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InterBusiness Issues

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## WOMEN OF INFLUENCE



# Preparing to Discuss Business Borrowing



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## EVERY BUSINESS HAS ITS UNIQUE CHALLENGES AND OPPORTUNITIES.

Whether it is replacing a piece of equipment, expanding operations, acquiring another company or just managing everyday cash flow, there are numerous ways your bank can assist. Here are a few important tips for preparing to meet with your banker to discuss borrowing for your business.

## UPDATE YOUR BUSINESS PLAN

A business plan is the road map that documents how your business can be successful. Most companies create a business plan when they begin operations; however, a good plan is a living, breathing document that is updated regularly. Financial institutions typically ask to see a business plan reflecting current market conditions and business priorities in order to start considering a loan request.

- **First, your business plan should demonstrate a good understanding of what your business does.** A well-written plan includes a description of your company and its products and services. It should also address how your company is different from your competitors. We're interested in hearing about your unique selling proposition and what you think sets you apart from other companies operating similar businesses.
- **Another important component of a business plan is market analysis.** This part of the plan discusses the market opportunities for your business in light of the competitive landscape. You will forecast the market share you believe you can secure and outline what you will do to achieve your goals. We will look carefully at this section of the plan, so be realistic in assessing your company's strengths and weak-

nesses, as well as the opportunities and threats that will help or hinder your success.

- **Finally, a business plan contains a detailed financial analysis.** "A cash flow statement helps you and your bank understand what your cash and credit needs are now and what they will become as you grow your business," explains my colleague, Mark Gamage, chief credit officer of Morton Community Bank. Mark believes that accurate revenue projections are critical to the success of any business plan.

Need help? There are a number of valuable resources on the Internet and in our community regarding the components of a good business plan. One example is the Illinois Small Business Development Center at Bradley University, which provides free business counseling and low-cost training programs for existing and startup businesses in central Illinois. The center provides training on how to write a business plan—with an emphasis on bank expectations—and will critique and provide suggestions on business plan content.

## ANTICIPATE LIKELY QUESTIONS

It is fairly easy to anticipate the questions that usually arise during the underwriting process for a business loan. Lenders often refer to the "5 C's of Credit" to summarize the criteria for evaluating credit worthiness.

Gamage says a lender likely will ask about *capacity*, the cash flow that demonstrates a business can repay a loan, and about *capital*, the amount of investment that you as a borrower will put toward a project. Other factors are *collateral*, an existing asset that will be pledged as a source of repayment if the loan is not repaid, and *conditions*, how the loan will be used. The final "C" stands for *character*, the borrower's track record of repaying prior debts.

## DOCUMENT YOUR ANSWERS

In essence, a business loan is a partnership between the business and the financial institution that is providing funding. Both partners want the business to succeed, so the financial institution needs to understand how the business will use the loan proceeds to be successful. In addition, the lender needs to be confident that the business will be able to repay the loan in a timely way. **iBi**

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