



# Bridging the Capital Access Gap

A Curriculum for Lenders, Business Development Organizations, and TA Providers



LSC



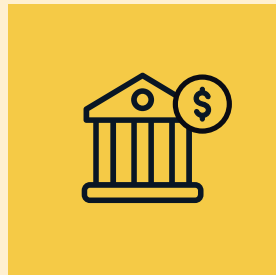
# Main Topics



## CHAPTER 1

### Lending Landscape

(Modules 1 - 4)



## CHAPTER 2

### Underwriting Basics

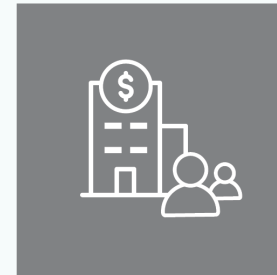
(Modules 5 - 8)



## CHAPTER 3

### The Best Version of the Business

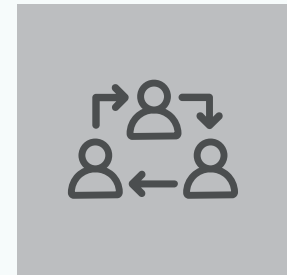
(Modules 9 - 14)



## CHAPTER 4

### Preparing for the Next Level

(Modules 15)



## CHAPTER 5

### Resources for Professional Development

(Modules 16)



## CHAPTER 2

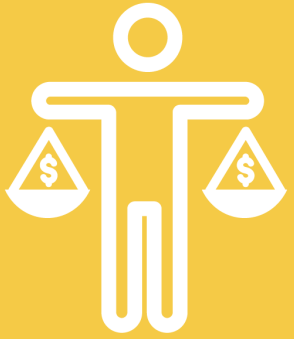
# Underwriting Basics (Modules 5 - 8)

**What is Underwriting?** (Module 5)

**Five C's of Credit** (Module 6)

**Understanding Credit** (Module 7)

**Debt Service Coverage** (Module 8)



# Debt Service Coverage

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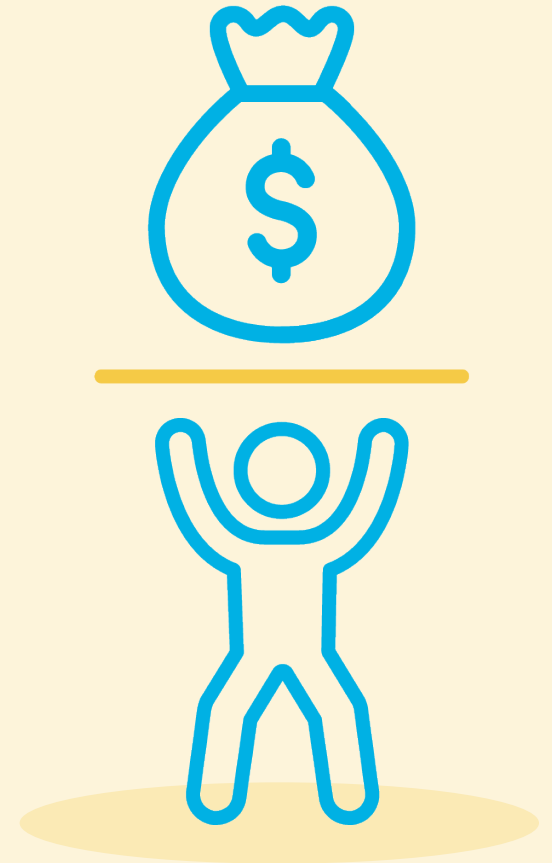
# Debt Service Coverage: What You'll Learn

- What is debt service coverage.
- How lenders decide whether a business owner meets the 'Cash' criteria of the Five C's.
- How 'Cash' is analyzed for a microloan vs. a small business loan.
- How to do a rough estimate of debt service coverage.



# What is Debt Service Coverage?

- One of the Five C's of Credit used in underwriting.
- It is a measure of the cash flow available to pay current debt obligations.
- It is calculated as a ratio of cash to debt payments.
- Lenders – both banks and mission-based – have different ways of calculating DSC.
- We want clients to access capital but don't want clients taking on debt they can't afford.



# Microloan to Small Business Loan Spectrum



- Can the Borrower pay back the loan?
- Use bank statements from the past four months and/or projections
- Include personal and business financial information

- Can the Business pay back the loan?
- Use information from past 2-3 years
- Rely on business financial statements

# Calculating Debt Service Coverage

Two main elements for this analysis:

- Know what the monthly or annual total payments are for the new loan.
- Determine how much cash is available to make those payments.







# Case Study

## Small Business Loan

# Determining cash for small business loans

- Most small business lenders use 2-3 years of historical business and financial information to calculate debt service coverage.
- This means using a Profit and Loss Statement.
- In very large loans, Balance Sheet analysis can also be used.



# Net Income from the Profit and Loss

- Net income is the profit that remains after all expenses and costs have been subtracted from revenue.
- Net income subtracts both operating expenses and non-operating expenses, such as taxes, depreciation, amortization.



# Debt Service Coverage Ratio

There are potentially sources of cash in addition to the business:

- Net Income for this calculation is often adjusted: depreciation added back in; refinanced debt adjustments; subtracting rent if new building is being purchased, etc.
- This adjusted Net Income is divided by debt service for the new loan.
- For larger loans, this calculation will be undertaken with 2-3 years past Profit and Loss statements.



  
**Net Income**  
—  
**Debt Service**  
=  
**1.25 or greater**



# Case Study

## Microloan

# Determine cash for microloans

- Microlenders use 3-4 months of historical business financial information to calculate debt service coverage.
- This means using bank statements when accurate Profit and Loss statements are not available.
- Some microlenders will use projections to calculate debt service for start ups or businesses not yet profitable.



# Debt Service Coverage Ratio

- For microloans, this calculation will be undertaken with 3-4 months of bank statements.\*
- When the business doesn't have sufficient coverage, microlenders will include personal financial information.


$$\frac{\text{Ending Balance of Bank Statement}}{\text{Debt Service for New Loan}} = 1.25 \text{ or greater}$$

\*Mission-based lenders have different methods for calculating DSC

# Global Cash Analysis

To help qualify a microloan borrower, lenders might:

- Include personal bank statement information, looking at ending balances.
- Add up all non-business income: spouse income, rental income, child support, social security, side jobs.
- Subtract all household expenses: using average personal expenditures from bank account.





# Improving Cash Position

- Conducting a “back of the envelope” debt service coverage analysis can help your client understand how ‘Cash’ underwriting works.
- It can help you and your client see if they are in the ballpark.
- Please review Module 13 to learn ways you can help improve the cash position for your clients applying for loans.
- Learn as much as you can about how the lenders in your region approach DSC calculations.





## CHAPTER 3

# Best Version of the Business (Modules 9 - 14)

**UP  
NEXT**

**Quality Applications (Module 9)**

**Startups vs. Existing Businesses (Module 10)**

**Loan Ready vs. Not Qualified (Module 11)**

**Improving Credit (Module 12)**

**Improving Debt Service Coverage (Module 13)**

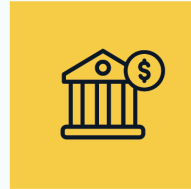
**Collateral (Module 14)**

# LISC *Capital Access* Training Modules



## CHAPTER 1 **Lending Landscape** (Modules 1 - 4)

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- 1 Lending Landscape
  - 2 When to Borrow
  - 3 Finding the Right Lender
  - 4 Building Relationships with Lenders



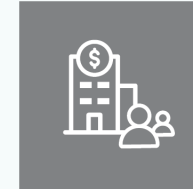
## CHAPTER 2 **Underwriting Basics** (Modules 5 - 8)

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- 5 What is Underwriting?
  - 6 Five C's Overview
  - 7 Understanding Credit
  - 8 Debt Service Coverage



## CHAPTER 3 **The Best Version of the Business** (Modules 9 - 14)

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- 9 Quality Applications
  - 10 Startups vs Existing Businesses
  - 11 Loan Ready vs Not Qualified
  - 12 Improving Credit
  - 13 Improving Debt Service Coverage
  - 14 Collateral



## CHAPTER 4 **Preparing for the Next Level** (Module 15)

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- 15 Preparing for the Next Level



## CHAPTER 5 **Resources for Professional Development** (Module 16)

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- 16 Resources for Professional Development

# Thank you for joining us!

**Presenter: Susan Brown**

Business & Nonprofit Development

Microlending & CDFI Capacity Building

Online Program Design

**[susanrileybrown.com](http://susanrileybrown.com)**

## LISC

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