Global Cash Flow

Has your banker recently asked you for more financial information than ever before? Have you heard the term "Global Cash Flow" used by bankers in the last few years?

Well if you haven't heard this term, you likely will be hearing it more and more. It is the latest buzz word that bankers are throwing out to their customers because banking regulators are throwing it out at them.

What does "Global Cash Flow" mean and how does it affect me and my banking relationship?

The term "Global Cash Flow" cannot be found on Wikipedia or even in the Merriam Webster Dictionary. We all know what "Cash" is, and "Cash Flow" is the movement of money into and out of a company. When more comes in than goes out, it is said to be a positive cash flow. A negative cash flow is when more goes out than comes in. Webster defines "Global" as "of, relating to, or applying to a whole". Thus, when added all together one could conclude that "Global Cash Flow" means Cash moving into and out of a company's whole span of ownership or common bond [e.g., the company's owner(s), subsidiaries, related companies, and common ownership entities (foreign and/or domestic). In fact, throw in everything else related to the company and its owner(s)!

Now, for the second part of the question: "How does "Global Cash Flow" affect me and my banking relationship"? This needs to be looked at from two points of view.

First of all, if you presently have an open credit facility with a bank and are providing financial statements, as part of a reporting covenant in a loan agreement, then do not be surprised if you are asked to also provide financial statements and tax returns for that real estate holding company you and your spouse own that has some rental properties in it or perhaps your son's or daughter's college condo. Or, you may be asked to provide the financial statement and tax returns on your spouse's professional practice, that may be totally unrelated to the borrowing entity, but the spouse is a guarantor on the credit facility, so your overall "Global Cash Flow" coming in or going out may be affected. If this requested information is not provided and the bank's credit analysts cannot prove you have cash flow to cover your debt payment(s) by at least a 1.2 or 1.25 ratio, then there is a good chance your loan will be classified, even if you are making your monthly payments on time. If your loan does become classified, then you banker will become your newest problem employee. You will get calls from your banker asking you numerous questions because he or she has to complete an "Action Plan" to get your loan upgraded to a "Pass Credit". This could take a while (6 months or a year). If it looks as if the upgrade process could take longer, you may be directed to do the difficult task of "Moving Your Loan" to another lender. I truly do not think that most bankers even realize what they are saying when they issue that edict to you. If all the banks are now playing from the same handbook how it is possible to move your loan?

The second situation comes into play if you are looking for a new loan. You will be asked to provide all the borrowing entities' financials and tax returns as well as the guarantors' personal financials and tax returns. But oh wait! The credit analysts spot that you or one of the guarantors is receiving rental property income that was reported on a Schedule E form. The sirens start to blare and phone calls and e-mails begin to fly. The banker will tell you to produce copies of the financial statements and tax returns for that real estate entity you own. Once you provide that information, you will likely get another request. Can we also get copies of all the documents on the loans outstanding in that real estate entity? You provide those copies, and then guess what? We also need this, and then that, and it seems endless, all provided in order to work up the "Global Cash Flow". If that magical 1.2 or 1.25 or greater debt service coverage cannot be achieved, you will likely not get the new loan.

Do not take any of this personally, or you will likely take up drinking. Also, do not think you are in the driver's seat because you have a good loan to collateral value.

In today's environment that is a given, or you will not even be afforded the opportunity to provide the financial information. It is all about cash flow.

One thing that makes all of this so difficult to understand is if the bankers and the regulators would take a minute and think about what they are doing, they just might think about adding a step to the process. All this "Global Cash Flow" analysis that is being done is based on historical data. I know that history repeats itself, but let's be a little creative and pro-active and do some forecasting of revenues and expenses and get to see how much is going to actually be available to make future payments.

~ Written by Richard T. Hendee, Chairman Silver Fox Advisors