GLOBAL CASH FLOW

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DEBT SERVICE COVERAGE RATIOS

- Applicant's debt service coverage ratio (OCF/DS) must be equal to or greater than 1.15 on a historical and/or projected cash flow basis and 1:1 on a global basis.

- OCF Operating Cash Flow = EBITDA

- DS Debt Service = the future required principal and interest payments on all business debt inclusive of new SBA loan proceeds.

TOOLS REQUIRED

1. Most recent three years complete Tax Returns for the subject business and all affiliates
2. Most recent three years financial statements if the tax returns are not reflective of the business being financed (acquisition of a division or territory of a larger company)
3. Financial statements from the most recent quarter end of the subject business, includes P&L and Balance Sheet and all affiliates
4. Business Debt Schedule of the subject business and all affiliates
5. Projections for the subject business, if applicable
6. Personal Financial Statement of all guarantors
7. Personal credit Reports of all guarantors
8. Last two years personal tax returns of all guarantors

BUILD THE FOUNDATION – BUSINESS ANALYSIS

Before you can perform a Global Debt Service Analysis, you must perform Debt Service Analysis on the individual businesses associated with the deal.

1. Spread each affiliate and the subject company separately using their respective financial information and debt schedules
2. Make standard adjustments to OCF
   a) Non-recurring rent payments in real estate purchases
   b) Owner's salary addback and/or owner's draw
3. Explain any non-standard adjustments to your analysis
   a) Other non-recurring or one-time expenses
   b) Unfunded Capital Expenditures
   c) Non-recurring income

BUILD THE FOUNDATION – PERSONAL ANALYSIS

Your next step is to determine the personal income sources and expense. There are no specific rules in how you determine the personal cash needs of the individual guarantors, but it needs to be reasonable and explained.

1. Compare the PFS to the Personal Credit Report to determine all household debt
2. Review Personal Tax Returns for
    a) any rental income and expenses
    b) Schedule C for sole proprietorship income
    c) Schedule E for potential affiliates
3. Review Personal Credit Report for all debt and repayment terms

PERSONAL BUDGET ANALYSIS

Below is the analysis Radar uses to determine how much draw is required from the subject business. You do not have to use this analysis, but you need to show and explain how you determined you draw requirement.

Personal Budget Analysis:	Monthly	Annual		Borrower Name: _____	Monthly	Annual
Income				**Expenses**		
Required Draw	$0	$0		Personal Mortgage (P&I)	$0	$0
Gross Salary-Principal	$0	$0		Rental Property Mortgage (P&I)	$0	$0
Gross Salary-Spouse	$0	$0		Rental Property Expenses	$0	$0
Gross Rental Income	$0	$0		Auto/Installment Loans	$0	$0
Interest Income	$0	$0		Revolving Credit	$0	$0
Alimony	$0	$0		Child Support/Alimony	$0	$0
Other Income	$0	$0		Living Expenses ($400/person)[1]	$0	$0
Total Income	$0	$0		Property Taxes (last actual)	$0	$0
				Income Taxes	$0	$0
				Misc. (5% of Total Income)	$0	$0
				Total Expenses	$0	$0
				Net Discretionary Income	$0	$0

PERSONAL FINANCIAL NEEDS

- Eliminate debts from your analysis that will payoff within the next 6-12 months (excluding balloon notes)

- Estimate personal taxes based on draw requirements

- Ask about alimony and/or child support payments

- Assume student loans will need to be paid off and won't be on deferment forever

DSCR CHART

Type	Tax Return	Tax Return	Tax Return	Interim	Projection
Period Ending	12/31/2016	12/31/2017	12/31/2018	3/31/2019	Year 1
Months	12	12	12	3	12
Revenue	$0	$0	$0	$0	$0
Net Income	$0	$0	$0	$0	$0
+ Rent	$0	$0	$0	$0	$0
+ Interest	$0	$0	$0	$0	$0
+ Depreciation/Amortization	$0	$0	$0	$0	$0
+ Officer's Salary	$0	$0	$0	$0	$0
+Other Addback:	$0	$0	$0	$0	$0
+Other Addback:	$0	$0	$0	$0	$0
+Other Addback:	$0	$0	$0	$0	$0
+Other Addback:	$0	$0	$0	$0	$0
- Officer Draw/New Owner Comp.	$0	$0	$0	$0	$0
CF Available to Service Debt	$0	$0	$0	$0	$0
Projected Debt Service (see Table Above)	$0	$0	$0	$0	$0
Excess Cash Flow	$0	$0	$0	$0	$0
Debt Service Coverage Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

OTHER ADDBACKS/EXPENSES

In addition to a departed owners, here are some other typical addbacks that may be allowed. You must be able to verify these amounts from the financial data collected.

Addbacks:

- Other salaries being replaced or eliminated, management fees that are being eliminated
- Equipment Rental being eliminated
- Extraordinary Repairs & Maintenance or Legal Fees
- Automobile expenses for businesses that do not require autos for the business operations

Expenses:

- In real estate deals adjust for property taxes and expenses
- CapEx – if the business has to replace equipment in quick succession, you need to account for these expenses

PROJECTIONS

If

- your business has not generated revenue for at least 12 months it is considered a start-up and requires projections.

- your analysis does not reflect debt service in the most recent full fiscal year I suggest you obtain projections

- your loan is for a complete change in ownership, the SBA considers this a new business and you must obtain projections

Projections are to be for two full fiscal years with the first year being on a month-to-month basis.

RECAST VS. ADDBACKS

Originators and brokers have a tendency to want you to use their recasted numbers as your historical analysis. This is not the way the SBA will analyze the loan and I do not recommend you analyze the credit in this manner. Recasted financial display how the business could have been managed to generate better profitability. This can serve as support to the incoming owner's projections, but is not a historical analysis of the subject business.

GLOBAL DEBT SERVICE COVERAGE

Global Cash Flow	12/31/2016	12/31/2017	12/31/2018	3/31/2019
Personal Cash Flow - Guarantor	$0	$0	$0	$0
Cash available for Debt Service - Borrower	$0	$0	$0	$0
Cash available for Debt Service - Affiliate #1	$0	$0	$0	$0
Cash available for Debt Service - Affiliate #2	$0	$0	$0	$0
Total Existing Cash Flow	$0	$0	$0	$0
Personal Expenses - Guarantor	$0	$0	$0	$0
Existing Debt: Borrower	$0	$0	$0	$0
Existing Debt: Affiliate #1	$0	$0	$0	$0
Existing Debt: Affiliate #2	$0	$0	$0	$0
Proposed SBA 7(a)	$0	$0	$0	$0
Total Debt	$0	$0	$0	$0
Global Debt Service Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

SUGGESTIONS

- Don't force your deal to look better on paper.

- Ask as many questions of the applicant as needed to get comfortable with the deal.

- Get support for addbacks – paystubs, W-2s, receipts, etc…

- Dig in on the support to projections. Start-ups or turnarounds are higher risk and you may be required to defend those projections to the SBA at the approval stage or worse yet, if the loan goes bad early.

Thank You!