

PARTICIPANT WORKBOOK

Unleashing the CDFI Market

A Guide to Mission Driven Lending

An informational series on business banking



FOR EDUCATIONAL PURPOSES ONLY

Expanding your Funding Horizons

The banking industry has traditionally underserved Black entrepreneurs. We need to work together to change that.



39% of minority-owned companies feel their primary bank contact treats their business owners with respect.

Source: "A Look at Diversity from Business Customers and Bank Perspectives," Barlow Research Associates, Inc., 2020.

It's critical that we provide good information to help you make smart decisions for the future of your business. Understanding your options will help you prepare to take full advantage of current opportunities and those that emerge in the coming years.

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Think strategically about cash flow

Cash flow is more than money in the bank. It's an essential tool for adapting and growing as opportunities or challenges emerge. That's why it's important to protect your cash flow as much as possible.

The Power of Cash on Hand

Cash flow is your business's fuel. It allows you to move quickly when opportunities arise. Imagine a new trend hits your retail shop. Good cash flow means you can buy the new inventory and pay your team without stress while waiting for the new sales to come in.

CDFI Insight: Many CDFIs offer flexible repayment structures. Understanding your cash flow cycles helps you identify if you need a lender that offers 'interest-only' periods or 'seasonal' repayment schedules that match your busiest months.

How can you manage your cash flow?

- Cut overhead and unnecessary spending.
- Take advantage of mobile apps and online banking to move money quickly.
- Negotiate payments with vendors.
- Prioritize revenue collection using digital payment tools.
- Sell off stale inventory or nonessential assets.
- Adopt a leaner staffing model.
- Forecast the coming months to plan for ups or downs.
- Utilize effective cash management tools to collect sooner.

A typical business uses cash flow to:



Pay suppliers



Pay employees



Rentspace



Reinvest



TIP

If your cash flow is highly seasonal (like agriculture or retail), traditional banks may find your profile 'risky.' However, specialized CDFIs often use 'Cash Flow Based Underwriting' rather than just credit scores.

The Growing Pains of Success

Marcus owns Apex Medical Supplies, a growing distributorship. Through his reputation for reliability, he's secured several large contracts with regional clinics. To keep up with demand, Marcus has had to scale quickly:

- He hired two additional warehouse staff to handle fulfillment.
- He invested in a larger delivery van and upgraded his inventory tracking software.
- He's purchasing high volumes of medical grade supplies upfront to ensure he never misses a client order.

On paper, Apex Medical Supplies is more profitable than ever. However, Marcus just received a notification that his business account is nearing a zero balance.

The Problem: Marcus has to pay his suppliers within 15 days, but his clinic clients operate on "Net 45" terms, meaning he doesn't see the cash from his sales for a month and a half. Despite his high sales volume, Marcus is facing a "Cash Gap" that could stop his operations in their tracks.

Even though on paper Marcus' company is turning a profit, he's close to going out of business.

Key points

- **Profit vs. Cash:** Profit is what is left after expenses on your tax return. Cash is what is available in your bank account today. Marcus is profitable, but he lacks liquidity.
- **The Timing Gap:** Managing "Accounts Payable" (who you owe) and "Accounts Receivable" (who owes you) is the most critical skill for a growing business.
- **Strategic Borrowing:** Borrowing capital isn't always about "saving" a failing business; it's often about fueling a successful one. A line of credit would allow Marcus to bridge the 45-day gap without slowing his growth.



TIP

Traditional banks sometimes hesitate to lend to businesses like Marcus's if they don't have enough "hard assets" (like real estate) for collateral. Many CDFIs specialize in "Contract-Based" or "Accounts Receivable" financing, meaning they look at the strength of your customers' intent to pay rather than just your personal credit score or equipment value.

All case studies in this workbook are hypothetical examples. Any resemblance to actual persons or businesses is entirely coincidental.

Does your business need to borrow?

Remember that to borrow capital, you need a plan to pay it back.

Here are a few questions that lenders often ask business owners to help determine whether the business is a good candidate for credit.

How long have you been in business?

Most lenders like to see at least two years of operating history to better understand a business's potential. Newer businesses are considered startup and typically go through a more complicated lending process.

Is your business profitable?

A business that's making money is actually the best candidate for credit. Why? Think about it from a lender's point of view. Most lenders focus on profit and cash flow because these are the strongest indicators of whether a business has long-term potential. Negative cash flow is also a signal that a business could have trouble repaying its loan.

Is your business seasonal?

Some industries are hugely profitable, but for only a few months out of the year. Farmers, for example, may spend all year preparing for a two-week harvest, after which they sell their entire crop. Credit can help farmers buy seeds and tend the crops during the other 50 weeks of the year.

Do you need to build credit?

A new business needs to show a history of responsible borrowing to qualify for larger loans. A business credit card is often a good way to start building credit.

Are you looking to expand?

If adding employees or new locations can help your already profitable business grow, you may need credit to begin your expansion.

Will new equipment help your business?

If essential equipment is limiting your growth, it might make sense to borrow to increase your revenue potential.

CDFI Insight:

Traditional banks often have a "hard no" for businesses with less than two years of history or a specific credit score. CDFIs are often more flexible. They look for "Global Cash Flow" meaning they consider your personal income and your business's future potential, not just your historical data. If a big bank said "not yet," a CDFI might say "let's find a way."



Know your business and your industry. If you can explain what you do and how you bring in revenue, it'll go a long way toward helping a loan officer see why lending to you is a risk worth taking.

TIP



Putting it all together: Your Business Story

A great loan application is more than just numbers on a page; it's a story about where your business has been and where it's going. While banks mostly look at your past, CDFIs want to understand your future and the impact you have on your community.

Use this Readiness Audit to organize your thoughts. Be honest about your strengths and where you still have gaps to fill. By the end of these three sections, you'll have the clear, confident "big picture" that lenders need to see to say yes.

Your Market & Neighbors

How has the last year changed the way you think about your business?

What are other businesses like yours doing well right now? What can you do better or differently?

How does your business make life better for the people in your area?
(e.g., Do you hire locally? Provide a needed service?)

Where do you see your business in three years? What is the one thing that will get you there?



Your Cash & Operations

Based on your cash flow (Page 3), what time of the month or year is your bank account the tightest? How do you handle it?

How much money do you need, and what specific problem will it solve?

Once you get the funding, how will your daily sales or contracts cover the new monthly loan payment?



The Opportunity & Impact

What is the one thing you can't do right now that this money will finally allow you to start?

How will this investment help you reach more customers or increase your sales over the next year?

If your business grows because of this loan, how will that help your community?
(e.g., Will you create a new job? Support a local supplier?)



You've just completed your Executive Summary. When a lender asks, "Tell me about your business and why you need this loan," use your answers from these three sections. They provide the "why" behind the numbers.

TIP

Why are you a good investment?

If you're interested in applying for credit for your business, you'll need to be prepared to answer a lot of questions. Here's an overview of what a lender will want to know.

Leadership

A bank wants to know why you're the right person to lead and grow this business. At your first meeting, a lender might ask:

- How long have you been running your business? Have you run other businesses?
- Do you have a resume you can share with us?
- How did you decide to start this particular business?
- How is your credit history?
- Do you have a mission statement?
- Could you describe your organizational structure?
- Do your business partners or members of your management team have experience managing and growing capital?
- What kinds of professional experts do you rely on to support your business?

Cashflow

Cash flow is critical to the health of your business and your ability to secure credit. Some of the first questions a lender will ask include:

- Do you have enough revenue coming in to make regular payments?
- How do your customers pay you, and what are the payment terms?
- How do you process your payments?

Collateral

For some forms of credit, such as a loan, a lender will also want to know whether you have backup or collateral if your business doesn't succeed. Including assets with cash value as collateral can make it easier to get credit. Just remember that any item you put up for collateral may be collected by the lender if you're unable to pay back what you borrowed.



TIP

Try to keep your business and personal credit separate if possible, and build up credit history as a business. That way, you can protect yourself and your family from downside risks.

Personal credit vs. business credit

Personal credit scores

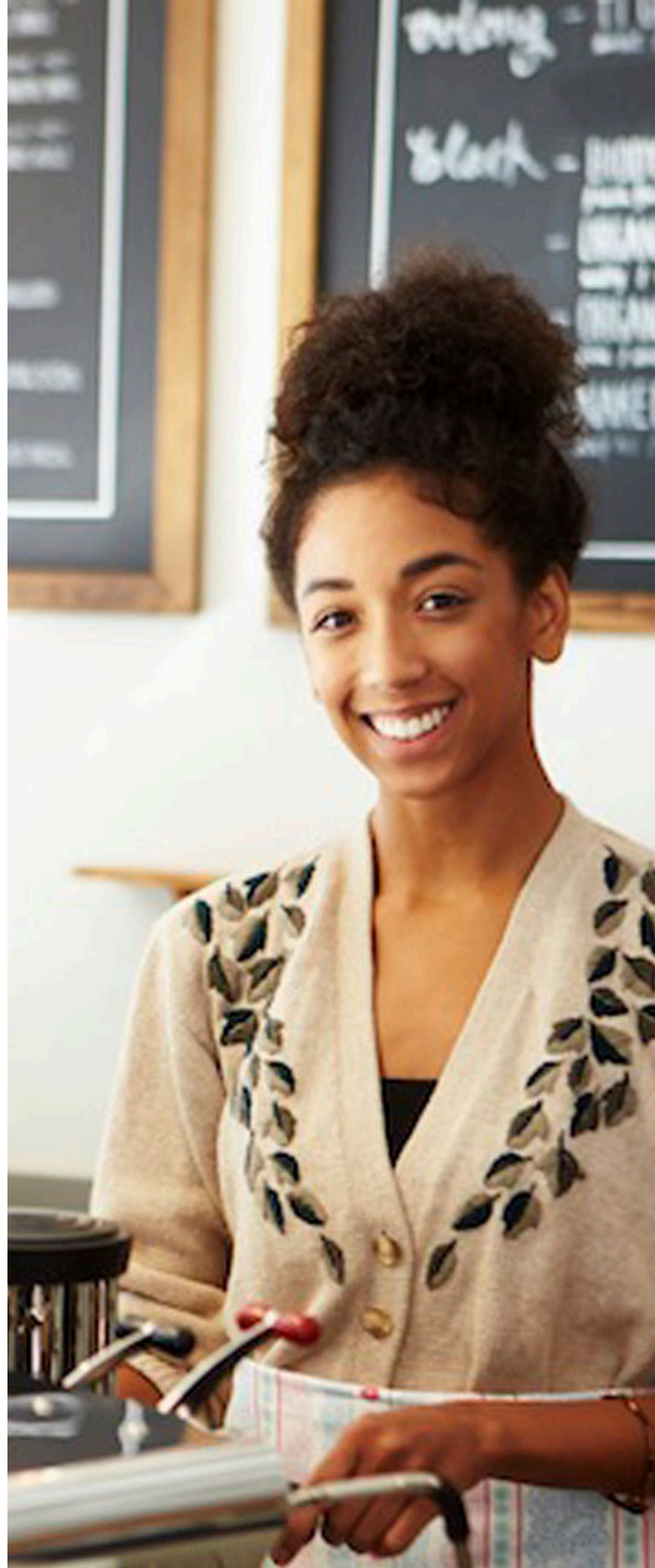
Your personal credit history is tracked via your Social Security number and is typically summarized by the FICO scoring method. A FICO score ranges between 300 and 850 and is based on:

- Payment history
- Current level of indebtedness
- Types of credit used
- Length of credit history
- New credit accounts

Business credit scores

Your business credit history is tracked by the Small Business Financial Exchange using identifiers such as your Employer Identification Number (EIN). The SBFE does not create business scores, and no single organization provides a centrally recognized score. In general, a business credit score is based on:

- Payment history
- Age of credit history
- Debt and debt usage
- Industry risk
- Company size



What financial data is important?

The numbers behind your business will be important if you choose to apply for credit. Here are a few documents and metrics to familiarize yourself with when considering whether now is the right time to pursue credit.

Tax returns

Tax returns help lenders see whether you're paying taxes and also provide a starting point for some of the calculations they will make as they determine whether to invest in your business. Newer business owners will need to provide both personal and business tax returns.

Balance sheet

Based on what you include in your balance sheet, your bank will calculate a few important data points.

Leverage ratio

A comparison between how much you owe and how much equity and capital you have in your business. In general, the lower the number, the stronger your position.

Why does a lender want to know this?

If your business owes a lot of money compared with its overall value, then lending you more money is likely to be very risky.

CDFI Insight:

Don't underestimate the power of your "Community Metrics." CDFIs are often funded by the government and foundations specifically to support job creation and local wealth. When you show that your business supports other local vendors or provides a service in an under-resourced area, you are helping the CDFI meet their goals. This "Mission Alignment" can sometimes be the "X-factor" that helps an underwriter approve a loan that doesn't fit a standard bank's mold.

Current ratio

A measurement of your company's ability to pay short-term obligations within the next year. In general, the higher the number, the more confident a lender will be in your company's ability to pay back a loan.

Why does a lender want to know this?

The current ratio is a way to gauge whether a short-term crisis will put your business in jeopardy.

Profit and loss statement

Often called a P&L statement and sometimes called an income statement, this document summarizes the revenues, costs and expenses related to your business during a specified period. Below are a few of the most important data points.

Sales growth

The increase in the average sales volume of your company's products or services, typically year over year.

Why does a lender want to know this?

If your company is increasing its sales, it's a good candidate for growth.



Gross profit margin

A measure of your profitability represented as a percentage of revenue exceeding the cost of goods sold.

Why does a lender want to know this?

If your company is profitable now, it's more likely to grow successfully.

SG&A to sales

A comparison of sales revenue to selling, general and administrative expenses. This calculation takes out the cost of producing and shipping your product and focuses on what you're spending to sell it.

Why does a lender want to know this?

If it costs a lot to sell your product, a sales slump can quickly put your company in the red.

EBITDA

This stands for earnings before interest, taxes, depreciation and amortization, a measure that shows earnings before the influence of accounting and final deductions.

Why does a lender want to know this?

Clever accounting can sometimes hide business fundamentals. EBITDA helps the bank better understand your cash flow and your business's intrinsic value.



Putting it all together: Building Your Case

Lenders don't just look at a single score; they look at your Character, Capacity, and Collateral. While traditional banks often use these to find a reason to say "no," CDFIs use them to understand how they can help you grow.

Use this section to audit your business through a lender's eyes. Be honest about where you stand today, the clearer you are about your strengths and your gaps, the faster you can find a partner who fits your mission. By the end of this page, you'll have the building blocks of a winning loan application.

Your Reputation & Reliability

Looking at your credit history (Personal and Business), is there a specific event or "gap" you should be prepared to explain to a lender?

Do you have your basic "Business Identity" docs ready to share? (EIN letter, Business License, and a current Resume).

Who are the experts you rely on for advice (e.g., an accountant, a mentor, or a local business group)?

Do you currently have a separate business bank account and credit card to protect your personal assets?



Your Financial Strength

If your sales stopped for 30 days, do you have enough cash or inventory to cover your bills?
How can a loan help strengthen this?

After paying for your products and staff, what percentage is left over as profit?
Is this enough to comfortably pay back a loan?

Make a list of all your current business debts. Will this new loan replace high-interest debt,
or is it adding a new layer of investment?



Your Collateral

If the business has a slow year, what assets (equipment, vehicles, or property) could serve as a backup for this loan?

How much have your sales grown in the last year? Does this trend prove you are ready for a "Big Move"?

What is the total estimated value of the equipment, inventory, and tools you currently own outright?



By answering these 10 questions, you have just identified the exact documents a lender will ask for. Your next step is to gather:

- 2 Years of Tax Returns
- A Year-to-Date P&L Statement
- An Asset/Collateral List

TIP

What are your credit options

There are a lot of ways your business can access credit. Many start with a business credit card and work their way up into a line of credit or a term loan. Here's a quick snapshot of the credit options available to most small businesses.

Business credit cards

It's helpful to think of a business credit card as a short-term loan that doesn't have a specific number of payments. It's easy to access and use but requires careful management. Business credit cards also typically come with rewards that can be useful as your business grows.

With a business credit card, your company can stay nimble, making small purchases quickly to meet immediate needs and build up a credit history. Many businesses use their credit cards for:

- **Cash flow management.** A credit card can help when you don't want to draw down your accounts but are confident you can pay the balance in the next 30–60 days.
- **Convenience and control.** Regular statements and online portals allow you to easily track small or frequent purchases.
- **Service and security.** Many card issuers offer features that allow you to manage spending limits, set alerts and more.
- **Rewards.** Many card issuers offer perks such as airline miles, travel insurance and purchase protection.

Business line of credit

A business line of credit allows a business to borrow up to a specific credit limit whenever it needs cash used to support short term (< 1 year) working capital. Most lines of credit expire at some point and need to be renewed to continue. The intent is to use the line of credit and payback so a business can have the flexibility to use, pay back and use again when needed. This flexible credit option can allow you to quickly take advantage of trade discounts, build inventory or shore up operating capital.

Once you're approved for a business line of credit, you can draw on money for any business need over a specific period of time. Typical uses include emergency expenses, operating capital and supplier payments.



Look at the cost of interest over a decade or more. Does this additional expense make sense compared with the new revenue you expect to generate from a loan?

Business term loan

A term loan is credit that must be repaid within a specific timeframe. Term loans are typically used for large purchases, such as equipment or real estate, may take longer to pay off based on the ask and the structure of the loan. The lending process for term loans is often more rigorous than for the revolving credit options.

A business can borrow via a standard business loan that's issued entirely by a bank or through a Small Business Administration loan, which is regulated and partly guaranteed by the U.S. government.

While traditional banks offer standard term loans, CDFIs often provide more flexible Capital. Because CDFIs are mission-driven, they can sometimes offer longer repayment terms or lower down payments for equipment and real estate, especially if your purchase creates local jobs or revitalizes a neighborhood.



Beyond the Big Banks

When you walk into a traditional bank, they usually have a very narrow "box" you must fit into. If your credit score or your industry doesn't match, the conversation ends. CDFIs are different. Because they are backed by the U.S. Treasury to expand economic opportunity, they can be more flexible.

Other Ways to Fuel Your Growth

If a standard loan isn't the right fit yet, consider these "non-traditional" options:

- Microloans (The Credit Builder):
 - What: Smaller loans (usually under \$50k) with easier applications.
 - Why: Perfect for buying inventory or small equipment while building your business credit for the future.
- Small Business Grants (The "Gift"):
 - What: "Free" money from governments or foundations that you don't pay back.
 - Why: Great for specific groups (Veterans, Women, POC) to "start the engine," though they are highly competitive.
- CDFI Venture Capital (The Partner):
 - What: Large investments in exchange for a piece of your company.
 - Why: Unlike regular VC, they care about "Social ROI", helping you scale while keeping jobs and wealth in your neighborhood.

SBA Loan Programs

The SBA helps small businesses that meet certain qualifications to obtain financing when they may not be eligible through normal lending channels.

Basically, the SBA reduces the risk to a lender if a loan goes in to default. This enables lenders to work with businesses that have potential but wouldn't otherwise qualify for a business loan.

Benefits of an SBA loan

There are many benefits to pursuing an SBA loan:

- Businesses typically get more time to pay off the loan.
- Lenders typically require a lower down payment.
 - Eligible fees can be included in financing.
- It's a potential option for businesses that may not be able to obtain a loan through other lending channels, including a:
 - Company that has a high level of debt
 - Company that's short on collateral
 - Startup (<24 months in business) that is not operating yet

Who is eligible for an SBA loan?

To qualify for an SBA loan, your business must meet certain eligibility requirements including but not limited to:

- Be a for-profit business
- Have less than \$15 million in tangible net worth and generated less than \$5 million average net income over the past two years



TIP

Think of an SBA loan through a CDFI as "Bank Funding with a Safety Net." Because the government guarantees part of the loan, a CDFI can often give you longer to pay it back (up to 10 or 25 years) compared to a standard bank loan. This keeps your monthly payments lower, protecting your cash flow while you focus on growing your business.

SBA Express

A typically quick-turnaround loan program that offers a maximum of \$350,000 and can be a term loan or a line of credit.

Gibson Engineering

Derrick likes to show his clients exactly what he's talking about. He has scale models of bridges, high-rises and other structures in his building. And his team of six engineers often uses the models to explain ideas to clients.

Now Derrick has a new concept. It's a big idea that he thinks a lot of his customers will like. He wants to build a full-size model of what he calls his Intrium, a backyard shade structure with an a-wing and glass panels, both of which you can crank open or closed based on the weather and the amount of sun you want.

His plan is to build a showroom, but he estimates it will cost \$200,000.

He went to his bank, where he learned about the SBA Express loan. With this loan, Derrick can put down 10% of what he needs and wrap the eligible financing fees into the loan. He also qualifies for a 10-year term loan, which means that he can begin selling and building Intriums now and pay down his loan with the profits.

SBA 7(a)

A program that offers loans up to \$5 million, with a guarantee by the SBA.

Kick It

Carmen loves shoes with character: vintage Jordans, 2020 Yeezys and corny dad sneakers. Her shop is doing really well, which is why she wasn't surprised when a cross town rival wanted to know whether she was interested in buying him out.

She played it cool on the phone, but the truth was she had been waiting for this break. The other shop was in a great location, but its selection and "too cool" vibe were holding it back. With fresh stock and a rebrand, she knew she could make it work.

Over the next few weeks, after talking with her bank and learning that she qualified for an SBA7(a) loan, Carmen negotiated a \$400,000 price, which included the store's stock and a company car. With her SBA loan, she was able to put down just \$40,000 for a 10-year term loan.



SBA 504

Long-term, fixed-rate financing to help business owners buy, expand or renovate owner-occupied property or otherwise improve the property. There's no maximum project size, and the SBA and the lender each make direct loans for a portion of the total loan amount.

MDA Design

Mona is a tinkerer. When she was little, she and her dad created a better ice cream scoop and designed adjustable compartments for her closet. Today, she owns a design shop for products that make life a little easier.

MDA Design has grown quickly. A few weeks ago, Mona heard that the only other tenant in her building was moving. She asked herself: What if MDA took over the empty space?

Mona's business had never borrowed before, but she went to her bank to talk over her idea. That's when she learned that, with an SBA 504 loan, she could borrow the money she needed with only a 10% down payment.

Over the next month, she negotiates with her landlord, and they agreed on a price of just under \$1 million. With the help of her banker, Mona secures a 25-year term loan, and by the end of the year the building is hers.

All case studies in this workbook are hypothetical examples. Any resemblance to actual persons or businesses is entirely coincidental.



Putting it all together: Choosing Your Path

Finding the right funding isn't just about a "yes"; it's about picking the tool that fits your goal. While traditional banks use rigid "pass/fail" boxes, CDFIs offer a diverse toolkit, from flexible microloans to government-backed SBA programs, designed to help you grow on your own terms. Use this section to move from data to strategy.

The Product Match

Are you covering a short-term cash gap (Line of Credit) or making a long-term investment like equipment or a vehicle (Term Loan)?

If you need under \$50k, would a CDFI Microloan be a better credit-builder for you than a high-interest credit card?

Does your business have the steady monthly profit for a fixed Term Loan payment, or do you need the "pay-as-you-go" flexibility of a Line of Credit?

What equipment, inventory, or real estate do you own that could act as collateral to secure a lower interest rate?



The SBA & CDFI Advantage

If a bank said "no" due to collateral, have you asked a CDFI about SBA 7(a) programs where the government "insures" your loan?

SBA loans often offer 10–25 year terms. How would a longer repayment period lower your monthly stress and help you hire?

CDFI loans often include free business coaching. What one area (Accounting, Marketing, Ops) would you want an expert to help you with?



Your Funding Roadmap

Do you want to keep 100% ownership (Loan), or trade a piece of your company for a large partner investment (Venture Capital)?

Does your identity (Veteran, Woman, POC) or industry (Green/Tech) qualify you for "free" non-repayable Grant funding?

In two sentences, how will this specific funding help your local neighborhood? (This is the "X-Factor" for CDFI approval).

Begin building your own empire

Are you ready to put new capital to work?

With this knowledge, you're ready to have honest conversations about whether you're ready to borrow for your business and the kind of capital that makes the most sense for you. The more research into your borrowing options you do, the better prepared you'll be to take full advantage of the opportunities new capital can bring.

You've done the hard work of auditing your business, understanding your numbers, and defining your mission. Now, it's time to find the partner who can help you fund it.

Compass Capital is building the future of community lending. We are creating a world where "Main Street" businesses don't have to navigate the complex world of CDFIs alone. By staying on our list, you'll be the first to gain access to:

- The Compass Matching Tool: Skip the endless searching. Our intelligent platform instantly matches your "Lender-Ready" profile with CDFIs that have the specific appetite for your industry and impact.
- AI-Powered Readiness Tools: Get real-time feedback on your application, help drafting your "Community Story," and automated checklists to ensure you never miss a document.
- Expert Insights: Direct access to the shifting landscape of SBA programs, microloans, and community grants.

The future of your business is closer than you think. Stay tuned as we roll out the tools designed to put you in the driver's seat.



Thank You

To learn more about how we can help you with your entrepreneurial journey, stay tuned as we roll out future updates.

For Informational and Educational Purposes Only: The views, strategies, and resources shared in this workbook are designed to empower small business owners and may not reflect the specific underwriting criteria of every lending partner. These strategies are not intended as universal financial advice. Every business is unique; we encourage you to evaluate your specific goals and consult with a professional advisor or a CDFI loan officer before making major financial commitments. Past success and hypothetical scenarios are not a guarantee of future funding or results.

Case Studies & Examples: All case studies featured in this workbook are hypothetical examples used to illustrate lending concepts. Any resemblance to actual persons or businesses is purely coincidental.

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