …

- greater output capacity that generates more revenue
- has less repair and maintenance costs
- consumes less energy
- and so on.

Or you could be expanding into another service or product line and the equipment being acquired is part of the overall capital investment needed to generate more revenue.

In this case, what is the incremental revenue that will be earned versus the incremental cost incurred?

Another example is replacing rental equipment with owned equipment.

In many cases, the saving generated from not continuing with rental equipment can be greater than the cost of financing for acquiring equipment you own or lease directly.

This creates a self funding scenario where the new equipment basically is paying for itself from the rental cost savings.

It's important to explain the impact of your business financing request on your business cash flow.

When a business gets approved for financing, it's monthly debt servicing payments are going to increase.

- How will those incremental payments be covered off?
- Will they be paid out of existing cash flow, reducing the amount of money you have to work with?
- Will the additional business financing generate incremental cash flow to cover financing payments and add to profits?

Whatever the scenario is, it's a good practice to show the financial impact of newly acquired capital, even if that's only provided in a brief summary versus a full set of financial projections.

Credit and Covenant Review

The last, and one of the most important sections is …

- net worth disclosure
- credit profile review.

All business financing approvals are supported by either …

- business net worth and business credit only

- or a combination of business and personal net worth and credit.

And virtually all business financing is supported by at least one promise to pay or guarantee.

The business and personal net worth, and credit profiles, support the borrower guarantee to repay the loan, line, mortgage, or lease.

Business only guarantees can be provided by incorporated businesses. Partnerships and proprietorships need to provide both business and personal guarantees.

Most business financing applications that are not corporate guarantee only requests, will require a personal net worth statement disclosure.

It's important that this information be both comprehensive and accurate, so it best represents the net worth of the individuals.

Many times, personal net worth statements are poorly completed and explained, which can create negative scoring in the underwriting process.

The application scoring item that tends to get the most attention, and leads to the most declines, is the review of personal and business credit reports.

When an underwriter looks at business and personal credit, they are checking for evidence of credit responsibility.

They determine this by looking at the amount of credit that has been granted to you and how well you and your business have managed the use of that credit.

As I previously went over in Lender Qualifying, the credit related elements that hurt an application are derogatory items. These are things like …

- late payments
- high utilization of credit
- excessive inquiries
- collections
- judgements
- other types of liens and legal actions that can get registered against your credit profiles.

Remember negative items can also appear in error, which still negatively impacts your credit score and profile.

It's very important to understand if there are any derogatory items on your credit reports, and even more important that you can proactively explain why they're showing up and what you're doing about them.

From a lender's perspective, they assume that the credit reports that are available on you and your business are both accurate and up to date.

It's your responsibility to make sure that is the case.

Derogatory items can destroy your ability to borrow money, or at the very least, increase your cost of financing.

Getting derogatory items settled and removed, even if you can prove they are not fair or justified, is usually worth it in the long run as the cost of getting your credit cleaned up is typically less than the

incremental cost of capital that you'll be paying overtime, or the opportunity cost of not being able to secure capital when you need it.

From an application perspective, when an underwriter sees derogatory items, in many cases this can lead to an automatic decline depending on what the items are and how they impact your credit profile.

At the same time, derogatory items can also be a normal part of being in business.

For instance, there can be disputes between parties that need to be resolved, and the dispute process can show up in the public record and your credit reports.

When derogatory items exist in your business and/or personal credit profile, its important to be able to proactively explain them before an underwriter accesses your credit report.

A proactive explanation of what the item is all about and what you're doing to resolve it can offset the negative impact of it being on your credit report in the first place, which can make the difference between approval and decline in many cases.

And as I mentioned earlier, the amount of information you provide is relative to your request and the amount of support required by a lender.

There is certainly some art and science to this process.

If you're not sure how much information to provide, its better to fall on the side of well explained and documented as you don't usually get a second chance to apply once you get declined.

The key consideration for how much information to provide and how much explaining you need to do is the size and complexity of your financing request.

Remember that more standard financing requests will have more similar financing options, so you can potentially afford to start with a more minimized information approach.

But as deal size and complexity increases, the road starts to narrow and the better options available to your specific situation could be limited.

For larger, more complex, and non-standard financing requests, I'd strongly advise that you make sure your application package is well prepared and explained.

Your objective is to give an underwriter exactly what they need to see to best evaluate your business financing request, so it's important to organize the information in an easy to follow and understand format.

Underwriters are looking for a certain number of data points that they can analyse and score your financing request against.

Their job is mostly mechanical, scoring your application through some type of algorithm or score card.

Your job is to make their assessment as objective as possible by reducing the amount of subjective interpretations that can be made with what you give them to assess.

You do this by …

- providing information for the key areas they are interested in

- walking them through each section
- proactively explain any documents, reports, or statements provided that do not create proper understanding and context on their own.

Most of the time, underwriters are going to make assumptions, applying their personal bias, and performing educated or non educated guesses to fill in information gaps or conflicts in an application package.

The credibility of your request automatically shoots up if you just take the time to compile the information they need to see and present it in a manner that is easy to understand and follow.

Step 4

Manage The Application Process

Now that you've got a targeted lender list and an application package that accurately represents and explains your financing request, the next step is to make the application.

Before we do that, let's first go over application psychology and strategy.

Application Psychology

From a lender's perspective, lender's say No way more than Yes, and in some cases they don't say either, deciding instead to continually ask for additional information and drag out the process until you can produce your next set of accountant prepared year end financial statements.

Its also a volume game where underwriters are going to work through applications as quickly as possible to keep the line moving.

The best deals are usually going to have lender competition and/or time pressure connected to them.

So it's necessary for underwriters to get the first wave of screening done as soon as possible.

For most underwriters, it's open up the next file, take a quick look, decline, and move on.

This is exactly why the first two steps in the process are so important.

If you're applying to a lender that is highly relevant to your request, you get through the first screening quickly.

And if you have a well-prepared application, you immediately separate yourself from 90% of the other deals that got through the first screening, but aren't as well put together and explained.

So not only are you getting more immediate and serious attention in most cases, but you're also developing instant credibility with the underwriter.

Application Strategy

When to apply

If possible, you want to apply in the morning, early in the week. As the week goes on, backlogs can develop, and finance companies can spend Thursday and Friday getting the outstanding application pile down before the weekend.

Where to apply

You have already targeted the lenders or lender category that fits your deal. Now its time to submit your application package, but who on your list do you send it to?

I highly, highly, highly recommend sending your application into one lender at a time, and you should send it in to your best lender target first.

This recommendation is most relevant for non-standard requests.

There are a number of reasons for this.

1. If you send your information into your best lender target, and you get approved and funded, the process is over.

Mission Accomplished.

2. But if you get declined, you need to ask for the reasons why. This is valuable information to help you …
    - clarify who your next lender target should be
    - improve your application package to better address and support information areas that led to the decline.

It's not uncommon that an application gets declined when it shouldn't.

Underwriters are human.

They have different experiences, bias, personal opinions, personal and professional pressures.

If they didn't give a decision in your favour, is it because your business can't support an approval from that particular category of lender **or** is it because they didn't fully understand your package, made a bad assumption, or drew a false conclusion?

If their assessment was clear and accurate, then you need to consider adjusting your sights on a lender category that is better suited for your request.

Lenders within the same category are going to produce similar decisions most of the time, so you have to decide whether its time to change you strike zone or not.

If the reasons for the decline don't make sense, then look to strengthen your application package in the areas of concern, and move on to your next lender target in the same category.

The one at a time application approach may seem like it's going to take too much time, but if you do a good job of lender targeting and application preparation, the results are going to be better and faster that if you take a spray and pray approach where you apply to several lenders at the same time.

The goal is to make as few applications as possible for several reasons.

First, broadcasting your application all over the place directly impacts your credit as every application is going to generate an inquiry, which has an impact on your credit score.

Second, when lenders start to work on your file and see that there have been several inquiries on your credit bureau from other lenders, they will know that your request is being shopped around which makes them consider

- how much time they want to spend on your deal due to the number of lenders that are looking at it?
- why you haven't been approved yet and is there something wrong with your application that they need to look out for?
- the type of lender that is showing up in the inquiries and where each fits in the lending risk spectrum.

Third, if you get declined, you have the opportunity to learn from the decline and make adjustments before making a second application.

If you send out 5 applications at once, and the first one comes back with a decline, anything you learn from that application cannot be applied to the next 4 because you've already submitted them.

And if you're working with a broker, they need to be telling you who they're sending applications to on your behalf.

If a broker sprays your application all over the place, they aren't doing you any favors and may end up making the process even harder.

Your strategy in any step of the process, and the amount of time you spend, depends on the amount of money your trying to secure and the complexity of the deal.

For standard requests, you can consider applying to multiple lenders at the same time, select the most competitive offer, and complete the process quickly.

But for non-standard requests that are larger and/or more complicated, caution should be taken to strategically manage the process so that you don't go to broad and fast with the application process and destroy potential options along the way.

For larger and more complex transactions, lenders realize they must invest more time to try and figure out if an approval can be granted.

If they suspect that you're talking to several additional funding sources, they may decide to issue a decline and move on to the next deal versus investing resources assessing an opportunity that they think they'll have a lower chance of winning, or they put you on the back burner to see how things play out.

Application Submission

Once you have your application strategy figured out, the next step is to submit your application package to your targeted lender.

A typical package has an application form, a write up, and several supporting attachments.

Make sure everything is well labelled and consistently referenced so the information is easy to find, follow, and understand.

More complex applications can have dozens of individual documents, so labelling and organization is very important.

After you submit your application, follow up with the lender within 2 hours to confirm …

- that they received your application, and
- that they have received all the individual documents.

As an example, let's say that an application package was sent in over 3 separate emails and there were 21 combined attachments…did the lender receive everything? Were they able to open everything up?

Applications are typically received, assigned a number, and then put into a cue for review.

If we go back to the equipment financing example, for standard requests under $300,000, the review and decision-making process is typically 24 to 48 hours.

If you have not heard back after 2 full business days after an equipment financing submission, then you should follow up to check on the status and see if any additional information is required.

For non-standard equipment financing requests for higher amounts and greater complexity, the initial review typically will take 3 to 5 business days to be completed, depending on how many deals are ahead of you for review.

If you haven't heard back after 5 business days, then you should follow up.

As a general rule, the larger the amount of money and degree of complexity, the longer the process is going to take for any type of business financing request.

Deals over a certain limit are going to be assigned to specific underwriters which can also add time to the process getting your request into the right set of hands.

And, depending on your request, your application may need to go through multiple sets of hands and approval levels, which all takes time.

This is where you have to assess the time you have to work with against the options that are available.

For lower cost financing options, especially through banks, the process can take months, and at some point, you may not be able to wait any longer for an answer.

In general terms, regardless of the financing source, or what you need the capital for, you should get some solid feedback within 2 weeks.

It should be in the form of either a …

- discussion paper or set of follow up questions
- decline notification
- term sheet
- conditional approval.

If you're not hearing back after 2 weeks, its likely time to move on.

Term sheets may not be worth much other than providing the strike zone in which the deal could be approved.

That's still important, but no indication that an approval is forthcoming.

Term sheets can also be used as a stall tactic to keep you in the lenders deal funnel.

In these situations, the lender will provide them quickly to show interest in your deal, but an actual approval can be weeks away or may never come.

Your time requirements certainly need to be factored into your lender selection and your application strategy.

You have no control over someone else's time, so being realistic about how long the process is going to take with certain lenders is going to be important.

For instance, if you only have 2 weeks to go from application to funding for a deal, then you need to focus in on lenders that can work within that timeline.

This may also require you to accept financing that's available to you within that time window versus financing options that you could qualify for if you did not have a time constraint to deal with.

This is also why its important to start your 5 Step process early, regardless of what the financing request is for, or when you need to have funding in place.

The Approval's Terms and Conditions

When you do get an approval, its time to dig into the terms and conditions.

This is where your deal timeline comes in again.

If the terms and conditions are acceptable to you and you believe you can meet all the conditions in the time you have to work with, then it's time to accept the deal right away and move into the funding process.

With approvals, there are always a few things to remember.

- There is always going to be a better deal out there somewhere, but do you have time to go and find it?

  Bird in the hand.

- Approvals have a shelf life and if you leave them for too long they will expire with no guarantee that they will be reissued.

- Approvals with conditions you can't meet aren't worth much.

Which leads to the final part of Step 4 … Assessing the Conditions.

This is another critical part of the entire process.

And it can be hard when you're in a rush to just accept the approval and get on with meeting the conditions whether you're truly going to be able to meet them or not.

Take the example of an appraisal condition on a property purchase, or used equipment to be purchased from a private seller.

This can be a real wild card regardless of what you think the property or equipment is actually worth.

It can be hold your breath time until the appraisal comes back.

If the appraised value is too low, it might kill the deal completely and then you're starting all over again.

Lenders that rely on their own internal desktop appraisals are going to be able to approve, confirm value, and fund faster than those that don't.

But even if the appraisal condition gets checked off in time, you can run up against other conditions that can be hard to meet.

Don't automatically assume that approval conditions can be met, for a reasonable cost, in the time you have to work with.

Take a hard look at what the lender requires to fund and determine if it's doable to cover everything off in the time you have to work with.

Negotiate Terms and Conditions

If you get an approval and still have some time to work with before you need funds, there may be an opportunity to negotiate terms with the lender.

If the lender likes your application and knows that you likely have other options available in the time you have to work with, there is a reasonable chance that you could get them to…

- lower the rate
- reduce the down payment
- extend the term
- adjust some other feature
- or soften or remove one or more conditions.

Any leverage you have to negotiate on an approval will typically relate to a standard financing request.

For non-standard requests, especially ones that took some time to get approved, the terms and conditions are typically more rigid.

Step 5

Meet the Conditions of Funding

In step four I went over the importance of assessing the conditions of funding and making sure that these terms are reasonable and can be completed for a reasonable cost in the time you have to work with.

One of the trickiest parts of any type of business financing approval can be getting the funding in place by the time you require it.

Especially with asset acquisitions, many deals are time sensitive, and if funding doesn't get into place by a specific date, you lose the deal and are left looking for other options that may fit your requirements.

This can be disastrous and hard to avoid.

So let's go over what you can do to get funding completed a very high percentage of the time, on any business financing approval you get now or in the future.

In **Step 4**, I went over the importance of assessing your ability to meet all the conditions in the time you have to work with.

This is critical.

If you don't think you can get every single condition signed off, then don't accept the approval.

I've seen deals where the business owner or manager figured that if they could get most of the conditions met, that the lender would soften on the rest.

While I guess anything is possible, I wouldn't bet on.

Sure, there are times when I have seen a lender soften on what is required to satisfy a condition, but its rare that they will wave a condition all together.

I've also seen deals with over a dozen conditions fall apart when just one of them could not be met.

What a waste of time.

And it can get worse.

You may have customers, and projects, and all sorts of work lined up that depend on you securing business financing by a certain time.

If the deal can't get funded, it's not only the time and cost of working through the financing option, it's also all the other direct business costs and opportunity costs associated with not being able to move forward when capital absolutely needed to be in place.

So you're probably wondering what else you can do to get the deal funded after you have determined that all the conditions can be met in the time you have to work with?

Let me show you exactly what I do.

This may sound a bit strange, but it starts with getting paranoid and staying that way until the deal gets funded.

Former Intel CEO Andrew Grove coined the phrase "the paranoid survive", and while he was talking about the fast moving world of

computer chips, he could have easily been talking about the funding process.

When I say get paranoid, what I mean is don't assume anything, don't assume anybody in the process will do anything, and if they do, they won't do it correct, or do it when required.

Also expect that the whole process will be brutally hard.

I know that sounds pretty dark, but let me explain why I take this approach.

The conditions of an approval typically require people other than yourself to do something.

This can include things like …

- insurance confirmations
- financial statement completion
- new insurance policy approvals
- third party appraisals
- environmental assessments
- production reports
- quality professional reports
- letters of intent
- lender lien removal
- landlord waivers
- custom brokerage
- trucking and storage
- building renovations
- proof of ownership
- change of registration
- and so on, and so on.

All these things that stand between your approval and funding, require third party companies to do something for you to meet the conditions.

These companies all have employees and perhaps contractors that will be individually doing all or part of the work required to meet the lender's condition.

So depending on the approval, there can be dozens of people that may have to do something required to get your deal funded.

It can get even worse.

Person A from company X, may not be able to do what they need to do until person B from company Z does their part first.

And remember, all these people working for other companies are not sitting around waiting to help you…they're busy with all sorts of other stuff as well.

They can also be on holidays, or be sick, or new to their job and not know anything.

The funding process gets messed up a high percentage of the time when the business applying for the capital assumes everything will get completed properly within the time expected.

This is almost never the case, even for smaller and simpler deals.

Here's the solution.

As the business owner, you or your designate, needs to project manage the funding process to completion.

You need to map out …

- everything that the lender requires to fund
- identify every third-party company that needs to be involved
- Identify every individual who has to do anything related to satisfying the conditions.

This is where you need to get paranoid and assume that nobody will do anything.

This is where you need to trust me.

Even for simple financing requests, I've seen the funding process become this wild, stress filled ride to the finish line.

It's a process of communicate, verify, and confirm.

90% of everything will likely get done on a timely basis and meet the lender requirements, but 10% won't and its impossible to know which 10% will be the problem.

And it's not that anything being required is unusual or unreasonable…it typically just has to all be done in a very short period of time.

So you need to communicate the requirements to everyone involved in the process, follow up to determine how things are progressing, see if any additional information or instruction is required, and problem solve anything that gets stuck along the way.

Also remember that until a lender signs off on a condition, the work element for a condition remains incomplete.

Its not over until its over.

Until the referee says you cross the goal line, you don't get to spike the ball and do you're touch down dance.

Communicate, confirm, verify.

It's also going to be important to keep your cool.

There will be delays.

There will be stuff that gets done that needs to be redone because it was done incorrectly the first time.

There may be people you want to scream at.

Funding is easily the most frustrating and underestimated part of the entire process.

Even when you have a clear picture of everything that needs to be covered off in funding, the process to complete everything accelerates, making it harder to keep track of all the moving parts.

And delays can be expensive.

Take a real manufacturing equipment example I worked through a couple of years ago.

The equipment delivery got delayed because the building the equipment was going into still required the main door to be widened by the landlord in order to get the equipment in the building. Because the equipment couldn't be delivered on time, the delay increased the cost of storage. The power also had to be upgraded from 2 phase to 3 phase. As a result, the installer and the trucking company had to be rescheduled. Weather was a problem as the equipment could not be delivered in sub zero temperatures.

The lender would not issue final payment until delivery was completed and the unit was commissioned which couldn't happen until …

- The door got widened
- The power got increased
- The trucking company and the installer got rescheduled…but that also depended on the weather.

I know I'm painting I grim picture.

The point here is not to be surprised and unprepared.

It's easy for a week to go by with not a lot getting signed off.

Don't wait a week to get on top of the process.

Start the day you sign off on the approval.

The magic of this approach is that if you expect the process to be hard, and you're on top of the details right off the hop, then you're going to get the deal funded on time, a very high percentage of the time.

If you take the approach that its going to be hard, and it ends up being easy, that's great.

Just don't assume that it will be easy because that's when you're going to have problems.

So that it.

That's my 5 Step process that I follow for each and every deal I work on.

As a quick review, the 5 steps are …

1) Clearly Define Your Business Financing Goal.

2) Identify the most relevant lenders.

3) Creating an Application Package that has at least an 80% probability of generating an approval you'll be seriously interested in.

4) Manage the Application Process.

5) Meet the Conditions for funding.

The 5 Steps provide a multiplier effect in that if you do every one correctly and in order, you exponentially increase your odds of getting better overall results.

This is also not a black and white mechanical process that spits out a specific result each and every time.

This is about increasing the probability of success and achieving the goal a high percentage of the time.

There is strategy involved and tremendous variability from one application and lender to the next.

But I'm confident that if you follow my process, you're likely going to get better results, save on financing costs, and increase profits over time, when business financing is more predictably acquired.

*****

If you want to discuss a specific business financing scenario you need help with, you can send me a note through my contact form at

https://bfefinancial.com/contact-us/ , or go to https://go.businessfinancespecialist.com/book-a-call-555 and schedule a time when we can talk.

I work primarily on non-standard requests of at least $100,000 to several million dollars. If you're stuck or need some help, then give me a call.

This is typically a 20 to 30 minute conversation where you tell me about

1. your financing request
2. the financing terms you're seeking
3. your financing and credit profile
4. any challenges or issues you're facing.

At this stage, I'm not going to ask you to complete any forms or send me any financial documents.

My goal is to provide you with immediate feedback that can assist you with your business financing process.

If I can't help, I'll tell you right away as I don't want to waste your time or mine.

And if I can suggest other professionals or resources that may help you, I certainly will.

This is a free initial consultation, and all information provided will be kept confidential.

Most of my origination services are 100% performance based which means you never have to pay me if I don't help you locate and secure financing.

If you want help with your financing strategy, or want to manage the process yourself but need some help with one or more of the steps, we can talk about that too.

Thank you for your interest in learning more about the business financing process and I wish you all the best with your business financing endeavours.

Take Care

Brent Finlay