

Chevy Chase Bank

How We Make Our Lending Decisions

Access to affordable and appropriate credit products is vital to growing your business. The more you know about how a lender assesses your business's credit-worthiness, the better your chances will be to obtain credit that meets the needs of your business.

At Chevy Chase Bank, we look at a number of factors related to both the business and its owners/managers and then compare strengths and weaknesses to arrive at a balanced decision.

- **Debt Service Coverage:** Has your business generated enough cash for the past two years after all expenses are paid to make the loan payments with a little cushion left over? We will use your business financial statements or tax returns to calculate your cash flow after expenses and compare it to what your loan payments would be based on a term and interest rate appropriate for your needs and financial position. Ideally, you will have at least \$1.50 of excess cash flow for every \$1 of debt payment required, but we can be flexible if other areas are strong.
- **Collateral:** What business or personally owned assets are you able to pledge to support your borrowing need? We consider a wide variety of assets when determining the level of coverage, including residential, investment and commercial real estate; business assets, such as accounts receivable, inventory, machinery/equipment and furniture/fixtures; and liquid assets, such as cash or marketable securities. When evaluating collateral against the loan amount, the proportion we count as available may range from 50% or less for certain kinds of inventory to 65-80% for real estate or to 100% for cash.
- **Management Experience:** How much experience do you have in managing this business or another business in the same/similar industry? What is the quality of your experience: for example, have you managed the staffing, the operations, the finance and administration and the marketing/selling aspects of a business? Do you have a management team to provide experience in areas where you don't have it yourself? We look for management with enough experience to make the success of the business likely.
- **Credit History:** We look at both business and personal credit history in coming to a credit decision. We will pull a D&B or similar report on the business and a personal credit report on owners and guarantors. Your history of paying debt on time will be an important part of our decision, but we do not automatically exclude borrowers who have had credit problems in the past.
- **Equity/Leverage of the Business:** How much of the earnings of the business have been left in the business to allow for future growth or unexpected problems? We will consider the level of debt the business has accumulated to the level of net worth left in the business to determine leverage. In a purchase transaction, we will also consider how much of the purchase price you are providing either personally or with business funds.
- **Liquidity:** Do you maintain sufficient cash or working capital to support the operations and anticipated growth of the business? We will consider both liquidity in the business and personal liquidity.
- **Outside Resources:** Do you have resources, either collateral or excess cash flow, from sources other than the business to support the business during a

growth period or a downturn? This might be from another business owned by you or a guarantor, from another paid position you or another owner has, or income from a spouse or other guarantor. We don't expect outside resources but they are a helpful bonus to offset possible weaknesses in other areas.