

A BEDNAR FINANCE GUIDE

# What Bankers Actually Look At

*Seven things your banker reads first, and the three lines that get most owner-operators politely declined.*

**PLAIN LANGUAGE. CPA-BUILT.**

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**Edwin Bednarczyk, CPA, MBA**

Bednar Finance | [bednarfinance.com](http://bednarfinance.com)

**START HERE**

## **Why a profitable business still gets a “no”**

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You can run a genuinely profitable business and still watch a loan request stall. It happens constantly, and it usually has nothing to do with whether you make money. It has to do with whether your file answers the banker’s questions in the banker’s order.

Here is the gap. Your bookkeeper keeps the books. Your CPA files the return. Whoever assembles your loan package pulls numbers from both. Those three people rarely sit at the same desk, and when they do not, the story your financials tell does not quite match the story your tax return tells, which does not quite match what your bank statements show. A banker reads all three. The moment they stop agreeing, every number you submitted becomes a question instead of a fact.

This guide is the other side of that desk. It walks through the seven things a commercial lender actually calculates when your package lands, in the order they look at them, and the three specific lines that turn a likely yes into a polite no. None of it is secret. All of it is fixable before you ever ask for money. Read it as a checklist for the version of your business a banker needs to see.

## THE ORDER OF THE EYE

# How a banker actually reads your file

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A loan officer does not read your financials front to back. They scan, in a predictable order, building a yes or a no as they go.

First they read the cover: one page, in plain English, that says who you are, what you want, how much, for what, and how you will pay it back. If it is missing, they build their own narrative from the raw numbers, and their version is rarely as kind as yours.

Then they go straight to cash flow and the coverage ratio, because that is the question the whole loan turns on: can this business cover the new payment on top of everything it already owes. From there they check the direction the business is moving, how much of it the owner actually owns, whether it can survive a slow quarter, what they can seize if it fails, and finally whether the owner is taking more out of the business than the business earns.

Seven reads. The rest of this guide is each one: what the banker is really asking, the number that clears the bar, and what to fix before you hand it over.

THING 1 OF 7

## Global Debt Service Coverage Ratio

*the gatekeeper number*

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**What it is.** Your cash available to service debt, divided by the debt payments you owe. “Global” means the banker combines the business with you personally, because the moment you sign a personal guarantee, your household income and household debt are part of the deal.

**The number.** Most commercial lenders want at least 1.25, meaning the business and you together generate \$1.25 of cash for every \$1.00 of debt service. SBA loans floor around 1.15. Strong files run 1.50 or better. Below 1.25, most of the rest of the page stops mattering.

**What to fix first.** Know your global number before you walk in. If it is thin, the fastest levers are cutting owner distributions, refinancing short-term debt into longer terms to lower the annual payment, or waiting one quarter for a stronger trailing-twelve. Do not let the banker be the first person to calculate this.

## THING 2 OF 7

# The trend line

*direction beats any single year*

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**What it is.** The direction of revenue, gross margin, and net income across the last two to three years.

**The number.** There is no single threshold here. Direction is the metric. Flat-to-rising gets read generously. Revenue falling while debt rises gets read as a problem waiting to happen, even if you are still profitable.

**What to fix first.** If there is a dip, explain it before they ask. A bad year with a clear, documented cause and a visible recovery reads completely differently from a bad year left to speak for itself. Bring the trailing-twelve, not just calendar years, so a recent recovery actually shows.

### THING 3 OF 7

## Leverage and tangible net worth

*how much of this is really yours*

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**What it is.** How much of the business creditors already own versus how much is yours: debt divided by tangible net worth, where tangible net worth strips out goodwill and other intangibles.

**The number.** Lenders get cautious as debt-to-tangible-net-worth climbs past roughly 3-to-1 or 4-to-1, though it varies by industry. Negative tangible net worth, where liabilities exceed hard assets, is close to a hard stop.

**What to fix first.** Stop stripping equity out of the business in the year before you borrow. Retained earnings left in the company are the cheapest way to fix this line, and the one most owners quietly undo with distributions.

## Liquidity

*can you survive a slow quarter*

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**What it is.** Whether the business can cover its short-term obligations without drawing the new line straight back down to zero. Measured by the current ratio, current assets over current liabilities, and working capital.

**The number.** A current ratio of roughly 1.2 to 1.5 or better is the comfortable range for most operating businesses. Below 1.0 means you cannot cover near-term obligations with near-term assets, and the banker sees a borrower who will use the loan to plug a hole rather than grow.

**What to fix first.** Clean up the balance sheet date. Collect stale receivables and pay down revolving balances before the statement you submit, so the snapshot reflects how the business actually runs, not its worst day of the month.

## THING 5 OF 7

# Collateral coverage and advance rates

*what it is worth to them, not to you*

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**What it is.** What the lender can lend against, and what it is worth to them in a default, not to you in operation.

**The number.** Lenders advance only a fraction of asset value. Receivables commonly support around 70 to 80 percent, inventory closer to 50 percent, equipment and real estate by appraisal and type. The SBA requires collateral on loans above \$50,000 and will look to available equity in your real estate when business collateral falls short.

**What to fix first.** Understand that having assets and having collateral are different sentences. Aged receivables, slow inventory, and specialized equipment get discounted hard. Know what your assets are worth at a lender's advance rate before you count on them.

THING 6 OF 7

## Receivables and payables quality

*the health of what you are owed and what you owe*

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**What it is.** Aging on both sides, days outstanding, and concentration.

**The number.** Watch concentration as closely as aging. One customer at 30 to 40 percent of revenue is a risk line to a banker, not a brag. Receivables stretching well past terms signal collection problems; payables stretched past terms signal that you are funding the business on your vendors' backs.

**What to fix first.** Tighten collections before you apply, and stop using vendor float to fake liquidity. Both show up in the aging reports the banker will ask for, and both are read as cash-flow stress.

THING 7 OF 7

## Owner cash flow and add-backs

*the personal half of the global picture*

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**What it is.** Your compensation, your distributions, and the add-backs you use to adjust EBITDA.

**The number.** The test is credibility. Reasonable owner compensation has to stay in the analysis; you cannot add back the salary the business actually needs to pay someone to do your job. Distributions that exceed net income are a flashing light. And every add-back has to survive a skeptical reading, with documentation.

**What to fix first.** Build the global picture yourself first, with your personal returns, a personal financial statement, and a schedule of real estate owned. If your add-backs cannot survive your own scrutiny, they will not survive the lender's.

## The three lines that get you politely declined

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Seven reads decide most files. Three specific lines kill the rest, fast, almost regardless of how the ratios look.

### **1 Distributions that exceed net income.**

When the owner pulls out more than the business earns, the banker sees exactly what the loan is up against: a borrower who will drain the cash the loan is meant to reinforce. It is the single most common self-inflicted decline.

### **2 Financials that do not tie to the tax return.**

The lender trusts the filed return. When your internal statements tell a different story, the problem is no longer one number, it is that every number is now suspect. The tie-out break costs you credibility you do not get back in the same conversation.

### **3 Negative or wafer-thin equity propped up by a shareholder loan.**

A balance sheet held up by loans between you and your own company tells the banker there is no real cushion and no clear line between the business and your checking account. It raises the two questions a lender least wants to ask: is this solvent, and who actually controls the cash.

## WORKED EXAMPLE

### The gatekeeper number, worked end to end

Here is the coverage ratio worked through for a simple owner-operated company, the way a lender builds it.

Step 1 — Business coverage	
Net income	\$320,000
Add: interest expense	\$45,000
Add: depreciation & amortization	\$85,000
Add: documented one-time expense	\$20,000
<b>Cash available for debt service</b>	<b>\$470,000</b>
Existing + new annual debt service	\$370,000
<b>Business DSCR</b>	<b>1.27</b>

Step 2 — Global coverage (adds the guarantor)	
Business cash available for debt service	\$470,000
Add: owner household cash available	\$70,000
<b>Global cash available for debt service</b>	<b>\$540,000</b>
Business + personal annual debt service	\$418,000
<b>Global DSCR</b>	<b>1.29</b>

#### Now watch one decision move the whole loan.

Raise distributions so the household pulls an extra \$120,000 with no new income, and personal cash available swings from positive \$70,000 to negative \$50,000. The global ratio falls from 1.29 to about 1.00, straight through the 1.25 floor. Same business, same profit, declined. The distributions line is not a footnote. It moves the number the entire loan turns on.

## THE PAGE THEY READ FIRST

# A sample one-page banker cover

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This is the page that frames all seven items into the story a banker wants before she opens the spreadsheet. One page. Plain English.

**Borrower:** [Company], an S-corp in [industry], [X] years in business, owner-operated.

**Request:** \$[amount] [term loan or line of credit].

**Use of funds:** [equipment, working capital, refinance], and what it lets the business do.

**Repayment:** Serviced from operating cash flow. Trailing-twelve cash available for debt service of \$470,000 against total debt service of \$418,000, a global DSCR of 1.29.

**Collateral:** [receivables, equipment], plus the personal guarantee of the owner.

**The story:** [Two sentences: why the business is healthy, and why this request makes it healthier, not just bigger.]

**Attached:** Trailing-12 P&L, balance sheet with covenant lines noted, cash flow statement, AR and AP aging, personal financial statement, and three years of business and personal returns.

## TEAR-OUT

# Before you ask for money

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Assemble these, then make the three fixes. Print this page and check it off.

### The package

- Trailing-twelve P&L, not just calendar years
- Balance sheet with any covenant lines highlighted
- Cash flow statement
- AR aging and AP aging
- Last three years of business tax returns
- Last three years of personal tax returns
- Personal financial statement
- Schedule of real estate owned
- One-page cover narrative

### The three fixes

- Confirm distributions do not exceed net income
- Confirm your financials tie to the filed tax return
- Confirm the balance sheet is not propped up by a shareholder loan

ONE FIRM, ONE DESK

## Who built this

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Edwin Bednarczyk is a CPA and MBA and the senior finance and accounting lead at an operating company. Bednar Finance is his CPA and fractional CFO practice, serving owner-operator businesses between \$2M and \$10M in revenue. The books, the close, the loan package, and the tax return come from the same desk, so the numbers your banker reads are the numbers your CPA filed.

If your business is worth defending and your books do not yet show it, that is the gap I close.

**Book a 20-minute triage call**

[ [your Calendly link](#) ]

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*This guide is general information for business owners and is not a substitute for advice on your specific situation.*