

WHO WE ARE



We Know Your Worth

Community Investment Corporation (CIC) is a financial empowerment nonprofit that provides access to the economy through homeownership, education, and entrepreneurship.

WHAT WE'LL COVER TODAY

- Context for Today (Types of Funding)
- Underwriting and the underwriter's mindset
- The 5 C's of credit and some key ratios
- Before you apply & documents you will need
- Being Loan Ready vs. Not Being Loan Ready
- Some Resources
- Q & A

THE MINDSET OF AN UNDERWRITER & WHY IT MATTERS

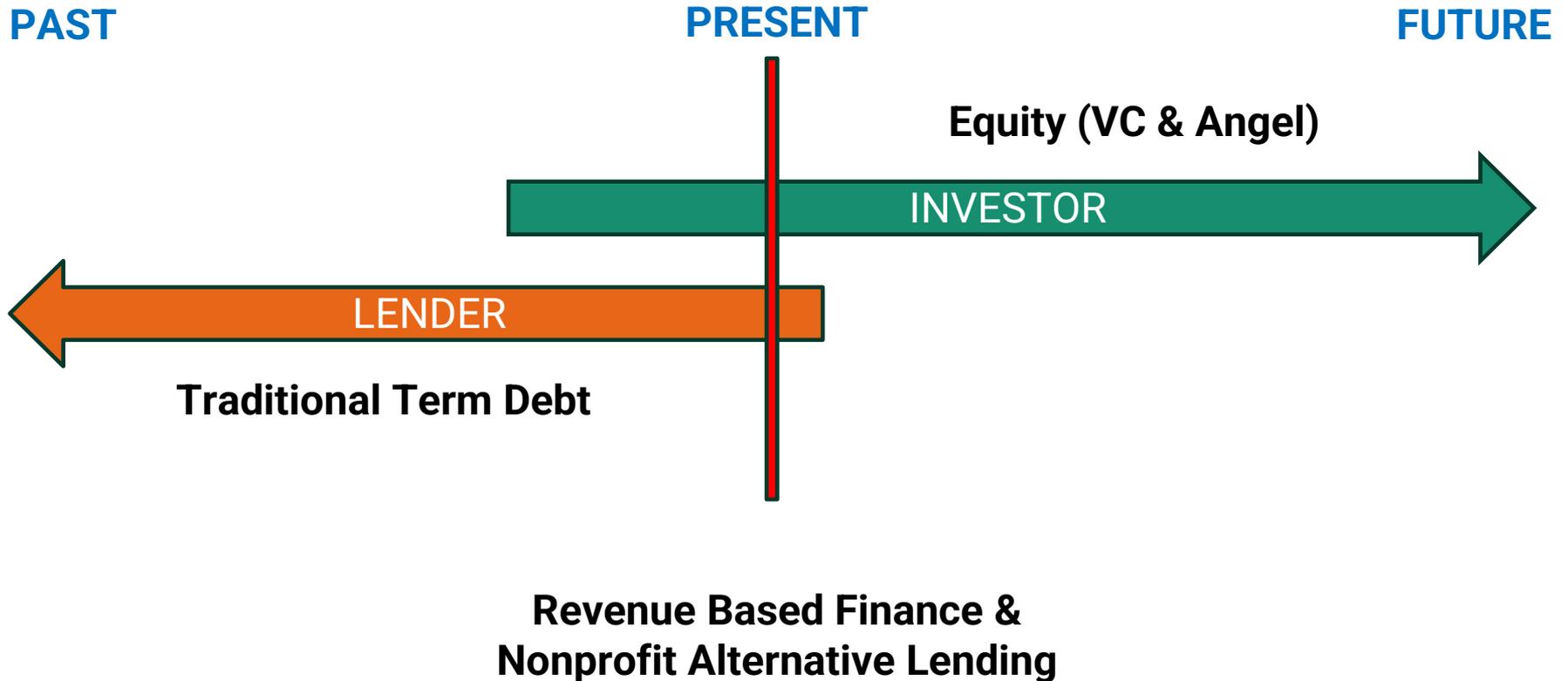
Your View of Your Business



Underwriter's View of Your Business



TYPES OF BUSINESS FUNDING



WHAT IS LOAN UNDERWRITING?

- Underwriting is the process of assessing the RISK
- Underwriters analyze financial and other information
- Focus is on repayment and/or recovering the value of loans in the case a borrower is unable to repay



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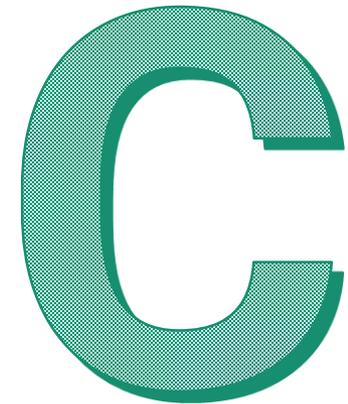
Loan Underwriters (generally) ...

- **Care about performance not potential**
- Rely on the past to predict the future
- Crave Consistency (between story and documentation)
- Prioritize documented data over all else
- Will look at personal wealth & performance as well as your business performance
- Look for what could go wrong and want to know that you have something to lose (besides your business)



THE BASICS: 5 C'S OF CREDIT

- **Capacity** - Applicant's debt-to-income (DTI) ratio.
 - **Character (Credit History)** - How good have you been at paying off previous debts?
 - **Collateral** – An asset that can back or act as security for the loan
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- **Capital** - Money that an applicant has.
 - **Conditions** - Purpose of the loan, the amount involved, and prevailing interest rates



is for...
CREDIT

KEY RATIOS

- Debt Service Coverage Ratio (DSCR)
 - Measures whether a business generate enough cash to service its debts
 - Best between 1.25 - 1.5 for traditional lenders
(i.e. 1.5 = \$1,500 net cash every month to pay \$1,000 worth of debt)
 - Many underwriters look at “Current Ratio” which looks for closely at debt to see what is due in the next year
- Loan to Value (of Collateral/Business/Revenues)
 - Loan amount divided by the value of the collateral/business/revenues)
- Collateral Valuation Discount
 - Lenders will not value collateral at the market price (i.e. what you paid for it) because there is a cost to collecting, holding, and selling it

BASIC CONSIDERATIONS BEFORE APPLYING FOR A LOAN



HOW MUCH MONEY DO YOU
NEED?



HOW WILL THE MONEY BE SPENT
AND HOW WILL IT MAKE YOUR
BUSINESS GROW? (BE SPECIFIC)



WHAT COLLATERAL DO YOU HAVE
TO GUARANTEE THE LOAN?

BEFORE YOU APPLY: BASIC REQUIREMENTS TO OBTAIN A LOAN

- Business has been legally established
- Registered with the AZ Corporation Commission and in good standing
- Tax-ID/EIN from the IRS
- Business bank account



TYPICAL DOCUMENTS REQUIRED

- Business Financial Statements
 - Profit & Loss Statement
 - Balance Sheet
- Business and Personal Tax Returns
- Business Debt Schedule
- Bank Statements
- Personal Financial Statement
- Credit Report
- Additional documentation as needed



BEING LOAN READY

- Existing business that has sales AND is profitable

AND

- Able to prove (via documentation of past performance) the ability to repay loan

AND

- Able to meet documentation requirements from previous slide

AND

- Has collateral to secure a loan

AND

- Know EXACTLY how loan will help business be more profitable

WHO IS NOT LOAN READY?

- Someone with an idea for a business
- Existing Business that is not profitable (or owner is unsure if or how profitable)
- Business that needs funds NOW
- Business is in trouble & needs a loan to stay open, pay off other debt, meet payroll, etc.
- Cannot or unwilling to provide basic business documentation including profit & loss

SOME RESOURCES

- Loan Preparation (differs from Business Education)
 - Small Business Development Centers (SBDCs) <https://azsbdc.net/where-we-are/request-advising/>
 - SCORE <https://www.score.org/>
 - Nonprofit Lenders
 - ✓ Growth Partners Arizona
 - ✓ Prestamos (Part of CPLC)
 - ✓ Community Investment Corporation
- More Plain Speak on 5 C's
 - <https://www.nerdwallet.com/article/small-business/master-the-5-cs-of-credit>
- More on Key Ratios
 - <https://resources.probe42.in/learn-with-probe/5-key-ratios-for-commercial-loan-underwriting/>

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