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What is Global Cash Flow?

The phrase “Global Cash Flow” has become an increasingly important and common concept to commercial banks and their clients over the past several years. In particular, with the difficult economy we have all faced recently, the ability for individuals, business owners, and banks to truly understand how all competing demands on a borrower’s cash can be met is crucial to successful lending.

Generally, commercial lenders look first to the cash flow generated by a business as its primary source of repayment. Additionally, most commercial loans are supported with the personal guarantees of the business owners as a secondary source of repayment. In this case, understanding the guarantor’s personal cash flow allows the bank to analyze the individual’s ability to service all personal debt, living expenses, income taxes, etc. Any excess cash flow would then in theory be available to support business debt service.

Global Cash Flow analysis blends personal cash flow, business income, and business cash flow into a single model which attempts to demonstrate a business owner’s ability to generate cash flow sufficient to cover:

1. **Business Debt Service:** the cash flow necessary to make all contractual business debt payments.
2. **Maintenance Capital Expenditures:** the level of normal, recurring purchases of equipment.
3. **Income Taxes:** corporate and personal income taxes, both state and federal
4. **Personal Debt Service:** the cash flow necessary to make all contractual personal debt payments (home mortgage, vehicle loans, student loans, etc.)
5. **Living Expenses:** cash required to cover general living expenses (food, utilities, insurance, leisure, charitable, etc.)

The vast majority of a bank’s commercial banking relationships involve individuals and their closely held companies. Often, cash flows between the individual and the company as needed. The Global Cash Flow is a tool designed to eliminate the separation of the individual and their company by looking at both entities as one in order to determine if enough cash is generated and available to cover all of the personal and business obligations of the owner.

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