

COMMERCIAL LOAN CREDIT MEMO

****This is a fictional company created to provide an example of a commercial credit memo****

Check all that apply:

New
Renewal
Renewal w/ Incr. X

Refinance
Modification
TDR

Date: 7/4/26

Risk Rating: 4
Loan Officer: Dan H.
Analyst: Daniela T.

Borrower: ABC Distribution Corporation
2026 Peachtree St.
Anytown, IL 20260

Guarantor: Theresa & Tomas Mannion
5051 Maple St.
Anytown, IL 20260

Amount: \$1,250,000 (Increased from \$500,000)

Purpose: Renewal and increase of revolving line of credit for working capital

Term: 12 months

Rate: Prime + 1%, floating; floor of 6.0%

Amortization: Not applicable

Fees: 0.5%

PrePayment: Not applicable

LOC Usage Analysis / Action Plan: High: \$500,000 Low: \$150,000 Ave: \$450,000
Continue with quarterly borrowing base required; Rest the line at \$0 for 1 month each year

Other Loans:

No	Note #	Short Name Borr (B) or Gua (G)	Loan Type	Original Commitment	Outstanding Principal	Available	Next Loan Pmt Due Date	Maturity	Interest Rate	Next RE Tax Pmt Due	Current Rating
1	1001	ABC RE Holdings, LLC	Mortgage	\$ 1,000,000	\$ 955,000	N/A	7/15/26	7/15/45	7.00%	9/1/2026	4
2	Proposed	ABC Dist. Corp.	Revolver	\$ 1,250,000	\$ 500,000	\$ -	TBD	TBD	7.25%	N/A	4
	Totals:				\$ 1,455,000	\$ -					
Total Exposure					\$ 2,205,000						

Repayment Source: Primary – Business cash flow
Secondary – Sale of collateral
Tertiary – Guarantor income

Deposit Relationship:

Account Relationships						
TYPE	ACCT. NO.	2025 AVG. BALANCE	ACCT. TITLE	DAYS OD	DAYS OD PREV.YR.	
DDA	1001	\$ 20,260	ABC Dist. Corp.	0	0	
MMA	1002	\$ 40,520	ABC Dist. Corp.	0	0	
DDA	2001	\$ 15,510	Theresa & Tomas Mannion	0	0	
Total:		\$ 76,290				

Background:

Teresa & Tomas Mannion, wife and husband, are 51/49% owners, respectively, of ABC Distribution Corporation and ABC RE Holdings, LLC, which owns the warehouse where they operate their business. They have been clients of the bank since 2019. They have owned the business since 2018 when they started the company. They have 20 years of experience in the electronics distribution industry. ABC Distribution Corporation supplies specific key components to the small and medium sized drone industry. They initially supplied the drone industry in its early life cycle when both recreational and commercial uses were in their infancy. They had developed connections in their prior work experience and invested early on to supply key components for small and medium-sized drones. They were able to operate in smaller rented space and supplied local and regional players in the drone industry. As the industry developed and demand grew, they had sufficient financial resources to not require outside financing. Then as more people became familiar with how to use drones to save time and resources for both commercial and law enforcement use, demand exploded. In recent years, they needed to expand their space to operate and house their business. In 2025, they needed a business loan to purchase their current warehouse and office space. They created ABC RE Holdings, LLC, to own the business property and lease it back to their company ABC Distribution Corporation. In late 2025, they obtained some of their largest contracts to date from law enforcement and rescue agencies which required them to request a substantial increase to their revolving line of credit as it outstripped their self-funding to date.

Collateral:

Collateral Summary						
Description	Date / Source	Value	% Adv	Prior Lien	Lendable Value	Loan Balances
1st mtg Bldg at 2026 Peachtree St.	6/1/25	\$ 1,500,000	75%	\$ -	\$ 1,125,000	\$ 955,000
UCC-1 all biz assets (A/R, Inventory, equipment)	5/31/26	\$ 1,500,000	75%	\$ -	\$ 1,125,000	\$ 1,250,000
Net Equity:						\$ 45,000

Financial Summary:Corporate Analysis

In 2025, ABC Distribution Corporation was able to add 4 larger clients that operate in the law enforcement and search & rescue space with their drone components. This contributed to the rapid sales growth as well as their larger clients needing more components due to their drone fleet expansion. This has now resulted in a larger customer concentration with their top two clients accounting for 35% of sales. Most of these contracts have terms of 3 to 5-year supply contracts with municipalities, state and federal government agencies. This has increased their customer risk profile since they are not guaranteed long-term contracts. See the financial results below.

Sales growth analysis:

Revenues increased from \$4,000,000 in 2023 to \$5,000,000 in 2024 to \$7,000,000 in 2025.

- 2024 – 25% revenue growth
- 2025 – 40% revenue growth

- Revenues are growing rapidly due to their success of obtaining governmental contracts as drone use has increased rapidly by various governmental agencies in law enforcement and search & rescue operations.

Income/Expense margin analysis:

Gross Margins declined from 50% in 2023 to 45% in 2024 to 43% in 2025.

Operating Margins declined from 20% in 2023 to 15% in 2024 to 10% in 2025.

Net Margins declined from 12% in 2023 to 9% in 2024 to 5% in 2025.

- Margins have been compressed as the company has bid on larger contracts with smaller margins to expand their future growth opportunities in the with government customers.

Activity ratios:

A/R days increased from 20 days in 2023 to 25 days in 2024 to 55 days in 2025.

Inventory days increased from 15 days in 2023 to 20 days in 2024 to 30 days in 2025.

A/P days are relatively stable at 20 days in 2023 to 25 days in 2024 to 30 days in 2025.

- Due to the rapid sales growth, they provided more flexibility with payment terms as many governmental agencies at all levels (local, state and federal) typically take advantage of sizable contracts to pay slower. This is reflected in higher A/R days. This rise in revenues required a larger investment in inventory as shown by higher inventory days.

Liquidity ratios:

Quick ratio – NM

Current ratio - NM

Leverage ratios:

Debt/TNW (Tangible Net Worth) increased from 1.1x in 2023 to 1.4x in 2024 to 2.3x in 2025.

- The company has been utilizing more debt to help finance faster revenue growth over the past few years as it has outpaced their profitability growth to self-finance.

Guarantor Analysis

The Mannion's net worth is \$1.4MM comprised as follows:

- Bank accounts with \$26,000
- Residence valued at \$1.0MM with \$500,000 mortgage
- Business real estate valued at \$1.5MM with \$955,000 mortgage
- Retirement assets of \$300,000
- Vehicles and personal assets valued at \$100,000 with \$50,000 in vehicle and credit card debt

Personal Financial Statement (000's)							
Borrower(s)	Date of Stmt	Total Assets	Liabilities	Net Worth	Liquid Assets	CSVLI	2025 PTR Total Income
Theresa & Tomas Mannion	5/31/26	\$ 2,926,000	\$ 1,505,000	\$ 1,421,000	\$ 26,000	N/A	\$ 202,600

Cash Flow: Business DSC is 1.28x
Global DSC (including personal income & personal debts) is 1.38x

Strengths:

- Growing demand within their industry as evidenced by recent rapid revenue growth
- Guarantors have over 20 years' experience in the electronics industry along with 8 years in the drone industry
- Good business cash flow with business DSC of 1.28x
- Strong global cash flow with combined DSC of 1.38x
- Good guarantor strength with \$1.4MM net worth tied up mostly in real estate; limited liquidity

Weaknesses:

- Concentration of business with two clients accounting for 35% of total revenue
- Weaker than expected business and personal liquidity
- A/R days is higher at 55 days, which is taking longer to convert sales into cash for their business

Risk Rating Analysis: 4 – Satisfactory credit risk

Recommendation: Loan officer recommends approval based upon the above strengths of this credit request.

Policy

Exceptions: None.

DDA

Required: Yes, primary operating accounts for borrowing entities

Conditions & Covenants:

1. Evidence of sufficient business insurance
2. Satisfactory UCC-1 lien search
3. Rest the new revolver at \$0 for 1 month per year

Monitoring Requirements: Annual business & personal tax returns
Annual business financial statements
Quarterly Borrowing Base Certificate
Quarterly A/R aging & Inventory aging & A/P aging

CRA Revenue Code:**For C&I Loans <\$1 million**

- ☐ Gross Annual Revenues \$1 million and less (1)
- ☒ Gross Annual Revenues over \$1 million (2)
- ☐ Income not known (3)

Loans secured by 1-4 unit residential, or secured by multifamily, or non-profit organization, or loan amount > \$1 million

- ☐ Gross Annual Revenues \$1 million and less (4)
- ☐ Gross Annual Revenues over \$1 million (5)
- ☐ Income not known (6)

CRA Address: 2026 Peachtree St.
Anytown, IL 20260