Community Economic Development Fund

BEFORE YOU APPLY

How to Prepare a Strong CEDF Loan Request

A practical guide to presenting your business clearly, supporting your financial expectations and understanding the borrower relationship that comes with CEDF financing.

> **Prepare your request. Understand the process. Understand shared obligations.**

APPLYING SOON? Spend a few minutes with this guide first.

You Are Applying for More Than a Loan

CEDF financing includes more than access to capital. If your loan is approved and you accept the financing, you also enter a business development community aimed at your sustainability and growth.

The funding sources that support CEDF's lending require us to maintain an active relationship with our borrowers. More importantly, we believe that capital produces better results when it is combined with coaching, education and accountability.

Your assigned Business Advisor will help you investigate business problems, recognize opportunities and consider practical ways to improve results. Advisors can share knowledge about management, marketing, financial controls and other business fundamentals. They may also connect you with educational programs, professional resources, suppliers or other useful contacts.

For example, an equipment loan may provide the capacity to accept more work. Your advisor can help you think about the related questions: How will you attract the additional customers? Will you need another employee? How will higher sales affect cash flow? What information should you monitor to know whether the investment is producing results?

The Business Advisory program also helps CEDF understand how borrowers are performing and identify concerns before they become more difficult to manage.

Participation is not an optional service offered only when you have a problem. Borrowers agree to communicate with their Business Advisor, meet regularly and provide requested business and financial information.

Being willing to participate does not guarantee loan approval. Before applying, however, you should understand that this relationship is

The Best Time to Apply Is When You Are Prepared

CEDF wants you to have the best possible opportunity to present a clear, credible and hopefully successful loan proposal. That begins before you begin the online application.

A loan application asks for facts and documents. A strong loan proposal goes further. It explains what your business does, how much money you need, how you will use it and how the business can repay the loan.

CEDF recommends completing our Ready for Business Success course and the Business Capabilities Self-Assessment before applying. These resources can help you recognize strengths, identify gaps and better understand the questions a lender may ask.

If your business has less than 24 months of revenue-generating operations, CEDF also recommends preparing a business plan and at least a first-year financial forecast. An experienced advisor—such as a CPA, or advisor from SCORE, the Women's Business Development Council or the Small Business Development Center — can help you test your assumptions and identify issues that need more work.

Pausing to prepare is not a failure. It may save time and help you communicate your proposal more effectively. Even significant time devoted to preparation does not guarantee approval. Every application must still be evaluated on its individual merits. But when your information is complete and your reasoning is clear, CEDF has a better basis for understanding your business and considering your request.

Ready to proceed? Apply when you feel prepared to explain your business, support your numbers and provide the requested information.

What Makes a Loan Proposal Strong?

Why the lender asks: The application tells us what you are requesting. Your proposal explains why the request makes sense.

Which Preparation Path Applies to You?

The information CEDF requests depends partly on how long your business has been generating revenue.

Less Than 24 Months

Be prepared to provide at least:

• A business plan
• The amount requested and specific use of funds
• Available tax returns and financial records
• Evidence supporting your sales expectations
• Information about your investment in the business

CEDF also strongly recommends a first-year financial forecast and review by an experienced advisor.

24 Months or Longer

Be prepared to provide at least:

• A concise executive summary
• Two or three years of tax returns, when available
• Current financial information
• A business debt schedule
• The amount requested and specific use of funds
• An explanation of significant recent changes

Historical performance should help show how the business can repay the loan.

A loan request is communicated through the facts and explanations in your online application, together with your business plan or executive summary and supporting documents. In this guide, we refer to all of this information collectively as your loan proposal; you do not need to prepare a separate document with that title.

A strong proposal should help CEDF understand:

• What your business does and who it serves
• Why customers choose your product or service
• How much financing you are requesting
• How you calculated that amount
• Exactly how the money will be used
• How the financing will help the business
• How the business expects to repay the loan
• What evidence supports your expectations

Be specific. Saying "I need $50,000 to grow my business" leaves important questions unanswered.

A stronger explanation might say:

"We will use $28,000 to purchase equipment based on a vendor estimate, $12,000 for installation and electrical work, and $10,000 for working capital while the new equipment is placed into service."

The proposal should also explain what the equipment will accomplish. Will it increase production, reduce costs, improve quality or allow you to serve more customers? How will those changes produce enough cash to make the loan payments?

Your business story and financial numbers should support each other. If your plan says you will hire two employees, your forecast should include their wages and related costs. If you expect sales to increase, be prepared to explain how you developed that estimate.

CEDF recommends reviewing your proposal as if you were seeing the business for the first time. Look for statements that need more explanation or evidence.

A clear, complete proposal does not guarantee approval. It helps CEDF understand the request, evaluate the reasoning behind it and determine what additional questions may need to be answered.

You're the Important Part of the Business Advisory Partnership

A productive advisory relationship requires cooperation from both the advisor and the borrower. If you accept CEDF financing, you agree to participate in the Business Advisory Program and meet the related terms of your financing.

Borrowers should expect to:

Meet

Your Business Advisor will generally request regular meetings, often monthly. Make a reasonable effort to set aside uninterrupted time so you can participate fully.

Respond

Reply promptly to meeting requests. If your schedule changes, provide as much notice as possible and work with your advisor to reschedule.

Prepare

When your business can produce financial statements, have current information available for meetings. If your business does not yet have reliable financial reporting, cooperate with your Advisor in working toward appropriate bookkeeping and financial controls.

Share

Be truthful and forthcoming about your business goals, operations, challenges and problems. Your Advisor cannot provide useful guidance when important information is withheld or delayed.

Provide Information

CEDF collects ongoing business and financial information required by funding sources, lending standards and the terms of your financing. Depending on your loan, this may include personal and business tax returns, an updated personal financial statement, evidence concerning tax obligations, employee information and updates about business property pledged as collateral. Provide requested information promptly.

These expectations are not paperwork for its own sake. Current information helps you and your Advisor recognize trends, investigate problems and consider possible solutions. It also helps CEDF monitor its loan capital and evaluate future requests, such as additional financing.

The final Business Advisory Agreement and your financing documents presented after loan approval will govern the exact requirements.

Before you apply, ask yourself: Am I willing to make time for regular meetings, communicate openly and provide financial information throughout the loan relationship?

See Your Proposal Thru a Lender's Eyes To Improve Success

You know your business from the owner's point of view. Before applying, CEDF recommends taking some time to consider how a lender may view your request.

Our Ready for Business Success course introduces important questions that commonly arise when a business seeks financing. Are you seeking the right kind of capital? Can the business comfortably repay the loan? Are your financial records current? Do you understand how credit, collateral, owner investment and management experience may affect the lender's evaluation?

The course uses straightforward explanations and assessment questions to help you think about these issues. Your answers may show that you are prepared in some areas but need more information or assistance in others. Depending on your answers we may refer you to one of the Small Business Administration partner organizations that provide free business advice to help you get better prepared.

For example, you may know exactly what equipment you want to purchase but be unsure whether the business will have enough cash left to cover operating expenses and loan payments. Recognizing that question before applying gives you an opportunity to investigate it.

Completing Ready for Business Success is strongly recommended, but it is not required and does not guarantee loan approval. Its purpose is to help you understand the lending process, recognize possible concerns and prepare a more thoughtful proposal.

Your Advisor Is a Facilitator—You Own the Work

CEDF Business Advisors bring experience in small-business ownership, financial management, marketing, operations and problem-solving. They understand the fundamentals that help businesses become stronger, even though they cannot be technical experts in every industry.

Your Advisor's role is to ask useful questions, listen carefully, help clarify issues and offer relevant knowledge. Your Advisor may help you turn a broad concern into a specific goal, locate a resource or consider different ways to act.

You remain the owner. You choose the improvement goals that matter to you, decide which recommendations to accept and take responsibility for following through.

Suppose you frequently run short of cash even though sales appear healthy. Our Advisor should not simply tell you what to do or take over your financial management. Your CEDF Advisor might help you examine when customers pay, when bills are due and how owner withdrawals affect available cash. Together, you could define a goal such as knowing your expected weekly cash position before making major spending decisions. You would then choose and carry out the actions needed to reach that goal.

Urgent problems will sometimes need attention. However, the advisory relationship should do more than respond to the "crisis of the month." Regular meetings create time to recognize progress, study what the business information suggests and work on improvements before they become emergencies.

You are not expected to agree with every recommendation. You are expected to participate openly, provide accurate information and make a reasonable effort toward the goals you choose.

Facilitator, not fixer: Your Advisor contributes questions, perspective, structure and relevant expertise. You contribute priorities, decisions, action and follow-through.

Watch: How the CEDF Loan Process Works

Our accompanying video follows a loan request from the online application through review, underwriting, a decision and—if approved—closing and the ongoing Business Advisory relationship.

This guide concentrates on what you should consider before applying. The video explains what happens after you decide that you are prepared.

The general process includes:

1. Prepare your request
2. Complete the online application
3. Receive an initial eligibility and completeness review
4. Provide additional information when requested
5. Participate in underwriting discussions
6. Receive a decision
7. Complete closing, if approved
8. Begin the ongoing Business Advisory relationship

Eligibility to apply does not mean that a loan will be approved. During underwriting, CEDF must determine whether the business appears able to repay the requested amount and whether the complete request meets applicable lending standards.

Questions and requests for additional documents are normal. They help CEDF understand the story behind the information you submitted.

Closing is not the end of the relationship. Borrowers agree to participate in the Business Advisory Program, meet regularly, provide ongoing financial information and work toward a stronger, more sustainable and increasingly bankable business.

The video explains the journey. This guide helps you prepare for it.

Watch the loan-process video at CEDF.org.

Forecasts Need More Than Optimism

A financial forecast (also called a cash flow forecast or projection) is your best estimate of what the business will earn and spend in the future. It is not expected to predict every result perfectly. It should show that you have thought carefully about how the business will operate. The format is best created with an Excel spreadsheet or business plan software. The business advisory organizations cited elsewhere or a CPA will be familiar with the mechanics of the spreadsheet format and can help you with the preparation.

CEDF strongly recommends preparing at least a first-year financial forecast. Although it is not currently listed as a required application submission, it can help you—and a lender—understand whether the business is likely to have enough cash to cover expenses and loan payments. Running out of money soon after securing a loan due to mistaken assumptions can be catastrophic.

Start with the assumptions behind your sales:

Number of customers × purchases per customer × average sale = projected revenue

For example, a cleaning company might expect 40 recurring customers who each pay an average of $200 per month. That produces projected monthly revenue of $8,000. The owner should be prepared to explain why reaching and retaining 40 customers is reasonable.

Your forecast should also include realistic costs. Consider inventory, materials, payroll, rent, insurance, marketing, taxes, owner compensation and other operating expenses. Include the payments for the loan you are requesting and enough working capital to handle periods when money comes in more slowly than expected.

The numbers should agree with your business plan or executive summary. If you expect sales to double, explain what will produce that growth. If you plan to hire, include the wages and related costs.

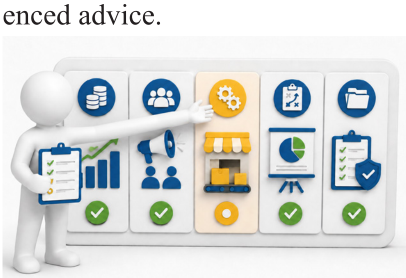
An advisor can help you test your assumptions and consider what happens if sales are lower or expenses are higher than expected. Financial forecasts

A detailed forecast does not guarantee approval. It shows how you developed your expectations and helps CEDF evaluate whether the request appears reasonable.

Evidence matters: A spreadsheet presents the numbers. Your assumptions explain why those numbers may be achievable.

Take an Honest Look at Your Business Capabilities

Every business owner has strengths. Every business owner also has areas that could benefit from more knowledge, better systems or experienced advice.



CEDF recommends completing our Business Capabilities Self-Assessment before applying. It asks you to consider your capabilities in five areas:

- Business Foundation
- Business Viability
- Financial Competence
- Financing Readiness
- Continuous Growth

The assessment is not a test, and there is no passing or failing score. Its value depends on candid answers.

Selecting “No/Not Yet” does not mean that you should give up. Selecting “I Don’t Know What This Means” is also useful. These answers help identify subjects that deserve more attention.

For example, you may be confident about attracting customers but unsure how to prepare a cash-flow forecast. You might understand your daily operations but need help calculating how much debt the business can reasonably afford. An advisor or educational resource may help you strengthen those areas.

You do not need to become an expert in every business subject. You should understand the major issues affecting your company and know when to seek assistance.

Completing the assessment does not guarantee loan approval. It can help you recognize gaps, prepare better questions and decide whether you are ready to apply. Share your self-assessment with a business advisor to help you formulate a plan to move your closer to sustainability and being able to access traditional bank funding products. This is called being “bankable” and should be a goal of every small business with growth aspirations.

CEDF.org/capabilities

What Will CEDF Need to Understand?

Being eligible to apply means that CEDF may consider your request. It does not mean that the loan will be approved. CEDF must evaluate the complete application and supporting information.

Our review generally seeks to understand four areas:

You and Your Guarantors

Your business and management experience, personal credit history, financial obligations, available resources and financial commitment to the business.

Your Business

What the business does, who its customers are, how it competes, how it operates and what its financial records show about past and current performance.

Your Loan Request

How much money you are requesting, how the amount was calculated, how the funds will be used and how the financing is expected to benefit the business.

Repayment

Whether historical or projected cash flow appears sufficient to cover operating needs, existing obligations and payments on the requested loan.

Tax returns, financial statements, a business debt schedule, your business plan or executive summary, and the answers in your online application help CEDF develop this understanding. Documents are important, but they may not explain everything. Questions and requests for additional information are a normal part of loan evaluation.

Providing complete information does not guarantee approval. It gives CEDF a better basis for evaluating the request and explaining what additional information or preparation may be needed.

Why the lender asks: A loan decision must consider both the business and the ability to repay the financing.

Match the Request to the Business Need

Before applying, be prepared to explain how much financing you need and how you calculated that amount.

Avoid choosing a round number simply because it sounds sufficient. Build your request from the actual costs of accomplishing your objective.

For example, an equipment request might include:

- Equipment: $24,000 based on a vendor estimate
- Delivery and installation: $3,000
- Electrical improvements: $4,000
- Working capital during the transition: $4,000
- Total request: $35,000

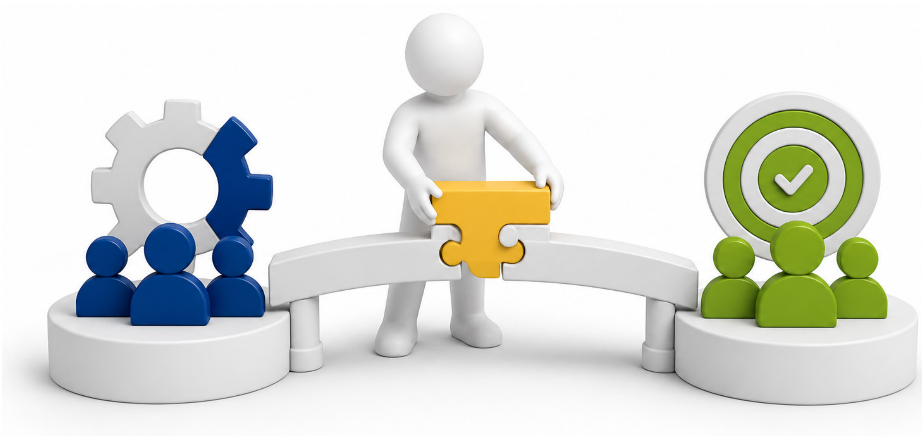
Include estimates, purchase agreements or other supporting information when available. Explain when the funds will be needed and whether you or another funding source will contribute to the project.

The amount should be large enough to accomplish the intended purpose. Borrowing too little could leave you without the money needed to complete the project or operate until it begins producing revenue. Borrowing more than necessary could create payments you can't comfortably support.

Ready to proceed? Can you account for how every dollar requested will be used?

The type of financing should also fit the need. Equipment, permanent improvements, seasonal cash needs and real estate purchases may require different loan structures.

CEDF will evaluate the amount, proposed use and repayment capacity as part of its review. A carefully calculated request does not guarantee approval, but it helps demonstrate that you understand the project and its financial effect on the business. The most important proviso determined during the underwriting process is can the business support the repayment of the requested amount.



Can You Explain Your Value Proposition?

Your value proposition is a clear explanation of why customers choose your business. It connects what you sell with a specific customer need.

A statement such as "We provide excellent service at competitive prices" is too general. Most businesses could make the same claim. It does not tell a lender who your customers are, what matters to them or why they would choose you instead of another option.

A stronger value proposition answers four questions:

- Who is your intended customer?
- What problem or need does the customer have?
- What important benefit do you provide?
- What makes your business a credible choice?

For example:

"We provide evening and weekend bookkeeping services for small contractors who are usually working during normal business hours. Our clients receive organized monthly financial reports without losing time at job sites."

This statement identifies the customer, the problem, the service and a meaningful difference.

Try completing this sentence:

For [customer], we provide [product or service] that delivers [important benefit], unlike [other available choices], because [credible difference].

Your difference might be specialized knowledge, location, convenience, speed, quality, price or a better customer experience. Be specific, but do not promise more than you can consistently deliver.

Your value proposition should also agree with the rest of your proposal. Your marketing plan, prices, sales forecast and use of loan funds should all support the same business story.

CEDF recommends being able to explain your value proposition in two or three sentences. A clear explanation does not ensure loan approval, but it helps the lender understand why customers may buy from you and how your business expects to earn revenue.

New Concept? Show Evidence That Customers Will Buy

A new business does not have years of sales records to support its forecast. If your concept is new or unproven, CEDF recommends gathering evidence that intended customers are likely to buy your particular product or service.

General market research is useful, but it is only a starting point. Knowing that thousands of people live nearby or that an industry is growing does not show how many customers will choose your business.

Consider a new bakery forecasting $15,000 in monthly sales. The number of people living in the area helps describe the potential market. More persuasive evidence might include results from weekend pop-up sales, paid preorders, catering commitments, customer surveys showing likely purchase frequency or sales records from a limited product launch.

Useful forms of validation include:

- Test sales or pilot results
- Preorders, reservations or deposits
- Letters of interest or intent
- Contracts or purchase orders
- Customer interviews or surveys
- Waiting-list registrations
- Results from a pop-up or temporary location
- Responses to a landing page or digital advertisement
- Performance of comparable businesses in similar markets

Not every form of evidence carries the same weight. A customer saying, "That sounds like a good idea," is encouraging. A customer placing an order or paying a deposit is stronger evidence.

Connect the evidence to your forecast. If a test produced 40 weekly sales, explain how you estimated future customer growth, average purchase size and repeat business. Also explain what could cause actual results to be lower.

Validation cannot eliminate risk or guarantee approval. It shows that your forecast is based on more than enthusiasm. It also helps you improve the concept before committing substantial time and money.

Turn Advisory Meetings into Measurable Progress

Regular meetings are most useful when they produce more than conversation. They should help you understand current conditions, choose an important improvement and follow through on a manageable number of actions. CEDF Business Advisors are assigned to borrowers to help move them toward sustainability.

Your Advisor may use a Business Growth Planner or similar tools to organize this work. The Planner is intended to be a borrower-owned management tool—not simply a compliance binder or a record of problems.

A productive meeting follows a repeatable pattern:

1. Celebrate: What improved? What did you complete or learn?
2. Notice: What do the numbers and current business conditions suggest?
3. Reflect: What feels most important to strengthen now?
4. Choose: Which improvement goal do you want to own?
5. Commit: What few actions will you take before the next meeting?

For example, a business owner might choose the goal of sending every customer invoice within two business days. The 90-day plan could include setting up a standard invoice, assigning responsibility and reviewing unpaid accounts each week. Future meetings would examine what happened, what the owner learned and what should be adjusted.

Progress is not limited to higher sales or profit. It can include more reliable information, stronger habits, improved judgment, better systems and honest changes in direction.

Your Advisor may help sharpen your goal, test assumptions and connect you with relevant education or expertise. The goal and the work remain yours.

Over time, these improvement cycles are intended to make your business more sustainable and better prepared to qualify for conventional financing. That is what CEDF means by becoming "bankable."

The development cycle:
Capital + Coaching + Education + Accountability = Growth + Sustainability + Bankability

Have Someone Challenge Your Plan

When you have invested time and energy in a business idea, it can be difficult to see weaknesses in your own assumptions. An experienced outside reviewer can offer a different perspective.

CEDF strongly recommends that new and young businesses have their business plans and financial forecasts reviewed before applying. This review is encouraged, but it is not required and does not guarantee approval.

Consider working with a CPA, qualified financial professional or an advisor from an SBA Resource Partner such as SCORE, the Women's Business Development Council or the Small Business Development Center.

Ask the reviewer to challenge your:

- Sales and pricing assumptions
- Expected profit margins
- Startup and equipment costs
- Hiring plans
- Working-capital needs
- Break-even timing
- Ability to make loan payments
- Amount of financing requested

A useful review is more than hearing, "This looks good." It should include questions that reveal unsupported assumptions, missing expenses or risks you have not considered.

CEDF Business Advisors work with borrowers after financing. Before applying, outside advisors and SBA Resource Partners can help you strengthen your plan while maintaining a clear separation from CEDF's lending decision.

You remain responsible for the information you submit. Thoughtful outside review can help you explain your reasoning more clearly and make better-informed decisions.

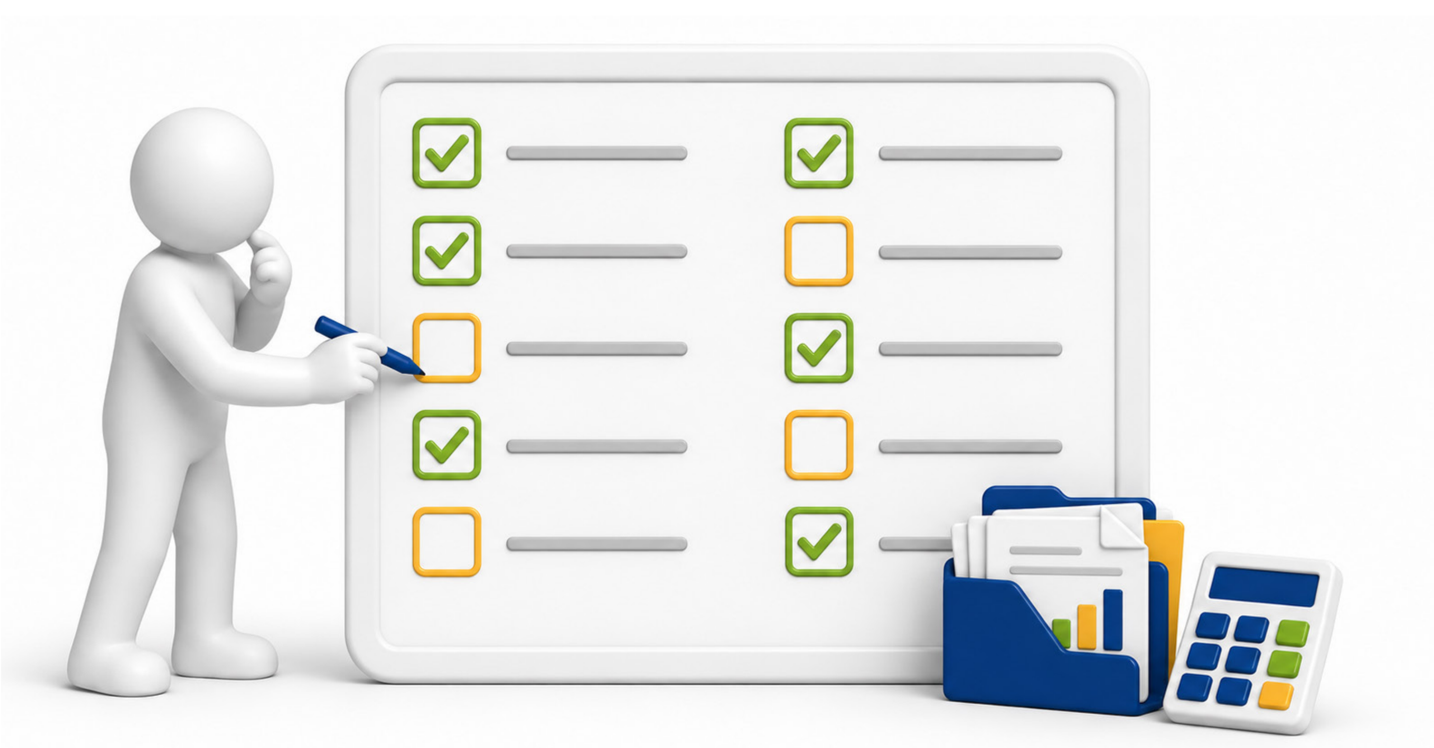
Ten Questions to Answer Before You Apply

Use this final check to decide whether you feel prepared:

1. Can I clearly explain what my business does?
2. Can I identify my principal customers and why they choose me?
3. Can I state exactly how much financing I need?
4. Can I explain how I calculated that amount?
5. Can I describe how every portion of the money will be used?
6. Can I show how the business expects to repay the loan?
7. Do my financial numbers agree with the story I am presenting?
8. If my concept is new, do I have evidence supporting my sales expectations?
9. If applicable, has a qualified advisor challenged my plan and forecast?
10. Can I provide complete, current and readable supporting information?

Ten confident "yes" answers: You may be ready to apply.
Several "not yet" answers: Consider pausing to strengthen those areas.
Unsure what a question means: Consult Ready for Business Success, the Business Capabilities Self-Assessment or an experienced advisor.

> Preparation does not guarantee approval. Apply when you feel ready to present and support your request.



Choose Your Next Step

I Need More Preparation

CEDF recommends that you:

- Complete Ready for Business Success
- Take the Business Capabilities Self-Assessment
- Prepare a business plan or executive summary
- Prepare at least a first-year financial forecast
- Consult a CPA, SCORE, the Women's Business Development Council, the Small Business Development Center or another experienced advisor

I Feel Prepared

Before beginning the online application:

- Gather the requested documents
- Watch the loan-process video
- Review the ten readiness questions
- Be prepared to explain your numbers and assumptions
- Consider whether you are ready for the on going Business Advisory relationship

Asking Once Again

If your loan is approved, are you willing to meet regularly with a CEDF Business Advisor, communicate openly, provide ongoing financial information and work consistently toward a stronger and more bankable business?

If your answer is yes and you feel prepared:
Begin your application at CEDF.org/application
Have a question for the Lending Department?
leanding@CEDF.com
Community Economic Development Fund
203.235.2333

Community Economic Development Fund

Founded through a Public Act of the Connecticut Legislature in 1994, CEDF is a mission-driven 501 (c) (3) nonprofit and a U.S. Treasury-certified Community Development Financial Institution (CDFI).

As a CDFI small business lender, we direct capital and related advisory support and business education toward entrepreneurs and communities that may not be adequately served by conventional financing.

CEDF provides flexible, individualized business loans and evaluates each request through an open-minded, big-picture review rather than relying only on fixed cutoffs for credit score, time in business or collateral.

For those who become borrowers, financing is the beginning of a continuing development relationship—not simply a loan transaction. Each borrower is matched with a CEDF Business Advisor, and regular contact is a requirement of the loan covenants. Through capital, coaching, education and accountability, owners are expected to examine challenges honestly, choose meaningful improvement goals, provide current information and follow through on agreed actions.

This relationship is designed to strengthen management practices, reduce avoidable risk and move businesses toward greater growth, sustainability and bankability—benefiting both the borrower and the communities CEDF serves.