

Preparing for a loan

Before you meet with your bank to discuss a possible loan, it's important to prepare your business and finances to improve your chances of approval. Lenders will assess your financial stability, business viability, and ability to repay the loan, so taking the time to strengthen these areas can help you secure better borrowing terms.

This checklist outlines key steps to get your business loan-ready, from improving cash flow and organizing financial records to gathering essential legal documents. Addressing these areas in advance will put you in a stronger position to present a compelling case.

✓ Plan ahead for borrowing

- Have a set date planned
- Reduce existing debt
- Improve business efficiency
- Describe steps taken to avoid the need to borrow
- Seek professional advice (accountant, lawyer)

✓ Strengthen financial stability

- Create a cash flow forecast with a repayment schedule
- Tidy up your balance sheet
- List what you've contributed to the business
- Outline how you'll secure the loan
- Clear any legal or tax issues

✓ Demonstrate business viability

- Forward contracts or proof of future sales history
- Describe your business and industry experience
- Justify how much you need to borrow
- Explain what you'll use the loan funds for
- Include a business plan

✓ Organize financial documents

- A personal statement of financial position
- Include an up-to-date profit and loss account
- Include an up-to-date balance sheet
- Check your credit rating
- Outline who owns the business and its legal structure

✓ Gather legal and compliance documents

- Details of any lease terms or other contractual agreements
- License or franchise arrangements
- Consents, compliance or approvals
- Insurance required
- Intellectual property protection

✓ Assess business assets and risks

- Valuation of large assets
- Import or export documents
- Customer contracts
- Identify potential risks and how to mitigate them
- Prepare a contingency plan in case of financial challenges

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Plan ahead for borrowing

Have a set date planned

Giving your bank advance notice of your financing needs, whether weeks or months ahead, allows for a smoother and more considered application process. Lenders prefer working with businesses that plan ahead rather than those seeking urgent funding, as rushed applications can raise concerns about financial stability.

A longer lead time gives you the opportunity to organize necessary documentation, address any potential gaps, and explore alternative funding options if needed. This preparation helps you present a well-structured loan request and increases the likelihood of securing favorable terms.

Reduce existing debt

This eases pressure on your cash flow and improves your ability to manage future loan repayments. Lenders will assess your current liabilities, and a lower debt burden can make your business a more attractive candidate for funding.

Consider consolidating or refinancing short-term debt to create a more manageable repayment structure. Paying off high-interest obligations where possible can also strengthen your financial position, giving you greater flexibility when negotiating loan terms.

Improve business efficiency

An efficiently run business signals to lenders that you have strong management practices and can effectively utilize financing. Streamlining operations not only improves profitability but also demonstrates your ability to repay the loan. A well-organized business is more likely to secure favorable lending terms.

Assess key areas such as order processing, software systems, supply chain logistics, and staffing levels to identify opportunities for improvement.

Describe steps taken to avoid the need to borrow

Ideally, your business would generate enough cash flow to fund growth, but large expenses like property, equipment, or R&D often require financing. Loans can support long-term projects that need extended funding.

Lenders want to see that borrowing is a strategic decision, not a last resort. Outline steps taken to manage finances, such as cost-cutting, reinvesting earnings, or securing grants. This demonstrates financial responsibility and planning.

Seek professional advice (accountant, lawyer)

A financial adviser can help assess borrowing implications and prepare accurate financial documents. Well-structured loan requests reduce risks and make discussions with lenders more effective.

Having financials reviewed by an independent expert adds credibility. Lenders trust verified figures, which strengthens your application and demonstrates a responsible approach to managing debt.

Strengthen financial stability

Create a cash flow forecast with a repayment schedule

A cash flow forecast helps you assess how a loan will affect your business's financial health. By factoring in the loan amount as incoming cash and the repayments as outgoing expenses, you can determine whether the additional funding will strengthen your position or create financial strain. Lenders appreciate businesses that plan ahead and demonstrate a clear understanding of their cash flow.

Incorporate best-, worst-, and most-likely-case sales scenarios to gauge how your business would handle fluctuations in revenue. This approach shows lenders that you've considered potential challenges and have a strategy in place to manage repayments, even in less favorable conditions.

Tidy up your balance sheet

Lenders will closely examine your balance sheet to assess your financial position. This document outlines your assets, liabilities, and owner's equity, giving insight into your business's overall stability. If liabilities outweigh assets or if assets are difficult to convert into cash, it may indicate a higher lending risk.

Review your balance sheet for any areas that need improvement, such as revaluing assets with a low book value that may be worth more. Strengthening your financial position before applying for a loan can make your business more attractive to lenders and improve your chances of approval.

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List what you've contributed to the business

Detail the capital you've personally invested in the business, whether through direct funding, reinvested profits, or taking a reduced salary in the early stages. Lenders want to see that you have a financial stake in the business, as it demonstrates commitment and confidence in its success.

Include a record of your contributions beyond money, such as time, effort, and strategic decisions that have helped grow the business. Highlighting your dedication and involvement provides a more complete picture of your business journey and can strengthen your loan application.

Outline how you'll secure the loan

Lenders need to know how you plan to secure the loan, often through collateral such as property, equipment, or accounts receivable. While some loans don't require collateral, larger amounts or limited financial history may make it necessary. Assess your available assets and their value in relation to the loan amount.

Be prepared to explain how you'll manage repayments if business conditions change. A strong financial plan, a history of responsible credit use, and a strategy for maintaining cash flow demonstrate reliability. Clear planning strengthens your application and builds lender confidence.

Clear any legal or tax issues

Lenders look for businesses with strong financial and legal standing. Make sure all taxes are current, as overdue payments can raise concerns about stability. Review any outstanding legal matters, such as disputes over contracts, employment agreements, or vendor obligations, and work to resolve them before applying.

A clean record signals that your business is well-managed and financially responsible. Addressing potential red flags early can prevent delays and improve your chances of securing a loan with favorable terms.

Demonstrate business viability

Forward contracts or proof of future sales history

Lenders want proof that your business generates steady income to support loan repayments. Forward contracts, purchase orders, long-term agreements, or a solid sales history demonstrate financial stability. If you have secured deals guaranteeing future revenue, include these to show ongoing demand and predictable cash flow.

Compiling this documentation also helps you plan for repayments and avoid cash flow shortages. If your business has seasonal fluctuations, showing past trends and upcoming contracts can justify your borrowing needs and help secure appropriate funding.

Describe your business and industry experience

Lenders assess your ability to run the business, not just your financials. Highlight your industry experience, professional background, and key skills that contribute to success. Strong leadership, established networks, and operational expertise can strengthen your application.

A track record of sound decision-making reassures lenders that funds will be used effectively. Share past achievements, problem-solving abilities, and strategic growth initiatives to demonstrate capability and commitment.

Justify how much you need to borrow

Lenders expect a clear rationale for the loan amount. Break down how the funds will be used—whether for equipment, inventory, expansion, or working capital. Provide cost estimates, supplier quotes, or financial projections to support your request and show it's a strategic investment.

Requesting too much may raise concerns about overleveraging, while asking for too little could signal poor planning. Explain how the loan will generate returns through increased sales, efficiency, or market expansion, reinforcing your ability to manage debt responsibly.

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Explain what you'll use the loan funds for

Be crystal clear what the loan will be used for. Whether funding a startup, expanding operations, managing cash flow, or purchasing inventory, outline the specific purpose and expected impact. A well-defined use case shows strategic planning and responsible borrowing.

Loans can also support debt consolidation, cover unexpected costs, or seize new business opportunities. Demonstrating how the funds will contribute to growth and stability strengthens your application and builds lender confidence.

Include a business plan

A strong business plan helps lenders see how the loan will drive growth. Outline your financial needs, how the funds will be used, and the expected impact on your business. Detail projected revenue, expenses, and key milestones to show a clear path forward. Even if you have an existing plan, update it to reflect your current goals and market conditions.

Lenders want to know how your business will evolve over the next few years with their support. A fresh, well-structured plan demonstrates strategic thinking and commitment. Show how the loan will strengthen operations, improve profitability, or open new opportunities.

Organize financial documents

A personal statement of financial position

This is a snapshot your financial situation at the particular point you apply for funds. List all personal assets, including cash, savings, investments, property, and vehicles. Then, outline any liabilities such as mortgages, loans, and credit card balances.

The difference between assets and liabilities determines your net worth, which helps lenders assess your financial stability. A strong personal financial position can support your application, especially if you're providing a personal guarantee for the loan.

Include an up-to-date profit and loss account

This is also known as an income statement, and it helps lenders assess your business's financial health. This statement summarizes revenue and expenses over a specific period, typically monthly, quarterly, or annually, showing whether your business is profitable or operating at a loss.

Most accounting software allows you to generate a profit and loss statement for the past 12 months. Providing this document gives lenders a clear picture of your financial performance and helps support your loan application.

Include an up-to-date balance sheet

A balance sheet provides a snapshot of your financial position at a specific point in time, usually the end of your financial year. It shows assets, liabilities, and equity, providing a clear picture of the financial strength of the business.

Too high a debt load, too few assets or excessive director current accounts can signal a wobbly structure which more debt could unbalance. Most likely you'll be able to download a Balance Sheet from your accounting software for the last 12 months.

Check your credit rating

Knowing your credit rating is essential before applying for a loan. Request a free credit report from [AnnualCreditReport.com](https://www.annualcreditreport.com), which gathers data from Equifax, Experian, and TransUnion. Review your report carefully for errors, such as incorrect accounts or late payments, and dispute any inaccuracies with the credit bureau in writing.

Your credit score reflects your creditworthiness and may need to be purchased separately or accessed through a bank or credit card provider. Regularly checking your credit helps you stay informed, address potential issues, and present a strong financial profile to lenders.

Outline who owns the business and its legal structure

List all business owners or shareholders, including those who have a financial stake but don't actively work in the business. Lenders want to understand ownership details and how responsibilities are shared.

Outline the legal structure of your business, whether it's a sole proprietorship, partnership, or company, and explain why this structure was chosen. Each has different implications for liability, taxation, and financial responsibility, which can impact how lenders assess risk.

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Gather legal and compliance documents

Details of any lease terms or other contractual agreements

If your business leases property, vehicles, or equipment, provide copies of these agreements. Lenders want to understand your ongoing financial commitments and how they impact cash flow. Lease terms can affect your ability to take on additional debt, so having clear documentation helps demonstrate financial planning.

Similarly, include contracts with suppliers, sales agreements, or partnership deals that show stable revenue and long-term business prospects. These documents reassure lenders that your business has reliable income sources to support loan repayment.

License or franchise arrangements

Provide copies of any license agreements that grant you exclusive rights to products or services, as these can add value to your business and impact revenue potential. If your business has issued licenses to customers, include those agreements as well.

If you operate under a franchise model, include franchise agreements, especially if you are the franchisor. These documents help lenders assess the stability of your business model and the financial commitments involved.

Consents, compliance or approvals

Provide documentation of any required consents, permits, or regulatory approvals necessary for your business to operate. This could include health and safety certifications, zoning permits, or industry-specific licenses.

Lenders want to see that your business complies with all legal and regulatory requirements. Having these documents ready demonstrates responsible management and reduces potential risks associated with non-compliance.

Insurance required

Unexpected events can disrupt your business, so it's important to have the right insurance coverage. Identify the types of insurance relevant to your operations and outline how you've mitigated potential risks.

Key policies include asset protection for premises, equipment, and vehicles; public liability insurance for legal claims related to injury or property damage; and business disruption insurance to cover revenue loss from external events. Professional indemnity insurance protects against claims related to advice you provide, while key person insurance safeguards the business if a critical team member is lost.

Intellectual property protection

If your business relies on unique products, branding, or proprietary processes, document how you've secured your intellectual property (IP). Include trademarks, patents, copyrights, or trade secrets that give your business a competitive edge. Providing proof of registered IP or pending applications reassures lenders that key business assets are protected.

If you rely on licensed technology, exclusive supplier agreements, or confidential business methods, outline how these are secured. Make sure contracts and NDAs with employees or partners are in place to prevent unauthorized use or disclosure, reinforcing the long-term value of your business.

Assess business assets and risks

Valuation of large assets

Large assets like land, buildings, or high-value equipment may be worth more than their recorded value. A professional valuation provides an accurate assessment, demonstrating financial stability and asset backing to lenders.

Since lenders often use large assets as security, up-to-date valuations are essential. Engage a certified appraiser or use recent sales comparisons to validate asset values, reassuring lenders of your borrowing capacity and potentially improving loan terms.

Import or export documents

If your business trades internationally, provide documents verifying these activities. Commercial invoices, bills of lading, and required import/export licenses confirm compliance and transactional legitimacy.

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Additionally, insurance certificates covering goods in transit help mitigate risk. Having these documents readily available supports your loan application and reassures lenders that your business operates efficiently and responsibly in global trade.

Customer contracts

Signed agreements for sales, services, or subscriptions demonstrate stable revenue and long-term viability. Lenders assess contract length, payment terms, and renewal options to gauge predictable cash flow.

If contracts include volume commitments or guaranteed renewals, highlight these to show future revenue potential. Address any risks, such as dependence on key customers, and outline strategies for diversifying income sources to strengthen your case.

Identify potential risks and how to mitigate them

Lenders assess how well you manage risks like economic downturns, supply chain disruptions, or regulatory changes. Identify key threats that could affect your ability to meet financial obligations.

Outline mitigation strategies such as diversifying suppliers, maintaining a broad customer base, or implementing cost controls. Highlight compliance measures if your industry is highly regulated, demonstrating preparedness for uncertainties.

Prepare a contingency plan in case of financial challenges

Unexpected financial difficulties can arise, so lenders want to see a plan for handling setbacks. Outline strategies like cost-cutting, accessing emergency funds, or adjusting pricing to maintain stability.

Detail financial buffers such as cash reserves, lines of credit, or alternative funding sources. If needed, include tactics like renegotiating supplier terms or scaling back operations to show resilience and responsible financial management.

Notes

Note

This is a guide only and should neither replace competent advice, nor be taken or relied upon as financial or professional advice. Seek professional advice before making any decision that could affect your business.