J.R.Bruno & ASSOCIATES
Consultants to the Business Lending Community
SBA Specialist
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Business Lending News

CALCULATING GLOBAL CASH FLOW AND DEBT SERVICE COVERAGE FOR THE SBA AND BUSINESS LOAN CREDIT MEMO

The NCUA and FDIC are now underscoring that calculating global cash flow and global debt coverage is part of prudent underwriting and risk assessment that institutions should practice for SBA and member business loans. For SBA's Small Lender Advantage program it's required. Rather than just measuring the income and debt service requirements of the borrower, global analysis combines available cash flow from the borrower and all affiliates and all guarantors, to give a global - combined picture - of cash available for meeting all global debt service obligations of all parties.

This assessment helps measure the risk of non-borrowing but related entities (and guarantors), of their becoming a drain on the borrower's cash flow resources. To make this analysis, you'll need:

- Financial statements and tax returns of the borrower and all related entities
- Tax returns of *all* individuals
- Borrower's personal financial statement
- Debt schedules on the borrower, and all related entities and individuals
- K-1's from all entities and individuals

Why do you need K-1s? *Remember that reported taxable income from a tax return is not the same as cash flow. For individuals, taxable income from Schedule E partnerships and S-corps is not cash flow. You need the K-1's to determine true inflow or outflow of cash from these entities.*

What's an acceptable Global Debt Service Coverage Ratio? Overall you'll prefer to see GDSCR exceeding 1:1 on a projected basis. Because each situation is different, you'll need to understand the particulars of the credit request to determine level of risk for most loans. Yet for loan applications falling into the SBA's Small Lender Advantage program, requirements are spelled out and incorporated in the credit screening provisions in SOP 50 10 5 (E), that became effective June 1, 2012:

- Lenders must demonstrate the Small Business Applicant's ability to repay the loan from the cash flow of the business by documenting:
    - The Small Business Applicant's debt service coverage ratio exceeds 1:1 on a projected basis; and
    - With the exception of loans under $50,000 the Small Business Applicant's global cash flow coverage exceeds 1:1 on a projected basis. The Lender must document in the loan file the definition or formula used to calculate global cash flow.

At J.R. Bruno & Associates, we're experienced in calculating global cash flow and global debt service coverage - and have given presentations on this technical, but critical underwriting element of the credit memorandum. In fact, we're expert at every facet of SBA and business lending. You may call me directly at 626.688.2125 to discuss working together on your institution's needs. Or check out JRB's array of services at www.jrbrunoassoc.com.

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