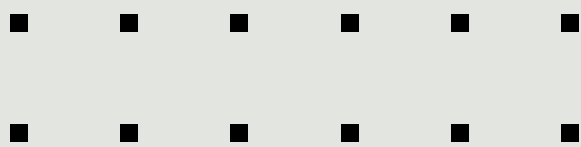


*Think*

# LIKE A BANKER

Be Empowered & Knowledgeable about your business's credit worthiness



# PURPOSE & INTENTION



**PROVIDE INSIGHT ON HOW BUSINESS STRUCTURE GUIDES THE LENDING PROCESS**



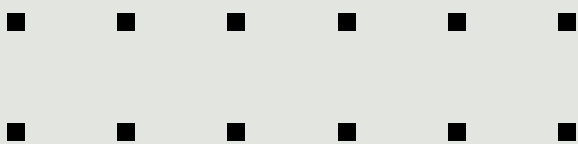
**PROVIDE INSIGHT ON HOW FINANCIAL STATEMENTS GUIDE THE LENDING PROCESS**



**PROVIDE INSIGHT ON WHAT AFFECTS THE LENDING DECISION BEYOND CREDIT SCORE**



*HomeWork*



# YOUR BUSINESS

# Structure



## Partnerships

- EIN Letter
- Resolution or Agreement
- Business License



## LLC

- EIN Letter
- Resolution or Operating Agreement
- Articles of Organization
- SOS Registration



## S Corp | C Corp

- EIN Letter
- Resolution
- Charter
- SOS Registration



# THE *Facts* ABOUT PERSONAL GUARANTORS

Most banks will **REQUIRE** it

Only as good as the owner's **CAPACITY** to repay the debt

Not a **SUBSTITUTE** for collateral or cashflow

---

---



# *Ready* ... SET...DOCUMENTATION!



**TAX RETURNS**



**BALANCE SHEET & INCOME STATEMENT**



**CASHFLOW STATEMENT**



**INTERIM FINANCIALS & AGED RECEIVABLE**



▪ ▪ ▪ ▪ ▪  
▪ ▪ ▪ ▪ ▪

# ARE YOUR FINANCIAL STATEMENTS TELLING THE RIGHT

*Story?*

Will growth bring more costs?

Do you have a growth issue or a cashflow issue?

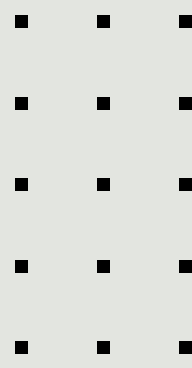
Is there a concentration risk?

Are your write-offs costing you loan opportunities?

What changes year-over-year raise concern?

How close to cash is your business? (liquidity)

How effective/efficient was my business?



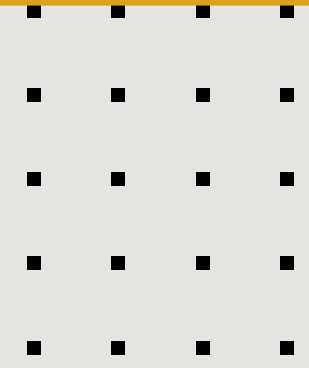
GLOBAL CASH FLOW ANALYSIS

Prepared for: [ENTER NAME]

As of:	12/31/2017	12/31/2018	12/31/2019
Net Income from Statement	\$ -	\$ -	\$ -
+ Depreciation	-	-	-
+ Interest Expense	-	-	-
+ Rent Expense	-	-	-
+ Other	-	-	-
<b>Cash Available for Debt Service</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Current Maturities of Long Term Debt	\$ -	\$ -	\$ -
+ Other Mortgage/ILD payments	-	-	-
+ Proposed P & I Payment	-	-	-
<b>Debt Service Requirements</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Surplus Cash Flow	\$ -	\$ -	\$ -
<b>Debt Service Coverage Ratio</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Personal Cash Flow of Guarantor</b>			
<u>Sources of Cash</u>			
Salary	\$ -	\$ -	\$ -
+Bonuses/Commission	-	-	-
+Schedule C-Business Income (loss)	-	-	-
+Interest/Dividends	-	-	-
+ Schedule E - Rents, Partnership, S Corp	-	-	-
+Adjustment for Depreciation	-	-	-
+Capital Gains	-	-	-
+Retirement Proceeds	-	-	-
+Other Income	-	-	-
Gross Personal Sources of Cash	\$ -	\$ -	\$ -
- Income Taxes	-	-	-
<b>Net Personal Cash Flow Available for DS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<u>Uses of Cash</u>			
Residential Mortgage Payment(s)	\$ -	\$ -	\$ -
+Other Real Estate Mortgages	-	-	-
+Other Consumer Debt Payment	-	-	-
+Other (e.g. alimony, child support)	-	-	-
<b>Total Personal Uses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Surplus Personal Cash Flow	\$ -	\$ -	\$ -
<b>Personal Debt Service Coverage Ratio</b>	<b>-</b>	<b>-</b>	<b>-</b>
<u>GLOBAL CASH FLOW</u>			
Total Sources of Cash Available for DS	-	-	-
Total Uses	-	-	-
<b>Global Debt Service Ratio</b>	<b>-</b>	<b>-</b>	<b>-</b>

# GLOBAL Cash Flow

## BEYOND THE CREDIT SCORE





# Coverage Ratios

Interest Coverage Ratio

=

$$\frac{\text{Operating Income}}{\text{Interest Expense}}$$

Debt-Service Coverage Ratio

=

$$\frac{\text{Operating Income}}{\text{Total Debt Service}}$$

Cash Coverage Ratio

=

$$\frac{\text{Total Cash}}{\text{Interest Expense}}$$

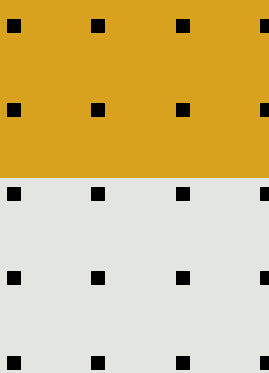
Asset Coverage Ratio

=

$$\frac{(\text{Total Assets} - \text{Intangible Assets}) - (\text{Current Liabilities} - \text{Short-term Debt})}{\text{Interest Expense}}$$

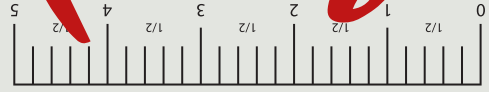
*Ratios*

**BEYOND THE  
CREDIT SCORE**





# Risk

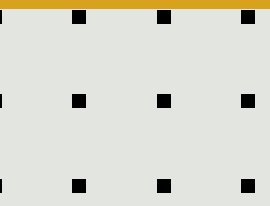


## RATING



QUANTITATIVE	QUALITATIVE
Earnings & Operating Cash Flow Trends	Industry Risk
Asset & Liability Values	Market Risk
Financial Flexibility & Debt Capacity	Management Risk
Financial Reporting	

**BEYOND THE  
CREDIT SCORE**





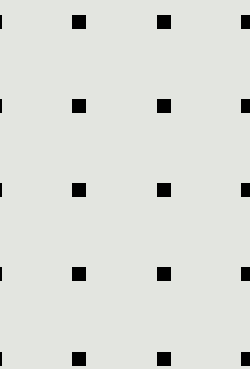
*Bank*  
**Policy**

LENDING BUDGET	<ul style="list-style-type: none"><li>➤ Average lending made per case</li><li>➤ Total Amount per period</li><li>➤ Max amount for any single case</li></ul>
COMPOSITION	<ul style="list-style-type: none"><li>➤ Loan types</li><li>➤ Specialty groups &amp; areas</li></ul>
PERIODICITY	<ul style="list-style-type: none"><li>➤ Short-term working capital</li><li>➤ Intermediate-term investments</li><li>➤ Long-term investments</li></ul>
DOCUMENTATION STANDARDS	<ul style="list-style-type: none"><li>➤ Application</li><li>➤ Credit reports</li><li>➤ Loan agreement</li><li>➤ Collateral</li></ul>
ACCEPTABLE SECURITIES	<ul style="list-style-type: none"><li>➤ Acceptable security</li><li>➤ Allowable margins</li><li>➤ Guarantor qualifications</li></ul>
CREDIT EVALUATION	<ul style="list-style-type: none"><li>➤ Acceptable records, data &amp; various info</li><li>➤ Credit investigation</li></ul>
LOAN PRICING	<ul style="list-style-type: none"><li>➤ Rate of interest</li></ul>
RISK AVERAGE & LOAN GRADING SYSTEM	<ul style="list-style-type: none"><li>➤ Types of Risk</li><li>➤ Risk Appetite</li></ul>

**BEYOND THE  
CREDIT SCORE**

# Action Items

- Schedule a discovery session with your CPA/Accountant
- Interview your business & do a risk assessment
- Calculate your ratios
- Ask about your bank's lending policy
- Get your documents in order
- **Find a great Banker!**

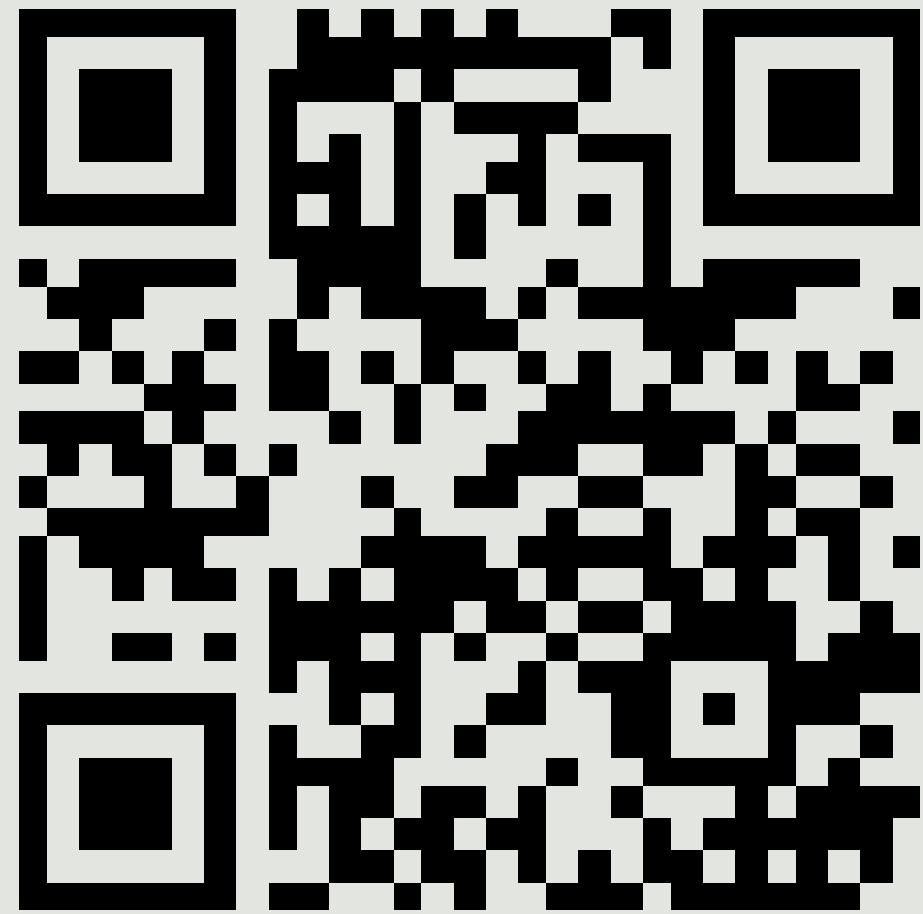




# CONTACT

*Me*

[Harrissquared.net/klinks](https://harrissquared.net/klinks)



Community. Purpose. Service.







Tell me about your team and what stake do they own in the business?

We'd love to hear more about your business. Could you tell us what you offer and why you started the business?

What's the legal status of your business?

Where are you located, and how long have you been doing what you do?

Does your business have a different management team from the owners? Who are the principal managers, and how is their background/experience vital to your business operations?

Who do you find yourselves up against in the market, and what do you think their strengths and weaknesses are?

Who is your target audience?

Do you offer credit? If so, how long does it take to turn over your accounts receivables?

We're curious about the financial statements you have on your business. Can you provide them? Are those financials audited or self-prepared?

Are your business assets insured?

What monetary amount is your business looking to borrow?

Why does your business need to borrow money?



**CONTINUED...**



How did you come up with the amount for your loan request?

What future financing needs do you predict needing?

In what way will this loan significantly assist your company in reaching its goals?

What do the earnings and profit history look like for your business?

How much cash is your business generating from its operations?

What's the primary source of repayment for the loan?

Will this loan generate any further expenses for your business?

What's the secondary source of repayment if the primary source fails?

How much equity does your business have?

Are there any willing and capable guarantors for your business?

What collateral do you to pledge?

Who owns the collateral, and where is it located?

Which banks are you currently associated with?

Which bank houses your business's operating account?

Have you spoken to your bank about the loan request?

How does this loan fit into your company's total banking and lending picture?

Do you have other loans outstanding, and what's the nature and extent of these loans?





*Quick Reference Bank Guide*

Account Documentation

- Articles of Organization
- Secretary of State Filing
- EIN#
- Valid Driver's License

Lending Documentation

- 2 years Tax Returns
- Income Statement
- Balance Sheet
- Profit/Loss Statement

Exploring Repayment Potential

Banks want to see that your business has positive cash flow.

**Cash Flow**

$$\begin{aligned} & \text{Net Income after taxes} \\ & \text{(Total Income - Total Expenses - Income Taxes)} \\ & + \\ & \text{Noncash Expenses} \\ & \text{(Depreciation + Amortization + Depletion)} \end{aligned}$$

Banks use this ratio to determine if your business has the cash required to repay not only the debt it currently has but any new debt.

**Cash Available  
to  
Service Debt**

$$\begin{aligned} & \text{Cash Flow} \\ & + \\ & \text{Interest Expense} \\ & - \\ & \text{Nonrecurring Income} \\ & + \\ & \text{Nonrecurring Expenses/Losses} \end{aligned}$$

**CONTINUED...**



Banks use this ratio to determine if there is enough cash for existing debt and any new debt. Consider this ratio as your cushion between annual cash flow and annual debt payments.

**Debt Coverage  
Ratio**

$$\frac{\text{Cash Available to service debt}}{\text{Annual Term Debt + Annual Line of Credit Debt}}$$

Are you able to afford your current debt? Banks want to ensure that there is a cushion between current assets and current liabilities; therefore, the higher your company's ratio, the less risky you become to the bank. This number needs to be at least 1.0 (this means you have \$1 in assets for every \$1 you have in liabilities).

**Current  
Ratio**

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Banks use this ratio to compare a company's debt to overall wealth. If this ratio is high, it signals to the bank that your company may not have efficient assets to liquidate in the event your cash flow decreases.

**Debt-to Worth  
Ratio**

$$\frac{\text{Total Liabilities}}{\text{Net Worth}}$$

# CONTACT

*Me*

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