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D-SRC Funder's Toolkit

Part I: The Founders Guide to Securing Financing and Loans for your Small Business

Character Based Lender:

noun

an entity or organization that lends sums of money at interest to Founders who can not access small-business capital from a traditional lending institution (i.e. bank or credit union)

Contents

The Funder's Toolkit Part I: Financing and Lending

The DSOURCE Funders Toolkit was built to support Founders and small businesses seeking funding to upstart or expand their operations. Adequate access to funding is not always a reality for small businesses, but with the proper preparation, you can significantly improve your outcomes with Grantmakers and Lenders.

This guidebook is divided into two parts, representing the two types of small business Funders we teach about: (1) Grantmakers and (2) Lenders. In the startup and growth stages of running a small business, Founders will most likely encounter one of these Funders before major investors, venture capitalists, and other funding groups. Part I of this guide is designed to support applications with Traditional Lending Institutions, and Character-Based/Character Based Lending Institutions.

This guidebook does not guarantee approval for a small business loan, but it will support you with understanding your loan application from your Lender's point of view. Use the insight provided in this guide to understand which areas of your business Lenders will assess most critically and stay prepared to apply for financing.

I: Traditional Lenders and Their Priorities

Loans with Traditional Lenders

Traditional lending institutions include banks, credit unions, and other private financers. Traditional lending institutions offer high spending flexibility, high control, and low interest rates. Credit unions in particular are associated with even lower fees and interest rates on commercial loans than banks.

Traditional Lenders are known for strict financial eligibility requirements for business loans. Their priority is Founders with a good credit standing, strong financial statements, and profitable operations. While Character-Based Lenders usually take risks in companies that have not yet proved profitable, Traditional Lenders will take no such risk. To be eligible, your company must be consistently profitable, which disqualifies most startup Founders. On the other hand, Founders approved for loans with Traditional Lenders enjoy lower interest rates and better payment terms - making these loans ideal for those who qualify for them.

Before applying for a loan with a traditional lending institution, contact your prospective institution's Business Services Department to discuss lending requirements and the application process. This will provide an opportunity for you to understand your application's potential and take the appropriate measures to rectify red flags.

Traditional Lender Priorities

A financially favorable Founder and Company	An owner with strong personal credit and financial history. This includes a good debt to income ratio, on-time payment history, etc. A company with strong finances as evidenced by financial balance sheets, profit and loss statements, and positive business credit
Profitable products	Products and services being sold and consistently earning a profit as demonstrated by financial statements and most recent tax filings

Traditional Lender Expectations

Ideal Applicant	Approximate Review Period	Communication and Follow Up	Award Amounts
A Founder and Company with good credit standing, strong financial records, and documented profitability evidenced by tax returns	5-10 business days	Regular, sometimes daily follow up	~ $1,000 - $1,000,000 Depending on credit history and profit margin

II: Character-Based Lenders and Their Priorities

Loans with Character-Based Lenders

Character-Based Lenders offer the most accessible financing options for small businesses. Typically backed by the Small-Business Administration, these Lenders have funding programs designed specifically to support marginalized Founders. That is, Founders who may not be able to access capital from Traditional Lenders. The term "Character-Based Lender" is used to describe how these non-traditional lending institutions assess their applicants - as individuals with unique personal and professional circumstances that influence the Founders ability to successfully grow their company.

Character-based assessments help to make small-business loans more accessible for the Founders who need them most, but that does not mean securing capital is easier with these Funders. These Lenders request much more documentation from Founders to execute a character-based assessment. While your credit and financial history will be factored in during the underwriting process, these Lenders will be equally concerned about

- Who you are as a Founder;
- Why you started your company;
- How well you currently manage your company;
- The added value of your products and/or services in the market;
- The integrity of the project for which you seek funding; and
- Your capacity to manage the responsibility of a loan.

Character-Based Lender Priorities

Legally secure operations	The company is incorporated with the state and the management team has obtained required professional licenses, permits, etc.
A strong Founder	One who is seasoned in the profession, has a compelling reputation in the industry, and demonstrates strong project management skills as evidenced by the integrity of the project for which you seek funding
A completed business plan	One that includes the minimum information required by the Lender
Control of personal finances and credit	An owner with well-managed personal credit and financial history. This includes knowledge of credit standing and a documented plan of action to address negative remarks.
Detailed financial records	Organized and promising historical balance sheets, profit and loss statements, and projections
An integral retail and professional services plan	A retail and professional services plan that includes certified professional service providers and contractors, an executed commercial lease, and/or well documented plans for construction and ongoing product development

Character-Based Lender Expectations

Ideal Applicant	Approximate Review Period	Communication and Follow Up	Award Amounts
A Founder and Company with a good handle on finances, strong business documentation, and high growth potential as evidenced by conservative financial projections	4-24 weeks	Regular, sometimes daily follow up	~ $1,000 - $500,000 Depending on startup need and current debt

III: Locating Traditional Small-Business Lenders

Find Traditional Lenders

If you have a personal bank account established, you may find it worthwhile to inquire about small-business loan at your home institution. It can also be beneficial to explore your sea of financing options before making a final choice. You can locate Traditional Lenders using methods such as:

- Completing a web search
- Contacting local small business resource centers
- Using the SBA Lender Match Tool
  - If the link is broken, copy and paste the following link into your browser
    - https://www.sba.gov/funding-programs/loans/Lender-match

Examples of Traditional Small Business Lenders include:

- One United - Business Loans
  - If this link is broken, copy and paste the following kink into your search bar
    - https://www.oneunited.com/introducing-a-powerful-resource-for-small-business-loans/
- Liberty Bank - Small Business Loans and Commercial Loans
  - If this link is broken, copy and paste the following kink into your search bar
    - https://www.libertybank.net/business/lending/commercial_vs_small_business/
- First Independence Bank - Commercial Loans
  - If this link is broken, copy and paste the following kink into your search bar
    - https://www.firstindependence.com/business-banking/commercial-loans/
- Carver Bank - Business and Commercial Lending
  - If this link is broken, copy and paste the following kink into your search bar
    - https://www.carverbank.com/lending-solutions/business-and-commercial-lending
- Navy Federal Credit Union - Business Loans
  - If this link is broken, copy and paste the following kink into your search bar
    - https://www.navyfederal.org/services/business/loans.html
- Citizens Equity First Credit Union - Business Loans
  - If this link is broken, copy and paste the following link into your search bar
    - https://www.cefcu.com/business/borrow/loans.html
- Michigan State University Federal Credit Union - Business Loans
  - If this link is broken, copy and paste the following link into your search bar
    - https://www.msufcu.org/businessloans
- Lake Trust Credit Union - Business
  - If this link is broken, copy and paste the following link into your search bar
    - https://laketrust.org/Business/

IV: Locating Character-Based Lenders

Find Your Local Character-Based Lending Institutions

Character-Based Lenders can generally be found in the same places as your local small-business resource centers. You can usually locate these financers by:

- Contacting your local Small Business Development Center
    - If the link is broken, copy and paste the following link into your browser
        - https://www.sba.gov/local-assistance/resource-partners
- Through your local SBA Microlending Partners.
    - If the link is broken, copy and paste the following link into your browser:
        - https://www.sba.gov/partners/Lenders/microloan-program/list-Lenders

Examples of Character-Based Small Business Lenders include:

- Michigan - Michigan Women Forward
    - If this link is broken, copy and paste the following kink into your search bar
        - https://miwf.org/
- Illinois - Allies for Community Business
    - If this link is broken, copy and paste the following kink into your search bar
        - https://a4cb.org/
- Minnesota - Women Venture
    - If this link is broken, copy and paste the following kink into your search bar
        - https://www.womenventure.org/
- California - Women's Economic Ventures
    - If this link is broken, copy and paste the following kink into your search bar
        - https://www.wevonline.org/funding/
- Washington D.C. - The Washington Area Community Investment Fund
    - If this link is broken, copy and paste the following kink into your search bar
        - https://wacif.org/
- Florida - Partners for Self Employment
    - If this link is broken, copy and paste the following link into your search bar
        - http://partnersforselfemployment.org/
- Georgia, Texas, Louisiana, Alabama - LiftFund
    - If this link is broken, copy and paste the following link into your search bar
        - https://www.liftfund.com/
- New York - Renaissance Economic Development Corporation
    - If this link is broken, copy and paste the following link into your search bar
        - https://www.renaissance-ny.org/

V: Assessing Your Small- Business Lender(s)

The Character-Based Lender Assessment

Be sure to do your research on any Lender that you are interested in prior to applying. Lender Characteristics to consider include:

- The Lender's mission/vision
- The Lenders geographical service area
- The Lender's interest in supporting or ability to fund companies in your industry
- Accessibility of the Lender's main office location or headquarters
- Your ability to speak with a human during the pre-application and underwriting process
- The Lender's interest rates
- Minimum or maximum revenue requirements
- Minimum or maximum employee requirements
- Minimum credit requirements
- Minimum equity requirements
- Alignment of your funding needs with the Lender's financing capacity
- The Lender's flexibility with how you spend loan dollars
- The Lender's repayment terms and amortization schedule
- Additional resources provided by the Lender to loan clients

Use the "Assess Your Lender" Template on the next page to evaluate potential lending institutions for your company's next loan. You can also download the Assess Your Lender template separately in your DSOURCE account!

The Character-Based Lenders Assessment: SAMPLE

Use this template to assess Character-Based Lenders and ensure alignment prior to submitting an application.

LENDER NAME: ______________________________

INQUIRY If the Lender is a good match for your company, all of the below inquiries should be affirmed.	✓
My company is based in the Lenders' geographical service area	
I can speak with a human during the pre-application and underwriting process	
My company's Founders meet the Lenders' demographic requirements such as residency, race/ethnicity, sex and/or sexual identity, student enrollment, etc.	
The Lender's physical office location or headquarters is accessible within a reasonable distance	
My company operates in an industry of the Lenders' interest	
The Lender allows loan funds to be spent on all items necessary to complete my project (e.g., construction, employees, property, etc.)	
My equity investment meets the Lender's minimum equity requirements	
My company's products and services aligns with the Lenders' mission, vision, and funding interest	
The Lender's interest rates are fair and reasonable	
My company meets the Lenders' physical operations requirements (i.e. commercial location or brick-and-mortar storefront,)	
My company meets the Lenders' tenure requirements. (Years in business)	
The amount of funding my company will request is ⩽ the amount of funding per awardee	
The company meets the minimum and/or maximum employee requirements identified by the Lender	
My company meets the minimum and/or maximum revenue requirements identified by the Lender	
My company meets the minimum and/or maximum fundraising and finance requirements identified by the Lender (i.e. "at least $50,000 raised"or "at least $100,000 in previous financing secured")	
My company's Founders have no conflict of interest with companies or institutions affiliated with the Lender	

You can also download a fillable version of this template in your DSOURCE Account.

VI: Preparing to Apply for a Character-Based Loan

Preparing your Traditional loan application.

When you begin preparing your application with a Traditional Lender, you will be prompted to submit financial and personal information online or with a Loan Officer. Traditional Lenders provide a quick turnaround time on applications - with decisions made the same day in some cases. If your application with a Traditional Lender is unsuccessful, the Lender will provide you with a decision letter outlining the specific reason(s) for your denial. If you receive a denial letter from a Traditional Lender and plan to reapply for a traditional loan, you should rectify the issues outlined in your decision letter to improve your chances of success the next time around.

If you are unable to find success with Traditional Lenders, or if an application with a traditional lending institution is not a good fit, you may want to consider applying with a Character-Based Lender. Character-Based Lenders conduct an in-depth evaluation of your company that extends beyond simple measures of finances and credit. In the last sections of this toolkit, we will uncover the Character-Based Lenders underwriting and application review process.

The Character-Based Lender's Checklist

The Character-Based Lender's Checklist is an index of the most critical elements of a character-based loan application. This comprehensive checklist helps your company understand what your Loan Officers may require during the underwriting process before they will move your application forward for a decision. Every Character-Based Lender may not require all the items on this list, but if you have all these items organized, prepared, and on-hand, you can improve your Loan Officer's efficiency, decrease the processing time of your application , and increase your chances of success.

The Character-Based Lender's Checklist

Use this checklist to compile all the necessary business records, documentation, and items necessary to submit a complete application for financing with Character-Based Lenders.

Category	Items	RESOURCE
Legal Documentation	Business License and Incorporation Documents	State Licensing Office
	IRS EIN Letter/Number	IRS
	Liability Insurance	Founder/Business Records
	Required Industry Certifications and Trainings	Govt or Industry Institution
	Required Operational Permits	Govt or Industry Institution
	State Issued Certificate of Good Standing	Govt or Industry Institution
	Proof of Resolved Business Litigation, Disputes, and Liens	Govt Offices and Courts
Business Plan	Executive Summary	DSRC One-Page Business Plan, One-Page Operations Plan and DSRC Pricing Template
	Ownership and Management Description	
	Current and Future Operations Strategy	
	Sales, Profits, and Projections Description	
	Market Analysis	
	Marketing Plan	
	Appendix w/ Verifiable Supplemental Documentation	
Active Marketing	Social Media Links	Founder/Business Records
	Website(s) and Landing Page(s)	
Business Financials and Proof of Operations	Active Business Bank Account	Founder/Business Records
	Digital Payment Receipts, Invoices, Records	
	Current (Ongoing) Clients/Contracts	
	3-Years of Monthly Balance Sheets	DSRC Comprehensive Balance Sheets Template
	3-Years of Profit and Loss Statements	
	3-Years of Federal and State Tax Returns	Founder/Business Records
Financial Projections	Sources and Uses Budget/Startup Costs Budget	DSRC Comprehensive Financial Projections Template
	Revenue Assumptions	
	Expense Assumptions	
	1-Year Monthly Financial Projections	
	5-Year Annual Financial Projections	
Commercial Property Information for Existing and Aspiring Brick and Mortar Businesses	Purchase Agreement, Lease, or Letter of Intent	DSRC Retail Readiness Guide: Part I: Retail Leasing and Part II: Commercial Construction
	Commercial Property, Location, and/or Site Photos	
	Professional Quotes for Construction/Engineering	
Proposals for Professional Services for applications that with related costs	Proposals and/or Scope of Work for Professional Services	DSRC Retail Readiness Guide: Part I: Retail Leasing
	Proposals and Quotes for Other Business Services	
Professional Information	Founders, Owners, and Management Team Resumes	Founder/Business Records
	Management Team Certifications and Licenses	
Personal Financial Information	Personal Financial Statement	DSRC Personal Financial Statement Template
	3-Years of Federal and State Tax Returns	Founder/Business Records
	All 3-Bureau Credit Reports (Equifax, TransUnion, Experian)	
	Documentation of Disputes filed with Credit Bureaus	
	Documentation of Collection Agency Payments/Arrangements	
	Bankruptcy Discharge Paperwork	
Branding	Product Photos	Founder/Business Records
	Logos and/or Branding Plans	

You can also download this template in your DSOURCE Account.

VII: Underwriting with Character-Based Lenders

The integrity and stability of the business and its Founders are the main priorities for Character-Based Lenders and their analysis of your application will reflect this. It is your responsibility as a Founder to ensure that your Loan Officer comes away from communication(s) with you feeling confident about your ability to manage the responsibility of a business loan. You can accomplish this through submitting a complete, organized application; professional and timely communication; properly documenting and sharing your industry knowledge and management experience; demonstrating control and adequate management of your business and personal finances; and documenting proper due diligence on your proposed retail development plans

The Character-Based Lenders' Underwriting Process

1. Intake
    - Once your loan application is received by the Lender, an intake staff person or Loan Officer will contact you to make a brief introduction, ensure completeness of your submitted application, and/or schedule an introductory meeting. As the individual responsible for processing your application, the Loan Officer will want to learn more about your company and its Founder(s).
2. Interview(s) and Underwriting
    - Following intake and initial application review, the Loan Officer will setup an official introductory interview with you to gather more information about your business. The Loan Officer will share information you provide with their underwriters for review and consideration. This part of the process requires ongoing back and forth between the underwriter(s) and the Loan Officer, and in turn, the Loan Officer and you. The Loan Officer will provide follow up tasks as necessary to address or remediate areas of concern expressed by the underwriter(s). If this part of the process begins to feel meticulous, that's because it is. Your Loan Officer and their underwriter(s) are helping you to strengthen your application - and for very good reason considering the additional steps to approval ahead.
    - Once your Loan Officer and underwriter(s) agree that your application and supporting documents are sufficient, they will refer your application for presentation at the Lenders "Loan Committee." Loan Committees are boards made up of multiple voting members who make loan determinations on a rolling basis. Most Loan Committees meet at least once per month to consider active applications that have advanced past the underwriting stage.
3. Loan Committee
    - At Loan Committee, your Loan Officer will make a presentation about you and your company - highlighting information provided during the application and underwriting process
4. Loan Decision
    - Following your loan application presentation, the Loan Committee will vote on whether to approve your application. Your Loan Officer will follow up with you after the Loan Committee decision to provide the outcome and next steps.

VIII: Character-Based Lender Interviews

Reflect honestly about your business. What additional questions might your Lender have about the nature of your business, your professional track record, and your personal financial circumstances?

Questions the Funder may have about your company include...

- Describe your company. What do you do? How? When? With whom? Where? And why?
- What voids or opportunities prompted you to start your business?
- Which revenue sources sustain your business most? How will this change with a loan?
- In what way does your business present a game changer or solve an important problem?
- Describe your team's professional experience and how it contributes to your company's success?
- Is every person on your management team licensed to work in your industry?
- Describe the current state of your company - your strengths, barriers, and significant needs.
- What is the status of government permits and approvals necessary to operate your business?

Pro Tip: If you are submitting a loan application and feel unprepared to respond "on-the-spot" to potential Lender inquiries, this is a good sign to do additional preparation. Write down professional, transparent, and concise responses to questions that may arise during the underwriting process.

You should also come prepared with your own set of questions for the Lender. Consider how this funding opportunity needs to serve you and your company. .

Questions that Founders may have for their Lenders include...

- How does the Lender's review process work?
- How long does it usually take to get through the underwriting process?
- What follow up or ongoing communication should I expect to move my application forward?
- Does the Lender require a commercial lease be signed to finance my retail development project?
    - Does the Lender provide resources to assist with the commercial leasing process?
    - Does the Lender provide resources to assist with the commercial buildout process?
- Are there any other elements of my application that may delay underwriting?
    - What can I do to move these items forward as quickly as possible?
    - Does the Lender have resources or connections with local providers to assist with these items?
- When and how often does your Loan Committee meet to make decisions on applications?
- What does your Loan Committee or Board of Directors look for to approve a loan?
- How are my financial statements and credit analyzed in the evaluation process?
- Is there anything else that the Loan Officer suggest I do or submit to improve my application?
- <u>*If your loan request exceeds your Lender's cap amount*</u> Is the Lender open to partnering with another Lender to fulfill my loan request?
    - Does the Lender have preferred loan partners on requests of this nature?

IX: Finances and Credit with Character-Based Lenders

How personal finances influence underwriting with Character-Based Lenders

Be prepared for your Loan Officer to evaluate the following in your financial and credit assessment(s):

- Personal and Business Tax Returns
- Business Income Records
- Business Balance Sheets and Profit and Loss Statements
- Founder's Personal Financial Statement(s)
- Founder's Personal Credit Reports
- Documentation of Collection Agency Payments or Arrangements
- Bankruptcy Discharge Paperwork
- Monthly Financial Projections
- Annual Financial Projections

Personal and Business Taxes

Lenders use tax returns to get a general overview of your gross and adjusted gross income. Your business tax returns tell the Lender your annual revenue (gross income) and illustrate the current profitability of your business (adjusted gross income). Most Lenders assess your profit-and-loss statements alongside adjusted gross income to determine your capacity to afford the loan. Although you decrease your tax burden by claiming various adjustments to income, a lower adjusted gross income could affect your borrowing capacity. Lenders may require that your application include tax returns for all years that your company has been transactional."

Pro-Tip: Make up for a low adjusted gross income with strong financial projections that show consistent projected profits in the future. Download the DSOURCE Comprehensive Financial Projections Workbook to get started.

Income Records

Lenders will verify the cash flow for your business and other revenue streams. This may include requests for digital payment records, receipts, paid invoices, signed contracts, paystubs, etc. This information will be used to evaluate your capacity to afford the monthly loan repayment.

Balance Sheets and Profit and Loss Statements

Lenders want to understand how your business fared in recent years - especially amidst different economic and social market influences. Digital records of your company's finances should allow your Lender to evaluate monthly, quarterly, and annual flows. Financial figures provided on tax returns and income records should reflect the cumulative figures provided in your company's balance sheets. Need to develop your balance sheets? Download the DSOURCE "Comprehensive Business Activity Statements" Workbook to get started.

IX: Finances with Character-Based Lenders ctd

Personal Financial Statement

Your personal financial statement is used to verify your assets. The assets and liabilities described in your personal financial statement tells your Lenders what kind and how much collateral each Guarantor has if your company defaults on a loan. Debts documented in your personal financial statement should align with your credit report. Need to develop a personal financial statement? Download the DSOURCE Personal Financial Statement Workbook in your account.

Credit Reports and Documentation of Collection Agency Payments or Payment Arrangements

Character-Based Lenders do not prioritize credit in the same way as their traditional counterparts, but they will consider it in evaluations about your stewardship as a Founder. An evaluation of your credit will tell Lenders how informed and in control of your finances you are.

Your Lenders will consider your credit report alongside your personal financial statement to calculate your debt-to-income ratio (DTI). DTI = Total monthly debt payments ÷ Gross monthly income. A healthy DTI is usually somewhere around 35%, but some Character-Based Lenders will accept a DTI up to 50%. Use your personal financial statement and credit reports to calculate your DTI and be prepared to discuss any potential flags with your Lenders.

Lenders will ask questions about any flags on your payment history; how you are currently managing items in collections; your current level of communication with your debt collectors; and your plans for rectifying past due payments, items in collections, judgements, and liens. Uplift an unfavorable financial picture by providing documentation to highlight active steps you are taking to improve your situation. Your knowledgeability of your current credit standing and documented future plans to improve your personal finances tells Lenders a lot about how you manage your company's finances and in turn, how well you may manage the repayment responsibility of a loan.

Demonstrate your financial responsibility to Character-Based Lenders by executing the following:

- Pull your personal credit reports from the three (3) bureaus and study the information in each
- Note potential red flags and your obligation or role in the debt
  - For any items you do not feel responsible for, dispute these immediately and prepare to provide verifications of these disputes to your Lenders
  - Prepare to discuss financial shortcomings and communicate a detailed plan of action to rectify negative remarks on your credit report.
- If you are making payments to debt collection agencies that are not reflected on your 3-bureau credit reports, you should compile this documentation for sharing with your Lenders.
- If you feel it necessary, prepare a financial history letter to go along with your application. A sample credit history letter can be found at the end of this section

IX: Finances with Character-Based Lenders ctd

Bankruptcy

Character-Based Lenders will want to understand the status of any bankruptcy that appears on credit reports. Most require that your bankruptcy be discharged before considering a new loan application. If you are still in the midst of bankruptcy it may be difficult to get financing for your small business. If you do find a Lender willing to work with you, consult with a bankruptcy attorney to make sure it will not jeopardize your case.

Monthly and Annual Financial Projections

Lenders want to know how your business finances will be impacted in both the short and long term as a result of financing. Most Lenders will request a digital version of your company's future financial picture. If you are not already, get good with spreadsheets and other software to track and manage finances. Download the DSOURCE Comprehensive Financial Projections Template to get started.

CHARACTER-BASED LENDERS CREDIT HISTORY LETTER SAMPLE

Contact Person Name, Title
Lending Institution Name
Lending Institution Address

Dear Mr./Mrs. [Address Your Letter to your Lender's Executive Director or CEO],

<u>1st Paragraph (3-5 Sentences)</u>

[Introduce yourself and your financial situation, including any bona fide financial hardships that have resulted in your current delinquency.]

Example: "My name is Lina Thomas, and I recently submitted a commercial loan application with the Minority Business Investment Fund. I am writing this letter to explain how my personal financial hardship over the last 3 years, led to multiple negative remarks on my credit history. In 2018, I was severely injured following a car accident. As a result of not being able to return to work full-time, I have fallen behind on credit card payments and sunk into debt to stay afloat."

<u>2nd Paragraph (3-5 Sentences)</u>

[Discuss what you have done so far or what you are planning to do to resolve your situation, and why you are unable to manage the hardship and keep up with your obligations.]

Example: "During more than a year of physical therapy and rehabilitation following the accident, I significantly reduced my spending. When this still did not afford me the ability to make ends meet, I started Lina's Lash Classes and began using the supplemental income to pay down my debts while I was out of work. Now that Lina's Lash Classes have become more popular, my income has stabilized, and I have begun paying my debts more aggressively with hopes of being debt free in the next 24 months."

<u>3rd Paragraph (Up to 3 Sentences)</u>

[State how a business loan and relationship with this Lender can help you succeed and say why you think success will be guaranteed if you gain the Lenders approval.]

Example: "I believe a commercial business loan from the Minority Business Investment Fund would allow me to purchase additional equipment and supplies, increase my class capacity, and significantly grow my brand. As a result, I will own a more stable business and reach financial freedom much sooner than expected."

Enclosure (Limit to description of attachments and a "Thank You" note)

[Make note of attached financial records and other documentation to accompany the statements you've provided above. Sincerely thank the Lender for their consideration and invite them to contact you by your preferred method.]

Example: I have attached a copy of the insurance claims following my accident in addition to subsequent medical bills, and proof of payment made to various delinquent balances. I appreciate your time and consideration of my unique circumstances in your decision-making process. I hope to work with you and partner with the Minority Business Investment Fund to make my dream become a reality.

Your Name
Your Business Name
Your Contact Info

You can also download a fillable version of this template separately in your DSOURCE Account!

X: Keys to Success with Character-Based Lenders

Seek input from a Certified Public Accountant (CPA)

It is imperative that Founders be informed about the financial undertaking of a loan before making the commitment. A CPA can evaluate your balance sheets, your proposed project, and your finances to ensure you are making the best possible financial decision for your business. A CPA's preliminary recommendations can prove to be invaluable - helping you to see clearly whether a business loan will facilitate growth or put the company under stress. A CPA can help you leverage financing for additional growth and once you have secured a loan and manage your spending alongside your Lender's reporting requirements and maximize expenses for tax purposes. Prior to choosing a Lender, hire a CPA to help you consider your options and evaluate the risk and reward of borrowing.

Build rapport with your Loan Officer

Build a professional and friendly relationship with your Loan Officer during the underwriting process and make the experience working with your company a smooth and pleasant one.

Communicate in Writing - Follow up in Writing. Always

Throughout the underwriting process, your Loan Officer will contact you multiple times to gather more information for your application package and to share updates with you from their underwriters. Loan Officers who work for Character-Based Lenders are usually managing multiple complex loan applications at once, among other duties. To ensure that complex information communicated to your Loan Officer is reaching their underwriters as you intend it, always follow up in writing. Your follow up message from a verbal communication with a Loan Officer can simply include a summary of the conversation, written responses to underwriter concerns, and/or your follow up tasks as you understand them. Timely written communication is key to minimizing misunderstandings with your Loan Officer and properly advancing your application.

Be persistent

If you apply with a Character-Based Lender and do not receive a timely response - within five business days or within the timeframe specified by the Lender - always follow up by phone and in writing to inquire about the status of your application. If there was a technical problem with the Lender receiving your application, you will only find out if you ask.

Once you begin the underwriting process your Loan Officer is responsible for initiating communication with you on follow up items necessary to move your application forward. If ever your Loan Officer becomes unresponsive, it does not hurt to send a polite email to another appropriate staff person at the agency for assistance.

X: Keys to Success with Character-Based Lenders

Treat your Funders' follow up tasks like homework and be accountable to your process

Any follow up task that your Lender provides should be considered homework and you should do your best to complete these tasks as soon as possible and follow up immediately if you cannot. It is your Loan Officer's expectation that you will do the necessary work to see your loan application through. This includes seeking help when you are stuck and asking questions when you are confused. You should always leave meetings with your Loan Officer with full clarity on your tasks or follow up items. Depending on the task, you may need to invest additional time, research, or equity in your business to see things through to completion. If a task provided to you by a Loan Officer cannot be fulfilled due to factors that are beyond your control (e.g., financial or market barriers) share this information with your Loan Officer and request their support with getting resolve. Many Character-Based Lenders work with local non-profits, resource providers, and other funding institutions whose sole purpose is supporting small businesses with navigating startup and expansion barriers. Common issues related to tasks that your Loan Officer may give you include:

- Legal issues
- Land or building complications
- Construction delays
- Low availability of retail space in your area - limiting your ability to sign a retail lease
- Delayed processing times with approvals from your local or state government

In the event that an unforeseen circumstance or complex task stymies your loan application, be sure to communicate these things clearly with your Loan Officer. In addition to communicating issues, you should send your Loan Officer regular updates as you navigate these barriers and work towards solutions. Loan Officers are no stranger to the difficulties of getting a business off the ground, so they will usually hold space for you to resolve outstanding items. No matter your circumstances, if you have trouble completing a task, it is imperative that you ask questions, independently seek additional help and resources, communicate about your issues effectively, and most importantly, push forward.

Be patient - with the process and yourself.

While Character-Based Lenders are known for making financing and capital more accessible, that is no indication of how easy the process may be. Getting an application processed with these Funders can take several weeks or months - which involves much patience and persistence on behalf of the Founder to see it through to success. Getting a character-based Loan takes work, but the benefits if you are successful, are equally rewarding. Pace yourself, do what you can when you can, and keep pushing forward no matter what. You got this!

XI: Potential Outcomes with Character-Based Lenders

Approval

Congratulations!! You have successfully secured the capital needed to grow your business. And what a wonderful feeling it must be. Now that your application is approved, your Loan Officer will move you forward through the loan closing process. This requires signing agreements with your lending institution on payment terms and other due diligence items. All done with paperwork? Great. Now it's time to hit the ground running. You've got a company to grow!

Approval with Conditions

Great Job! Although your Lender may have an outstanding concern , it was not significant enough to deter the board from approving your application. Your Loan Officer may add conditions to such approvals, but these conditions are intended to help you become a better Founder and are easy to work into your operations and processes after loan closing.

Denial

Unfortunately your Loan Officer was unable to get an approval for your company this time around. Remember that a denial today is never a denial forever from a Character-Based Lender. These Funders want to see you remediate their concerns and come back when you are ready. Be sure to ask in-depth questions about what prevented your approval and inquire about resources that can help you to make progress on these items. Denial can give you a moment to step back and reevaluate your business model, personal circumstances, or other areas to assess when submitting another application would best serve you. If you take the time to work through the concerns expressed by your Character-Based Lender, they will be even more happy to see you return with an improved application.

XII: Managing a Character-Based Business Loan

Reconcile budgets to include actual loan payments

Your first step after getting a business loan should be revisiting your budgets. Include your loan payments in your business budgets and document your spending in a detailed manner. You will need this information later for tax purposes and if you choose to take out another loan, the Lender may want to see records of how previous funding was spent. If financing allows your company the extra wiggle room, hire a CPA to help manage your loan and your company's finances.

Inquire about free Professional Services and Technical Assistance Services that come with your loan

Character-Based business loans usually come with a host of free resources, increased access to grant dollars, and other opportunities that can help to improve your success as a Founder. If your Loan Officer does not provide these resources immediately after Loan Closing, be sure to ask anyway! Many Character-Based Lenders work directly with local small business development centers and partner with private and public groups to expand their capacity to support their loan clients.

Proactively communicate potential payment issues

One of the greatest qualities of Character Based Lenders is their ability to support you if you cannot make a business loan payment. But this also requires proactive communication from the Founder so that your Lender has time to find and allocate a resource to support you. Never let a payment go past due before contacting your Lender, telling them what is going on, and asking what options are available to support you. Business loans have major implications for your credit standing and your ability to borrow additional funding. Missed loan payments can set you back tremendously and simply communicating your issues can make the difference between a Funder trusting you with additional financing or not.

Next Steps

1. Download the DSOURCE "Assess Your Small Business Lenders" Template to evaluate institutions where you may soon be seeking financing
2. Download the DSOURCE "Character-Based Lender's Checklist" to begin compiling all of the necessary data and information to complete your loan application.
3. Download the DSOURCE Personal Financial Statement Template
4. Refer back to The Funders Toolkit Guide and Courses for tips as you prepare your loan package.
5. Download the DSOURCE Funders Toolkit Part II: Grantmaking to learn about how to obtain a grant for your small business

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