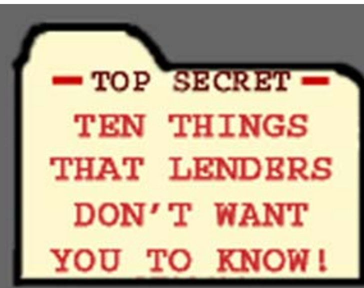

Excerpts From The Book...

GET Your Loan Closed!

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Understand How Cash Flow is the Number One Determinant if your Loan will be Approved

Our next concept that needs to be understood is cash flow.

NO matter what your credit score, no matter what experience you have running the same business or investment piece of property, no matter how much money you have to put down for the purchase, no matter how many liquid assets you control, no matter how much collateral you can muster, it all means NOTHING if there is no supporting cash flow from the project to meet the expected debt service for the acquisition in question.

Today more than ever lenders are looking for supporting cash flow from the project. When cash flow is lacking it becomes extremely difficult to finance the new acquisition; even with income coming from additional properties lenders are still reluctant to lend.

Why is this, the case?

If the lender has to take a property back they want to be damn sure that the property is going to pay for itself. They don't want another non-performing asset on their books. When a lender takes back a property it is classified as performing or non-performing. It remains non-performing until the borrower can support the debt service and starts paying on the mortgage again. The other option is that the cash flow from the rents and all auxiliary income collected can adequately cover the loan payments.

So we are back to the same position, that of cash flow.

What is cash flow?

Cash flow is defined differently depending on what you are acquiring. For example if you are buying a business the cash flow is more aptly called Sellers Discretionary Earnings (money which is left at the end of the month for the seller after all debt service and other expenditures are covered). Actually, business brokers use SDE to determine the selling price of a business, but more about that latter.

Our book, *GET Your Loan Closed!* spends about half a chapter on the valuation of a business as it relates to Sellers Discretionary Cash Flow. Get it here (insert link)
If you are purchasing a piece of real estate, then cash flow is that money which is left over after you deduct all your debt service and operating expenses for the property. Once that net amount is determined the lender will allow you a certain percentage of the available cash flow for the new loan. The total dollars that you are lent is ascertained by the calculation known as debt service coverage ratio.

Debt service Coverage ratio is the new loan's expected annual debt service divided by the current yearly net cash flow. Today more than ever lenders want to know if you have more cash available then is projected to meet your debt obligation.

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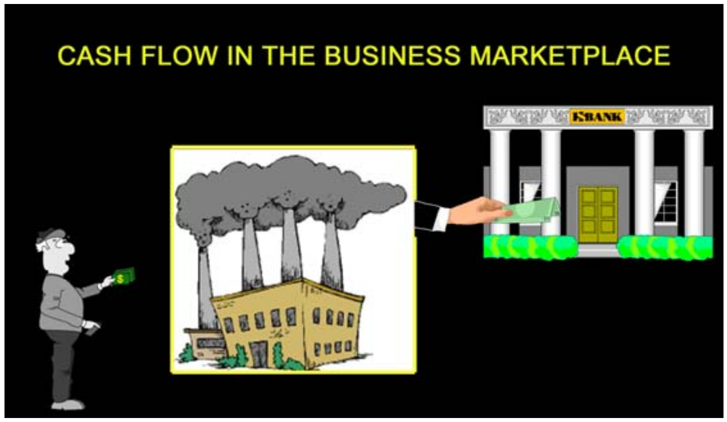

Another point to ask yourself is…

WHY WOULD YOU BUY A PROPERTY THAT IS NOT CASH FLOWING?

Much more on ROI including examples and calculations in our 95 page color book *GET Your Loan Closed!* Order it today.
We are currently working with a client that is purchasing a piece of property knowing today that it is currently a poor investment, but they have information a major thoroughfare will be built through the town, so they are betting on the future value of the property even though today the economics don't make sense.

So how is cash flow really calculated from the lenders point of view? The lender will calculate cash flow very differently than the prospective borrower. I cannot tell you how many times I have a client demonstrate to me that the project is cash flowing at a 1:1.25 ratio, and the lender comes back with their calculations at 1:105, or even less.

Why such a discrepancy? Who is Right?

The reason for the discrepancy is the lender will add in all expenditures and apply them to the bottom line. The key term in the last sentence is all. All means expenses that don't appear today on the seller's cash flow analysis, income and expense statement or even in tax returns.

How can these expenses be applied when they do not appear anywhere?

Again the reason is lenders always look at the worst-case scenario, which is, they have to take the property back due to foreclosure. If the lender has to take the property back they will have marketing, leasing and management expenses to run the property. Most borrowers will reduce or totally eliminate these costs. The buyer's rational is they are going to do the leasing, and marketing of the property. Borrowers also assert they can perform these duties for a lot less than the cost of a professional manager or management company. Expenses are thoroughly analyzed in , *GET Your Loan Closed!*

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I'm not telling you this to scare you, but to prepare you.

As I mentioned previously Cash Flow is King, We want to make sure that you are accounting for all expenditures. By the way any extraordinary expenses such as a new roof or one time only equipment purchases are not deducted against cash flow as they are one-time non-recurring expenses.

So in conclusion to this white report, you must understand the entire cash flow picture. In our book, *GET Your Loan Closed!* we delve into different cash flow models with much greater detail and we also offer examples of calculations, tax returns, rent rolls etc, all to make you a more knowledgeable buyer of property and borrower of funds.

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