

[TOPIC]

# Understanding underwriting guidelines for business credit

[ADVICE]

This topic has created a great deal of confusion for business owners during this financial crisis. Banks have responded in very different ways to help their customers understand what is expected to maintain their operating lines of credit. Over and over I see a business owner profess that their banker is pulling their credit and they don't know why. I always respond with the same response. "Ask your banker what the underwriting criteria is." How can a business operate if they don't know what is expected?

It still comes down to three measurable metrics. Cash flow, collateral and equity in the business. During the last three years of financial distress, all three areas have been weakened for many businesses. Basic underwriting criteria banks look for include a cash flow greater than 1.15, loan to value of collateral less than 75% and a leverage ratio less than 4 to 1. For many businesses, they are preparing for their annual credit renewal. Now is the time to be meeting with your banker to discuss your company's performance for the prior year. Your tax professional also should be included in these conversations. For S Corp businesses, this is particularly helpful as equity held in the business may be very thin. If you find that your business isn't as strong as it was prior to the recession, ask your banker to offer suggestions to maintain your credit facility. Often, the use of the SBA, additional personal assets or heavier reliance on what's good about your business, can help offset the weaknesses. Some businesses may find themselves without traditional bank credit. Your banker may be able to recommend alternative financing solutions. The key here is to use your banker to help you to find an alternative solution.



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