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 =

Net Income after taxes
(Total Income-Total Expenses-Income Taxes)
+
Noncash Expenses
(Depreciation + Amortization+ Depletion)

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 =

Cash Flow
+
Interest Expense
-
Nonrecurring Income
+
Nonrecurring Expenses/Losses

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.

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

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).

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

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.

$$\text{Debt-to Worth Ratio} = \frac{\text{Total Liabilities}}{\text{Net Worth}}$$