Your group represents the loan committee for a local bank. There are three businesses that are applying for commercial loans from your bank. You must evaluate their financial information and determine whether to lend each of them the money to finance their expansion. Use the three main ratios that banks evaluate: Debt Ratio, Loan to Value Ratio (LTV Ratio), and Debt Service Coverage Ratio (DSCR).

SHOW YOUR WORK!

Jimmycrack POPCORN

Business has been popping and this popcorn manufacturer is looking to expand its factory to meet the growing demand. Your analysis of their financial information has revealed the following data:

Monthly Income:	$5,250	Monthly Debt:	$2,500
Loan Principal:	$42,000	Market Value:	$50,000
Net Operating Income:	$105,000	Total Debt Service:	$99,000

Debt Ratio *(<40%)* *(Debt/Income)*	LTV Ratio *(>60%)* *(Principal/Market Value)*	DSCR *(>1.0)* *(Net Operating Income/Total Debt Svc)*

Based on these ratios, would you lend money to this business? Why or why not?

Mammoth Movie Theater

The local multiplex is looking to add more movie screens and an IMAX theater. Your analysis of their financial information has revealed the following data:

Monthly Income:	$9,000	Monthly Debt:	$3,000
Loan Principal:	$62,000	Market Value:	$115,000
Net Operating Income:	$85,000	Total Debt Service:	$74,000

Debt Ratio *(<40%)* *(Debt/Income)*	LTV Ratio *(>60%)* *(Principal/Market Value)*	DSCR *(>1.0)* *(Net Operating Income/Total Debt Svc)*

Based on these ratios, would you lend money to this business? Why or why not?

OVER

Handy Hal's Lumber Yard

The owner of this business expects the economic recovery to bring renewed success to the building industry, especially for the do-it-yourself market. They want to build a new store to position themselves for this growth. Your analysis of their financial information has revealed the following data:

Monthly Income:	$4,500	Monthly Debt:	$1,900
Loan Principal:	$125,000	Market Value:	$170,000
Net Operating Income:	$41,000	Total Debt Service:	$30,000

Debt Ratio *(<40%)* *(Debt/Income)*	LTV Ratio *(>60%)* *(Principal/Market Value)*	DSCR *(>1.0)* *(Net Operating Income/Total Debt Svc)*

Based on these ratios, would you lend money to this business? Why or why not?

If your bank could only lend to one of these businesses, which one would you choose? Why?