

# From Green Lights to Red Flags: A Real Look at Business Loan Preparation

**Presented by:**

Paul T Long  
VP, SBA & Small Business  
Gesa Credit Union

03/04/2026

1



Opinions expressed during this presentation are personal opinions only and are not necessarily those of Gesa Credit Union.

Some of these examples reflect how Gesa reviews financials, and not every bank or credit union approaches them the same way (though most do 😊).

2



Who is Gesa?

Stands for: **G**eneral **E**lectric **S**upervisors **A**ssociation

Headquarters: Richland, WA

Second Largest Credit Union in Washington

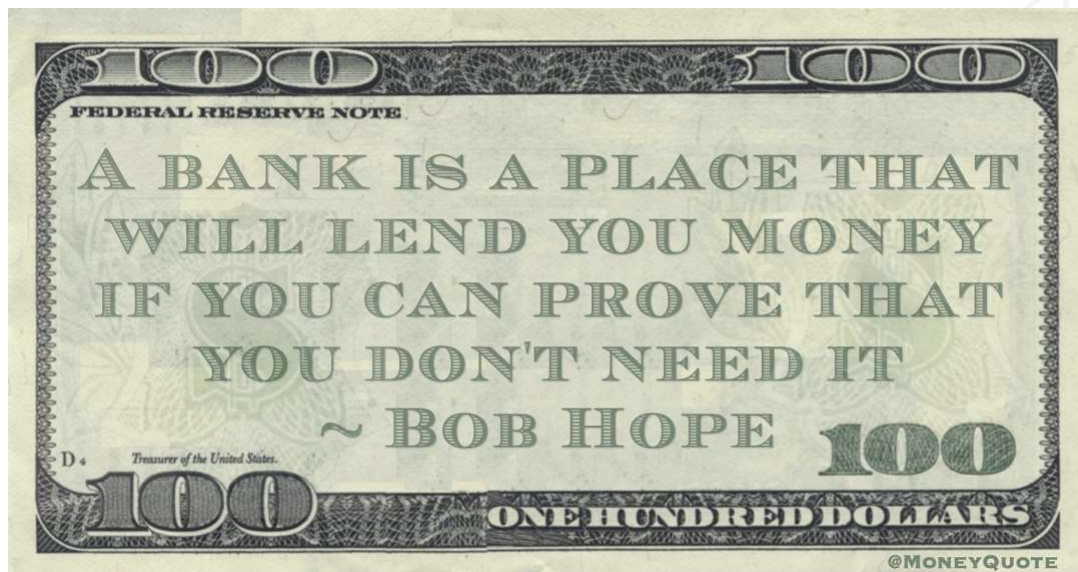
Branches: 40 in Washington and Idaho

*Another 23 branches located in High Schools across WA*

Not New to Commercial Banking: Over 16 years and over \$1 Billion in Loans

- Credit Unions are NOT FOR PROFIT
- NO Shareholders

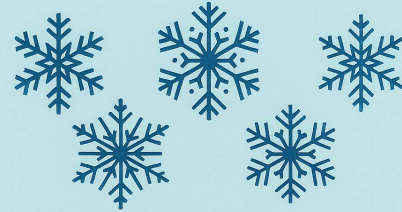
3



4

# Commercial Lending

is **NOT** like a  
Mortgage Loan.  
There is no box.



**Every Deal  
IS LIKE A  
Snowflake**

5

## **What you will learn today!**

- Factors Influencing Loan Approval (The 5 Cs of Credit)
- The Personal Financial Statement
- Working Capital
- Debt Refinance
- Recognizing and Avoiding Risky Financing Methods
- Essential Business Resources

6

# Factors Influencing Loan Approval

7

## How to know when your ready to apply for a loan

### •**Solid Business Plan**

Lenders want to see a well-thought-out plan that explains your business model, revenue streams, and how the loan will help you grow.

### - **Clear Loan Purpose**

SBA loans can be used for working capital, equipment, real estate, or refinancing debt. You should be able to clearly state why you need the loan and how it benefits your business.

### - **Ability to Repay**

Lenders will evaluate whether your business generates enough cash flow to cover loan payments. Strong personal credit and business financials increase your chances of approval.

### - **Best for Growth or Strategic Needs**

Because of the longer timeline, SBA loans are ideal when planning for expansion, refinancing, or long-term investments—not urgent survival funding.

8

## Common mistakes first-time borrowers make

- **Unrealistic financial projections**

Submitting only annualized numbers or overly optimistic growth assumptions undermines credibility

- **Incomplete or inconsistent documentation**

Missing tax returns, unsigned forms, or mismatched ownership percentages across documents are the #1 cause of delays.

- **Weak or vague loan purpose**

Saying “growth initiatives” or “expansion capital” is too broad. Lenders want precise breakdowns (e.g., \$250K to purchase an ABC Machine and \$150K for working capital for 3 months payroll and operating expenses).

- **Ignoring personal credit issues**

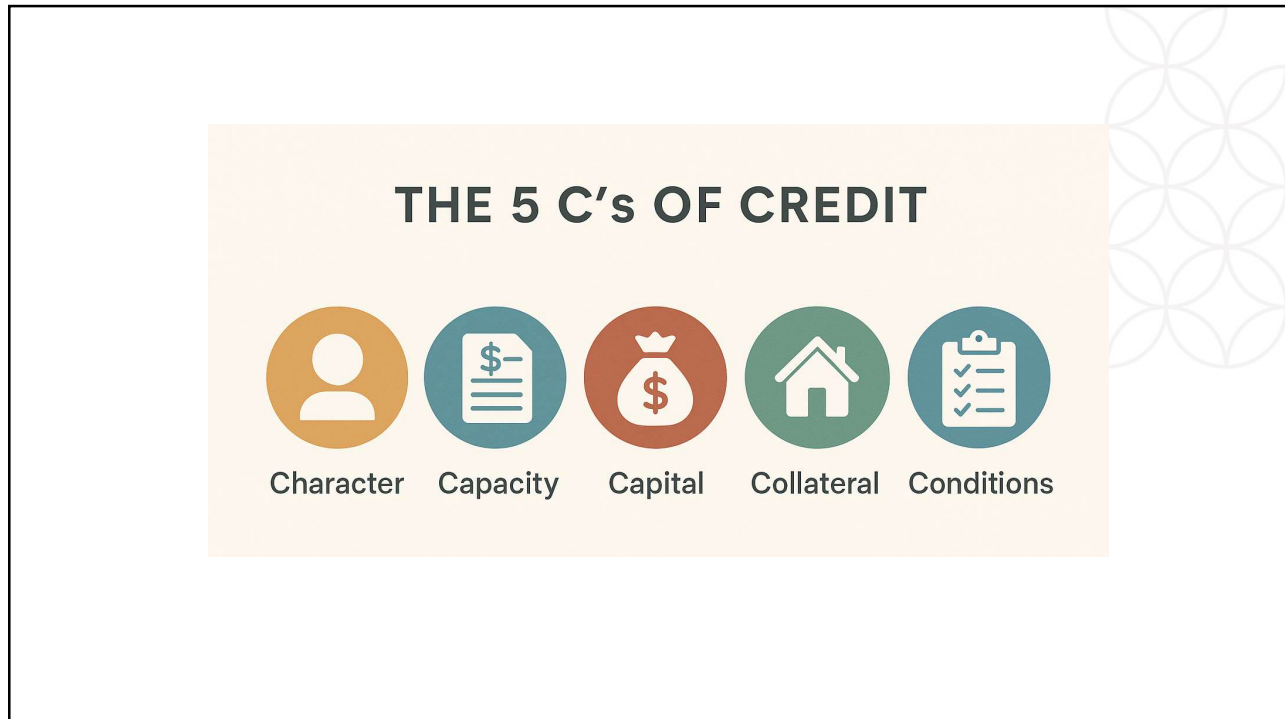
Late payments, liens, or judgments **WILL** stall deals. First-time borrowers often fail to check their credit reports in advance or provide explanations for legitimate issues.

9

## What documents to gather

- **Business Tax Returns** – typically the last 3 years.
- **Personal Tax Returns** – last 3 years for all owners with 20%+ stake
- **Personal Financial Statement** *(More information later)*
- **Lease Agreements** – if renting business space.
- **Resumes of Owners/Key Managers** – showing relevant experience or “dotted line experience”
- **Cash Flow Projections** – usually 12–24 months forward.
- **Schedule of Business Debt** – list of all current loans and obligations.

10



11

## Character- Business & Personal

*Let's talk about Business Credit*

- Have business credit BUT...
  - Not all institutions report to business credit reports
    - Business Credit Cards
    - SBA Loans
    - Your vendors do!
  - Don't focus on business credit...focus on good PERSONAL credit.
  - You should never have to pay for business credit.

12

**Business Name:** CROCKER INDUSTRIES, INC. **Business Identification Number:** 555123456

**Doing Business As:** CROCKER MERCANTILE **Website:** www.crockerindustries.com

**Primary Address:** 100 MAIN ST, PHOENIX, AZ 85012 **Phone:** (602)520-1221 **Tax ID:** XX-XXX1955

**Risk Dashboard:**

Risk Scores and Credit Limit Recommendation	Days Beyond Terms	Derogatory Legal	Fraud Alerts
Intelliscore Plus: <b>79</b> LOW RISK Financial Stability Risk: <b>32</b> LOW-MEDIUM RISK Score range: 1 - 100 percentile Credit Limit Recommendation: \$212,800	Company DBT: <b>6</b> Industry DBT: 20	Original Filings: <b>5</b>	High Risk Alerts: <b>0</b>

**Business Facts:**

Founded in 1911 and headquartered in Phoenix, AZ, Crocker Industries Incorporated (NASDAQ: CII), is a food service company. The company operates in three segments: Restaurant Services, Convenience Store Services and Cafeteria Services. Its services include supplying fresh and frozen foods along with food related supplies.

**Years on File:** 35+ (FILE ESTABLISHED PRIOR TO 01/1977) **SIC Code:** GROCERIES & RELATED PRODUCTS - 5149

**State of Incorporation:** AZ **Business Services NEC - 7389**

**Date of Incorporation:** 4/20/1911 **MEAT & FISH MARKETD - 5421**

**Business Type:** Institutions Profit **NAICS Code:** Other Grocery Related Products Wholesaler - 424410

**Contacts:** JOHN O. CONSUMER - CEO **General Line Grocery Wholesale - 424410**  
MARY JONES - PRESIDENT **Meat and Meat Product Merchant Wholesalers - 424470**  
JAMES SANCHEZ - CONTROLLER **Number of Employees:** 14,816  
**Sales:** \$1,676,906,000  
**Public Company:** Yes  
**Stock Exchange & Symbol:** National Association of Securities Dealers Inc., CII

**Fortune 1000 Ranking:**  
2015: 942  
2014: 967  
2013: 968

**Commercial Fraud Shield:**  
Evaluation for: CROCKER INDUSTRIES, INC., 100 MAIN ST, PHOENIX, AZ 85012

**Business Alerts:** Active Business Indicator:  Experian shows this business as active

**Verification Triggers:** The primary Business Name, Address, and Phone Number on

13

# Character- Personal Credit Score

- [www.annualcreditreport.com](http://www.annualcreditreport.com)

**800+** No Credit Issues- Using credit properly

**700-** Maybe one issue or one credit card being used above average

**600-** High credit utilization | a few late payments

**500 or less-** Large amount of issues

14

## Character- Personal Credit Score

**Client:** "I have an 800-credit score... I can get what ever I want."

**Lender:** Declined

**Client:** What!? Why?

You have great credit, but no income= Decline. Credit doesn't repay loans, income does.

- Fix your credit if you have issues.
- Settlement vs. Payoff

*Payment history (35%) | Credit utilization (30%) | Length of credit history (15%) | New credit inquiries (10%) | Credit mix (10%) |*

- Never close your oldest credit card- No Matter what!
- Bankruptcy's (Doesn't matter the type)
  - Must be discharged (The death of most deals)

15

## Capacity/ Cash Flow

Tax Returns, Profit & Loss, Balance Sheet



16

## Capacity/ Cash Flow

- Debt to Income- Not used in Commercial/Business
- Historical Tax Returns
  - Just a current Profit and Loss isn't ideal- Anyone can make a profit and loss
- Secondary income goes a long way
- A lender will look at how much personal income you need from the business if you don't have secondary income
  - If you have too much personal debt this can kill the deal.
- Small Loans/Sole Proprietorship- Can underwrite using Global Cash flow
  - Income from Business and personal combined

**Prove to the lender that you can afford current and new debt!**

17

## Grow my Business



**Meet Stan**  
**Kind of a Big Wheel Automotive**

18

Stan current has a loan for about \$36,000 that he used so he can start offering tire services.

*He has seen an increase in sales and needs to buy another lift for about \$95,000*

**Context:**

Stan has a 702-credit score  
 Business has been around for 3 years  
 Stan worked for another mechanic for 10 years before starting his own 3 years ago

19

J Check if corporation: (1) <input type="checkbox"/> Aggregated activities for section 465 at-risk purposes (2) <input type="checkbox"/> Grouped activities for section 469 passive activity purposes			
Caution: Include only trade or business income and expenses on lines 1a through 22. See the instructions for more information.			
	1a	Gross receipts or sales	785,245
	b	Less returns and allowances	1,000
	c	Balance	784,245
	2	Cost of goods sold (attach Form 1125-A)	640,450
	3	Gross profit. Subtract line 2 from line 1c	143,795
	4	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)	
	5	Other income (loss) (see instructions—attach statement)	750
	6	<b>Total income (loss).</b> Add lines 3 through 5	144,545
	7	Compensation of officers (see instructions—attach Form 1125-E)	50,000
	8	Salaries and wages (less employment credits)	20,000
	9	Repairs and maintenance	
	10	Bad debts	
	11	Rents	7,200
	12	Taxes and licenses	
	13	Interest (see instructions)	4,000
	14	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	61,750
	15	Depletion (do not deduct oil and gas depletion)	
	16	Advertising	1,245
	17	Pension, profit-sharing, etc., plans	
	18	Employee benefit programs	
	19	Energy efficient commercial buildings deduction (attach Form 7205)	
	20	Other deductions (attach statement)	
	21	<b>Total deductions.</b> Add lines 7 through 20	144,195
	22	<b>Ordinary business income (loss).</b> Subtract line 21 from line 6	350

Bottom Line Earnings- \$350  
 Add Interest Exp- \$4,000  
 Add Depreciation- \$61,750  
 Add Amortization- \$0  
**TOTAL: \$66,100**

That \$66,100 means that you have money left over to pay debt.

**Existing Debt (Tire Machine)**  
 \$425/month in Debt Payments  
 \$5,100/year in debt payments

**New Debt (Lift):**  
 \$1,450/ month in NEW debt payments  
 \$17,400/year in debt payments

**Total debt payments (year): \$5,100+\$17,400=\$22,500**  
 \$66,100/ \$22,500- 2.93x  
 You can afford these payments 2.93x times  
 Lenders want 1.25x or better

**Would you approve this loan for Stan?**

20

## When Character and Cash Flow come together

How could this business owner mess things up?

*Grow to fast, make silly decisions, buy to much, expanding to quick, not tracking expenses, spending tax money, failure to keep cash reserves, thinking they know better than the bank, poor inventory management, overdependent on 1 client*

21

## Balance Sheet Example

Assets		Liabilities	
Current Assets		Current Liabilities	
Cash	32,800	Accounts Payable	49,000
Accounts Receivable	300	Accrued Expenses	450
Prepaid Rent	1,000	Unearned Revenue	1,000
Inventory	<u>39,800</u>	Total Current Liabilities	<u>50,450</u>
Total Current Assets	73,900	Long-term Liabilities	<u>99,500</u>
		<b>Total Liabilities</b>	<b>149,950</b>
Long-term Assets		<b>Owner's Equity</b>	
Leasehold Improvements	100,000	Owner's Equity	
Accumulated Depreciation	<u>(2,000)</u>	Retained Earnings	11,950
Total Long-term Assets	<u>98,000</u>	Common Stock	<u>10,000</u>
<b>Total Assets:</b>	<b>171,900</b>	Total Owner's Equity	<u>21,950</u>
		<b>Total Liabilities and Owner's Equity</b>	<b>171,900</b>

22

## Capital

- How much do you have invested in the project?
  - 5%....ok
  - 10%... Better
  - 15%... Ok more than the minimum
  - 20%... Now we are talking
  - 25%+... Your serious!
- What assets does the business have?
  - Accounts Receivable (Diverse, Who, Amounts?)
  - Fixed Assets
  - Goodwill or Intangible Assets.....not so much

Lenders want to see that you have contributed your own funds, showing a personal commitment and reducing their risk.

23

## Capital

### Never ask the banker...

How much can you give me?

**OR**

What am I pre-qualified for?

- HAVE A PLAN!
- Business loans are more risk that a car loan or mortgage



24

## Collateral

Are you all in?

...or having us take all the  
risk?



25

## Conditions

- Why do you need the funds? *Make sense?*
- Loan Structure *(term etc.)*
- Industry Conditions
- Economic Climate
- Regulatory
- Your employees/team/management

26

# The Personal Financial Statement

27

EXPIRATION DATE: 01/31/2018

**PERSONAL FINANCIAL STATEMENT**  
7(a) / 504 LOANS AND SURETY BONDS

U.S. SMALL BUSINESS ADMINISTRATION As of \_\_\_\_\_

SBA uses the information required by this Form 413 as one of a number of data sources in analyzing the repayment ability and creditworthiness of an application for an SBA-guaranteed loan or 504 loan or a guaranteed surety.

Complete this form for: (1) each proprietor; (2) general partner; (3) managing member of a limited liability company (LLC); (4) each owner of 20% or more of the equity of the Applicant (including the assets of the owner's spouse and any minor children); and (5) any person providing a guaranty on the loan.

Return completed form to:  
For 7(a) loans: the lender processing the application for SBA guaranty  
For 504 loans: the Certified Development Company (CDC) processing the application for SBA guaranty  
For Surety Bonds: the Surety Company or Agent processing the application for surety bond guaranty

Name _____		Business Phone _____	
Home Address _____		Home Phone _____	
City, State, & Zip Code _____			
Business Name of Applicant _____			

ASSETS	(omit cents)	LIABILITIES	(omit cents)
Cash on Hand & in banks.....	\$ _____	Accounts Payable.....	\$ _____
Savings Accounts.....	\$ _____	Notes Payable to Banks and Others.....	\$ _____
IRA or Other Retirement Account.....	\$ _____	(Describe in Section 2)	
(Describe in Section 5)		Installment Account (Auto).....	\$ _____
Accounts & Notes Receivable.....	\$ _____	Mo. Payments.....	\$ _____
(Describe in Section 5)		Installment Account (Other).....	\$ _____
Life Insurance - Cash Surrender Value Only.....	\$ _____	Mo. Payments.....	\$ _____
(Describe in Section 8)		Loan(s) Against Life Insurance.....	\$ _____
Stocks and Bonds.....	\$ _____	Mortgages on Real Estate.....	\$ _____
(Describe in Section 3)		(Describe in Section 4)	
Real Estate.....	\$ _____	Unpaid Taxes.....	\$ _____
(Describe in Section 4)		(Describe in Section 6)	
Automobiles.....	\$ _____	Other Liabilities.....	\$ _____
(Describe in Section 5, and include Year/Make/Model)		(Describe in Section 7)	
Other Personal Property.....	\$ _____	Total Liabilities.....	\$ 0
(Describe in Section 5)		Net Worth.....	\$ 0
Other Assets.....	\$ _____	Total Liabilities & Net Worth \$ 0	
(Describe in Section 5)		*Must equal total in assets column.	
<b>Total Assets</b>			
\$ 0			

<b>Section 1. Source of Income.</b>	<b>Contingent Liabilities</b>
Salary.....	As Endorser or Co-Maker.....
Net Investment Income.....	Legal Claims & Judgments.....
Real Estate Income.....	Provision for Federal Income Tax.....
Other Income (Describe below).....	Other Special Debt.....

- Your Net worth
  - \$500,000 loan... \$500,000 net worth
  - Negative is NOT good and is a nonstarter for most.
  - Smaller Net worth, smaller loan amount.
- Fixed Assets
- Personal debt load
- Sources of Income
- Rainy Day

28

# Working Capital

29

## What is Working Capital?

Current Assets - Current Liabilities = Working Capital

**\$73,900 - \$50,450 = \$23,450**

**This business has \$23,450 in cushion/working capital**

Assets		Liabilities	
<b>Current Assets</b>		<b>Current Liabilities</b>	
Cash	32,800	Accounts Payable	49,000
Accounts Receivable	300	Accrued Expenses	450
Prepaid Rent	1,000	Unearned Revenue	1,000
Inventory	39,800	<b>Total Current Liabilities</b>	<b>50,450</b>
<b>Total Current Assets</b>	<b>73,900</b>	Long-term Liabilities	99,500
		<b>Total Liabilities</b>	<b>149,950</b>
<b>Long-term Assets</b>		<b>Owner's Equity</b>	
Leasehold Improvements	100,000	Owner's Equity	
Accumulated Depreciation	(2,000)	Retained Earnings	11,950
<b>Total Long-term Assets</b>	<b>98,000</b>	Common Stock	10,000
<b>Total Assets:</b>	<b>171,900</b>	<b>Total Owner's Equity</b>	<b>21,950</b>
		<b>Total Liabilities and Owner's Equity</b>	<b>171,900</b>

30

## What is Working Capital?

- Payroll, rent, utilities, supplies
- Manage cash flow timing gaps

Customers pay you in 60 days and you have bills you need to pay this month.

- Seasonal fluctuation
- Short Term opportunities

Low-cost inventory

- To support growth and expansion
- Maintain vendor trust (discounts?)

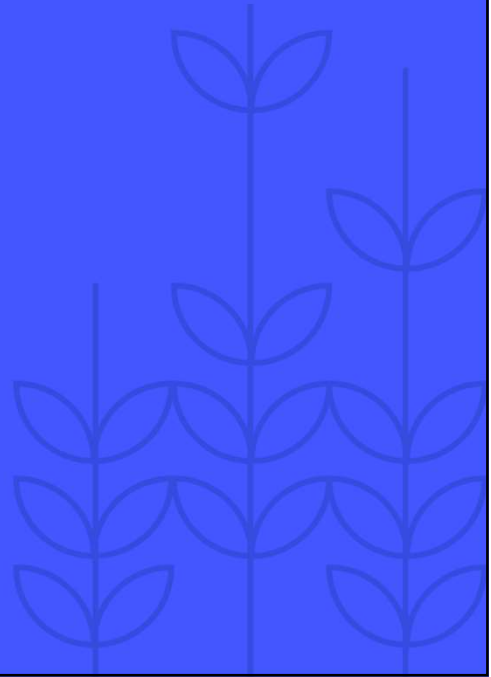
31

## What is NOT Working Capital?

- Long term asset purchases
- Buy another company
- Debt repayment beyond terms
- Owner Withdrawals/Personal Expenses
- Speculative Investments (Crypto)
- Excess Inventory

32

# Debt Refinance



33

## Refinance debt for my business



**Meet Karen & Bill**  
**Bad Luck Construction**

34

- Karen and Bill have been in business for 12 years
- They have seen costs increase and sales decrease over the last 3 years
- Credit Scores are 625/640- No late payments just high debt utilization
- They need \$375,000 to refinance business debt accrued due to the issues with business
- They have a house that has \$500,000 in equity

**What is EBITDA:** Earnings before Interest, Taxes, Depreciation, and Amortization

Caution: Include only trade or business income and expenses on lines 1a through 22. See the instructions for more information.

	1a	2,678,500	b Less returns and allowances	c Balance	1c	2,678,500
Income	1	Gross receipts or sales			1c	2,678,500
	2	Cost of goods sold (attach Form 1125-A)			2	2,350,750
	3	Gross profit. Subtract line 2 from line 1c			3	327,750
	4	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)			4	
	5	Other income (loss) (see instructions—attach statement)			5	1,500
	6	<b>Total income (loss).</b> Add lines 3 through 5			6	329,250
Deductions (see instructions for limitations)	7	Compensation of officers (see instructions—attach Form 1125-E)			7	100,000
	8	Salaries and wages (less employment credits)			8	225,000
	9	Repairs and maintenance			9	1,450
	10	Bad debts			10	
	11	Rents			11	12,000
	12	Taxes and licenses			12	7,500
	13	Interest (see instructions)			13	45,000
	14	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)			14	75,000
	15	Depletion (do not deduct oil and gas depletion)			15	
	16	Advertising			16	4,500
	17	Pension, profit-sharing, etc., plans			17	
	18	Employee benefit programs			18	10,250
	19	Energy efficient commercial buildings deduction (attach Form 7205)			19	
	20	Other deductions (attach statement)			20	50,167
	21	<b>Total deductions.</b> Add lines 7 through 20			21	530,867
	22	<b>Ordinary business income (loss).</b> Subtract line 21 from line 6			22	-201,617
23a	Excess net passive income or LIFO recapture tax (see instructions)		23a			

**EBITDA:**

(201,617)  
 +45,000+75,000=  
 (81,617)

Debt to Refinance:  
 \$4813/month  
 (\$375,000)  
 \$57,756 per year

(81,618)/57,756= **-1.41x**

35

**5 C's**

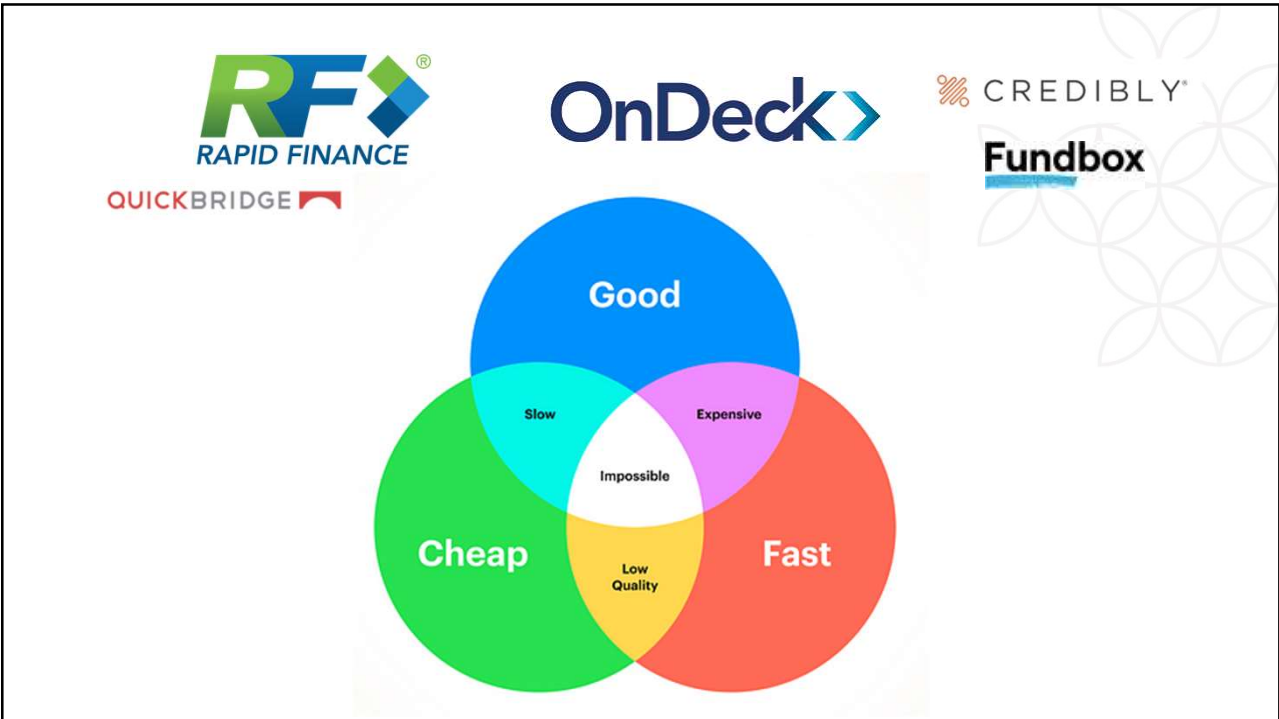
- **Character-** Credit is ok no late payments
- **Capacity-** Cash flow is negative
- **Capital-** They have been using personal debt to finance the business.
- **Collateral-** They have a house with a lot of equity
- **Conditions-** Construction industry is down, Tariffs and increased cost of goods, and no one is building currently.

**Would you approve this loan?**

36

# Recognizing and Avoiding Risky Financing Methods

37



38

## Factoring

**Selling your invoices to a factoring company. It takes a fee, gives you cash now, and chases your debts.**



39

## Merchant Cash Advance (MCA)

A merchant cash advance (MCA) company gives Alex's pie shop a one-time cash payment of \$15,000 in exchange for \$20,000 of Alex's future credit/debit card sales.



\$15,000 cash payment from the MCA company



Alex's pie shop processes credit/debit card payments from their customers



MCA company debits a fixed percentage of all credit/debit card sales from Alex's business bank account until \$20,000 is received

40

## Hard Money

Real Estate Based  
(Flip Houses/Quick Close/Low Credit)



41

## Bad Timing



Meet Steve  
Steve's Transmission

42

- Has a commercial building worth \$900,000
- Owes \$200,000 on the building (Note is due)
- Successful business for the last 50 years with solid cash flow but just not paying his bills.
- Owes \$75,000 in back taxes
- Has 2 months to pay or business is getting shut down
- Bank Said no. **WHY?**
- Had hard money broker do a loan for \$275,000 (Refi Building and Taxes)
- 15% Rate, 2-year term building as collateral
- Bank will refinance that in 2 years once the “dust has settled”

43

## Essential Business Resources

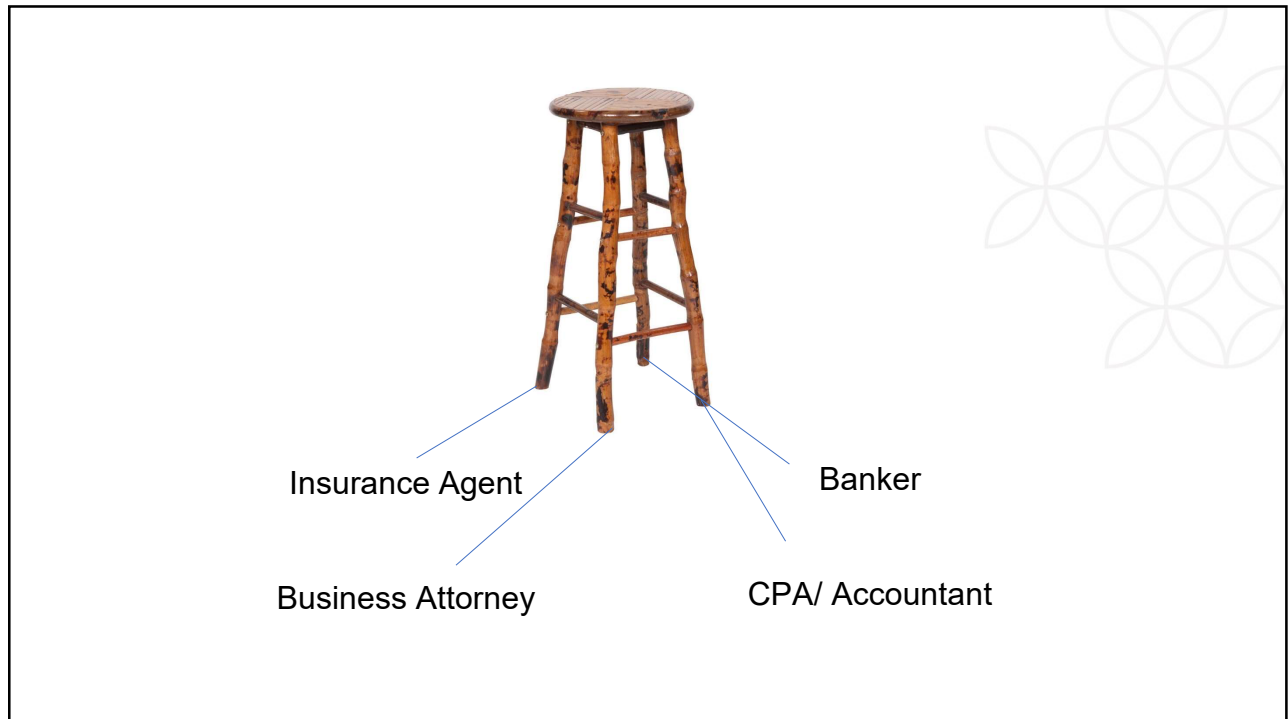
44



## Score.org/Spokane

- Helpful Templates
- Loan Preparation
- Financial Documentation assistance


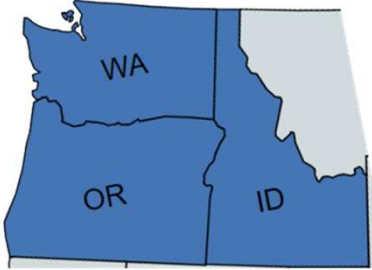
45



46



47



Gesa  
Credit  
Union

[www.gesa.com/sba](http://www.gesa.com/sba)  
[www.paultlong.com](http://www.paultlong.com)

[sbalending@gesa.com](mailto:sbalending@gesa.com)

48