



Building Success. Together.

Fundamentals of C&I Lending

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Agenda

- C & I Lending Defined
- Benefits of Growing Your C&I Portfolio
- Key C&I Loan Risks
- Proper Loan Structuring
- Analyzing C&I Financials
- C&I Collateral Monitoring and Portfolio Management

Commercial and Industrial Lending Defined

- C&I Lending includes all commercial loans where repayment comes from the ongoing operations of a business, including owner occupied real estate lending.
- What are some examples of C&I Loans?

Benefits of Growing C&I Lending

- Diversification of Risk – Many banks have heavy concentrations in Commercial Real Estate Lending and Consumer Mortgage Lending, which are susceptible to sector downturns.
- Increased Revenue Potential
 - Loan rates and fees
 - Deposit growth
 - Treasury Management Fee Income
 - Credit Card Services
 - Investment, Insurance, and Wealth Management Services
 - Relationship Banking Depth and Advisory Services Build Strong Loyalty
- Strengthens and Grows Communities that Banks' Serve

Key Risks of C&I Lending

- Improper loan structuring
- Lack of understanding operating business cash flow
- Insufficient industry expertise
- “Check the box” underwriting
- Credit analysis focused on the past
- Poor business and cash flow management
- Insufficient collateral and/or collateral monitoring
- Inadequate covenants and loan monitoring
- Bank competitive pressure

C&I Loan Structuring

The loan term or amortization period should align with all the following:

- Useful life of the collateral
- Borrowing need/Purpose of the loan
- When borrow needs funds
- Timing of the cash flow/source of repayment

Loan Structuring Considerations

Before determining the type of loan, a lender must determine the reason for the loan and how the proceeds will be used.

- Is the purpose/borrowing need long-term (more than one year) or short-term (one year or less)?
- When will the borrower need the funds? Immediately, At a specific time in the Future, Uncertain
- When will the cash be available to repay the loan?

C&I Structuring Guidance and Examples

- Repayment terms should generally not exceed the collateral useful life (i.e. equipment, real estate)
- Agriculture crop loans have repayment periods of a year or less year to match collateral useful life and timing of sale of crops, which will repay the loan in full.
- Loans to purchase retail inventory for Christmas season should have short term of a year or less to match expected cash flow received from the sale of inventory.
- Loans secured by inventory and accounts receivable (short-term collateral) should have a matching short loan term (generally one year) and frequent monitoring (daily, monthly, quarterly) to ensure the loan amount does not exceed the value of collateral.

C&I Structuring Guidance and Examples

- Loans to purchase retail inventory for a new retail store opening should have a longer term (usually repaid over several years) to match expected cash flows over time that would be required to pay back a “permanent” level of inventory. The best approach in securing this loan is with long-term collateral that has a useful life equal to or greater than the term of the loan (i.e. real estate).
- Loans to provide working capital necessary to support long term sales growth (more than one year) should not have a “rest” requirement on the line, as this growth results in a permanent increase in AR and Inventory. This debt usually will need to be termed out and repaid longer term from operating cash flow. Collateral useful life should exceed the loan term loan.

C&I Structuring Guidance and Examples

Caution is advised when securing loans that have a long-term purpose/borrowing need and long-term expected repayment period need with short term collateral. Specialized lending expertise (asset-based lending) and extensive collateral and loan monitoring is required for these type loans.

C&I Financial Statement Analysis

- Analyze trends to explain significant changes in financial statements
- Avoid “elevator” analysis and understand the “why” behind changes
- Have conversations with owners/management to help determine if trends will continue
- Assess the impact of business plans on future financial performance and cash flow
- Analyze the impact of non-recurring items on financial statements and cash flow
- Consider the impact of character, conditions, and capital on cash flow

Common Size Analysis

- Line items on the balance sheet are calculated as a percentage of total assets
- Line items on the income statement are calculated as a percentage of net revenue (i.e. gross margin, operating margin, profit margin)
- Helps lender quickly analyze the relative impact of financial statement changes

Ratio Trends

Some Key financial statement ratios include:

- | | |
|------------------------|---|
| a) Gross margin | a) $\text{Gross profit/net sales} \times 100$ |
| b) Net (profit) margin | b) $\text{Net profit/net sales} \times 100$ |
| c) Current ratio | c) Current assets/current liabilities |
| d) Quick ratio | d) $(\text{Liquid assets} + \text{net accounts receivable})/\text{current liabilities}$ |
| e) Debt to Worth | e) Total debt/net worth |
| f) Debt to Assets | f) Total debt/total assets |
| g) Return on Assets | g) $\text{Net Income}/\text{avg total assets}$ avg of beg and end of period |
| h) Return on Equity | h) $\text{Net Income}/\text{avg shareholder equity}$ avg of beg and end of period |
| i) DSC & UCA DSC | |

Industry Comparative Analysis

- Compare financial statement trends and ratios to peers in an industry, of similar asset and/or revenue size
- Often used as a basis for loan policy/procedure guidelines
- Financial spreading software providers collect and report data from banks across the country on their borrowers and loan prospects (i.e. Robert Morris Associates – RMA statement studies)
- Other industry information subscription services
 - Consider using free AI tools

Industry Analysis Considerations

- Do I or does my someone in my bank have knowledge of borrower's industry?
- Regulatory risk
- Cyclical/Seasonality
- Maturity of industry and business within the industry
- Competition
- Market pressures
- Staffing availability/Local expertise
- Capital/Cash Intensive
- Failure Rate

Sensitivity Analysis

How will changes impact DSC, GDSC, or UCA Coverage Ratio

- Interest Rates
- Growth Plans/Change in Revenues
- Inflation
- Pricing Pressures
- Expense Changes
- Non-recurring Items
- Sales and Management Impact to Working Capital Accounts
- Other Management Plans

Sensitivity Analysis Assumptions

- How will 6 percent projected sales growth impact cash flow?
- How can increasing AP Days from 22 to 27 impact cash flow?
- How will cash flow be improved if management decreases inventory days from 65 to 55?

Don't remember your Algebra?

Good news! Your AI or your credit analysis software can help.

Sensitivity Analysis Example

- Assuming everything else remains the same, how would a 10% sales increase impact cash in 2026.
 - Sales - \$2,000,000
 - Accounts Receivable - \$200,000
 - ARDOH – 30

Refer to AI Solution

Blank Slide for Sensitivity Analysis Example



assuming everything else remains the same



AI Mode

All

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◆ AI Overview



A 10% sales increase in 2026, assuming all other factors (such as payment terms, efficiency, and expenses) remain the same, would result in a **\$20,000 decrease in cash** due to higher investment in Accounts Receivable. [↗](#)

Calculation Breakdown

1. **2025 Sales:** \$2,000,000
2. **2026 Projected Sales (10% increase):** \$2,000,000 * 1.10 = \$2,200,000
3. **Sales Increase:** \$200,000
4. **AR Days Outstanding (ARDOH):** 30 days (or 1/12 of a year)
5. **Increase in AR (Cash outflow):** Since sales are collected over 30 days, the increased sales require more working capital to be tied up in accounts receivable.

$$1. \text{ Additional AR} = \text{Sales Increase} \times \left(\frac{\text{ARDOH}}{365} \right)$$

$$2. \text{ Additional AR} = \$200,000 \times \left(\frac{30}{365} \right) \approx \textbf{\$16,438} \text{ (Based on 365 days)} \quad \text{↗}$$

Alternative calculation using simple monthly average (assuming 360-day year/12 months):

$$\bullet \text{ Additional AR} = \frac{\text{Sales Increase}}{12} = \frac{\$200,000}{12} \approx \textbf{\$16,667}$$

Impact on Cash

- **Initial Impact:** Because accounts receivable increases by roughly \$16,438–\$16,667, that amount represents revenue earned but not yet collected, which **decreases cash** on hand.
- **Conclusion:** The company must finance an additional \$16,438–\$16,667 in receivables in 2026 to support the 10% growth. [↗](#)

Analyzing C&I Operating Cash Flow

- **Cash** repays debt – not net income plus depreciation and interest
- Consider business type when analyzing cash flow – C&I and CRE underwriting usually require different approaches
- To fully analyze operating cash flow, you must consider the income statement and changes in the balance sheet working capital accounts over the same period as the income statement.

Cash Flow and Solvency

- Balance Sheet is necessary for much more than understanding debt
- Are assets growing? That requires CASH
- If the working capital position is not positive, the business is insolvent! Working capital (Current Assets – Current Liabilities) is required to pay operating expenses, purchase inventory, and make debt payments
- Caution! Insolvent businesses are usually looking for loans to stay afloat
- Caution! Growing sales to overcome operating cash flow deficits often makes cash flow deficits worse

Why Businesses Need Working Capital

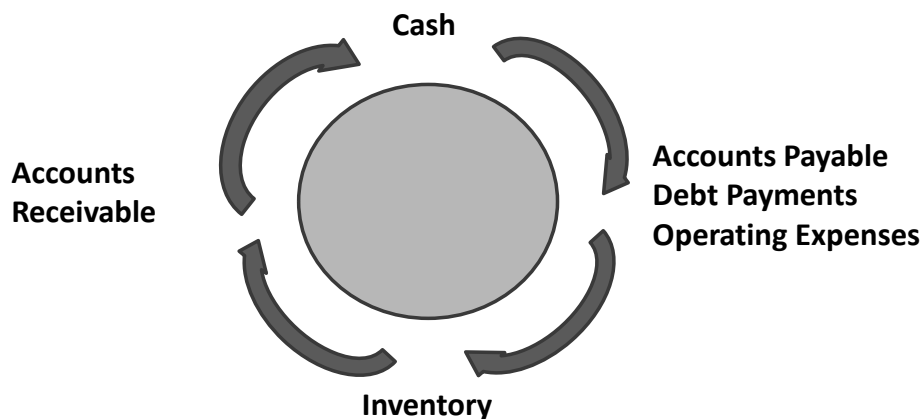
To finance:

- Accounts receivable growth or slowed collections
- Inventory growth or slowed turnover
- Pay down accounts payable and debt
- Pay operating expenses

Causes:

- Sales seasonality
- New business or business line start-up
- Growth in sales/assets
- Operating Losses
- Bad decisions or mismanagement
- Combination of the above

Cash Conversion Cycle



Cash Conversion Calculations

- Inventory Turnover Days – average time in days that a company takes to turn its inventory
 - $(\text{Average Inventory} / \text{COGS}) \times \text{days in period}$
- Accounts Receivable Collection Days – average time to receive payments owed by customers who purchase on credit
 - $(\text{Average Accounts Receivable} / \text{Total Net Sales}) \times \text{days in period}$
- Accounts Payable Outstanding Days -- average time to pay short term creditors
 - $(\text{Average Accounts Payable} / \text{Cost of Goods Sold}) \times \text{days in period}$

Operating Cash Flow Drivers

1. Inventory and Account Receivable Growth driven by
 - Past Revenue Growth
 - Planned Future Revenue Growth
2. Other Management Causes
3. External Factors (i.e. economy, industry, competition, product demand, regulation, etc.)

Management's Impact on Cash Flow

Growing A/R Collections Days

- Billing systems
- Collections Team/Enforcement
- Contract Terms
- Customer Selection

Growing A/P Days Outstanding

- Stretching payments to meet working capital needs
- Undisciplined payables team

Management's Impact on Cash Flow

Growing Inventory Days On Hand

- Inventory management systems/controls
- Outdated products
- Competition
- Pricing
- Marketing
- Sales Team

Monitoring Short-Term Collateral

- Financial Statements/Spreads (Monthly, Quarterly)
- Accounts Receivable Aging Report (Daily, Monthly, Quarterly)
- Inventory Report (Daily, Monthly, Quarterly)
- Accounts Payable Aging Report (Monthly, Quarterly)
- Borrowing Base Report (Daily, Monthly, Quarterly)
- Regular Conversations with Management and Site Visits

AR Aging Report

- Addresses risk of customer concentrations
- Addresses customer collection risks/bad debt exposure
- Lender can easily spot potential cash flow issues
- Aids in assessing management's ability to manage cash flow

Sample AR Aging Report

QuickBooks Example

Accounts Receivable Aging Report Example

	Current	1-30 Days	31-60 Days	61-90 Days	91+ Days	Total
Apple	\$5,000	\$0	\$0	\$3,000	\$0	\$8,000
Google	\$0	\$7,000	\$500	\$0	\$0	\$7,500
Netflix	\$0	\$0	\$8,500	\$0	\$3,500	\$12,000
Total	\$5,000	\$7,000	\$9,000	\$3,500	\$3,500	\$27,500

Inventory Aging Report

- Tracks amount of inventory, type of inventory, and stage of production (raw materials, work in process, finished goods)
- Helps managers and lenders to keep track of and value inventory. Also aids in site inspections
- Lenders should request regular inventory reports when a loan is secured by inventory or when there are concerns about the sufficiency of working capital/operating cash flow

Inventory Report

Horizon Apparel Ltd. Monthly Inventory Report – As of November 30, 2025 Report Date: November 22, 2025 | Currency: USD Prepared by: Inventory Control Department

1. Inventory Summary

Category	Quantity (pcs/units)	Avg. Unit Cost	Total Value (USD)	% of Total
Raw Materials	248,500	\$4.85	\$1,204,225	28.5%
Work-in-Progress (WIP)	87,200	\$12.70	\$1,107,440	26.2%
Finished Goods	165,800	\$16.20	\$2,685,960	63.6%
Packaging & Accessories	412,000	\$0.65	\$267,800	6.3%
TOTAL INVENTORY	913,500		\$5,265,425	100%

Inventory Report (continued)

2. Raw Materials Detail

Material	SKU	On Hand	Unit Cost	Total Value	Reorder Level	Status
Cotton Fabric 150gsm	FAB-COT150	85,000 meters	\$5.20	\$442,000	30,000	OK
Polyester Blend 180gsm	FAB-POL180	62,000 meters	\$4.10	\$254,200	25,000	OK
Denim 12oz	FAB-DEN12	18,500 meters	\$7.80	\$144,300	8,000	Low – Reorder
YKK Zippers #5	ZIP-YKK5	45,000 pcs	\$0.45	\$20,250	20,000	OK
Dye & Chemicals	DYE-VAR	12,500 kg	\$8.90	\$111,250	5,000	OK
Threads (various)	THR-ALL	25,500 cones	\$3.20	\$81,600	10,000	OK
Total Raw Materials				\$1,204,225		

Inventory Report

3. Work-in-Progress (WIP)

Production Order	Style Description	Current Stage	Qty in Progress	Avg Cost to Date	Total Value
PO-2025-1101	Men's Basic Tee	Cutting → Sewing	32,000 pcs	\$11.80	\$377,600
PO-2025-1105	Women's Hoodie	Sewing → Finishing	28,500 pcs	\$14.20	\$404,700
PO-2025-1112	Kids Denim Jeans	Washing → Finishing	26,700 pcs	\$12.50	\$333,750
Total WIP			87,200 pcs		\$1,107,440

Inventory Report (continued)

4. Finished Goods – Top 10 SKUs

SKU	Product Description	Sizes	On Hand	Retail Price	Total Value	Weeks of Supply	Status
MT-001-BLK	Men's Crew Neck Tee – Black	S–XXL	28,500	\$25.00	\$712,500	4.2 weeks	Healthy
MH-205-GRY	Unisex Pullover Hoodie – Grey	XS–XXXL	22,100	\$45.00	\$994,500	3.1 weeks	Healthy
WJ-112-BLU	Women's High-Waist Jeans	24–34	19,800	\$65.00	\$1,287,000	5.8 weeks	Slightly High
KD-305-IND	Kids Indigo Denim Jacket	2–14Y	15,400	\$55.00	\$847,000	6.5 weeks	Consider Promo
MT-005-WHT	Men's V-Neck Tee – White	S–XXL	12,900	\$22.00	\$283,800	2.1 weeks	Low – Expedite
Total Top 10			98,700		\$4,124,800		
All Other FG			67,100		\$1,561,160		
Total Finished Goods			165,800		\$2,685,960		

Inventory Report (continued)

5. Finished Goods Aging

Age Bucket	Quantity (pcs)	Percentage	Value (USD)
0–30 days	68,400	41%	\$1,108,080
31–60 days	52,300	32%	\$847,260
61–90 days	28,100	17%	\$455,220
>90 days (Slow/Obsolete)	17,000	10%	\$275,400
Total	165,800	100%	\$2,685,960

Inventory Report (continued)

6. Key Metrics & Notes

• Total Inventory Value: **\$5,265,425** (+8% vs last month) • Inventory Turnover (last 12 months): **6.8x** • Days Inventory Outstanding (DIO): **54 days** • Recommended obsolete/slow-moving provision: **\$148,000** • 3 raw material SKUs below safety stock – POs raised • Warehouse utilization: **84%** (nearing capacity)
Prepared by: Sarah Chen – Inventory Manager Approved by: Michael Torres – CFO

Sample Borrowing Base Certificate

Borrower: Sample Corporation

Date: 7/15/2016

Complete the following information from the most recent Accounts Receivable Aging Summary and Balance Sheet (both reports must be within the past 30 days).

Accounts Receivable Aging Summary Date: 6/30/2016

Total Accounts Receivable	<u>\$3,100,000</u>
Less: Ineligible Amounts	
Amounts over 90 days	<u>-\$250,000</u>
Balance of Accounts with over 50% over 90 days	<u>-\$50,000</u>
Accounts Exceeding Concentration Limit of 20%	<u>-\$650,000</u>
Total Eligible Receivables	<u>\$2,150,000</u>
Advance Rate (not to exceed 80%)	<u>75%</u>
Total Margined Receivables Amount	<u>\$1,612,500</u>

Inventory Summary Date of Valuation or Balance Sheet: 6/30/2016

Total Inventory Amount	<u>\$750,000</u>
Less: Ineligible Inventory	
(Work in Progress, Perishables Consigned, or Obsolete Inventory)	<u>-\$150,000</u>
Eligible Inventory Amount	<u>\$600,000</u>
Advance Rate (not to exceed 50%)	<u>50%</u>
Total Margined Inventory Amount	<u>\$300,000</u>

Available Borrowing Base	<u>\$1,912,500</u>
Less: Current Loan Balance (maximum commitment \$2,000,000)	<u>\$2,000,000</u>
Available Funds (Payment)	<u>(\$87,500)</u>

For purposes of securing credit from XYZ Credit Union, I hereby certify that the above information is true and correct in all material respects. This certificate is made and given in compliance with Section x.x of the Loan Agreement dated May 15, 2016.

By: _____ Date: _____

Title: _____

AP Aging Report

Tipalti.com

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Accounts Payable Aging Summary Report
As of 4/30/2022

Vendor	Current	1-30	31-60	61-90	Over 90	Total
Artificer	355.72	250.30	5,235.25	0.00	0.00	5,841.27
Bulldhead	0.00	15,232.52	0.00	0.00	0.00	15,232.52
Cargo.ly	1,452.30	0.00	0.00	0.00	0.00	1,452.30
Depotia	0.00	2,852.50	325.20	742.30	0.00	3,920.00
Docket	0.00	0.00	0.00	235.25	0.00	235.25
Epidesk	0.00	0.00	0.00	148.20	89.25	237.45
Imperial Station	525.30	0.00	0.00	0.00	0.00	525.30
Laypacker	0.00	0.00	0.00	0.00	251.00	251.00
Microcomp	0.00	0.00	354.25	0.00	0.00	354.25
Mixreal	0.00	625.30	0.00	250.25	0.00	875.55
Palacore	0.00	0.00	289.50	0.00	0.00	289.50
Postal Page	254.30	0.00	0.00	0.00	0.00	254.30
Softwareplex	0.00	0.00	235.20	0.00	156.58	391.78
Stationaire	0.00	0.00	0.00	321.52	0.00	321.52
Transflow	0.00	0.00	0.00	357.89	0.00	357.89
	2,587.62	18,960.62	6,439.40	2,055.41	496.83	30,539.88

C&I Real World Problem Loans

- Growing Sales
- Customer Concentrations
- Poor Cash and Business Management
- Insufficient Collateral
- Improper Loan Structuring
- Lack of Collateral and Loan Monitoring

“Why are my taxes so high?”

Connect With Us:

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