

01 / FICTIONAL SAMPLE CREDIT MEMORANDUM

A complete credit story. From inputs to a reviewable memo.

AlderWorks Components LLC

Revolving working-capital line renewal and increase

Illustrative review date: September 21, 2026

Entirely fictional. All borrowers, people, financials, terms and assumptions are invented. This is an educational product preview, not an actual loan recommendation or approval.

Requested commitment	Pro forma global DSC	Combined downside DSC
\$500,000	3.50x	1.70x

Executive conclusion | analyst-written

Illustrative analyst recommendation: consider a conditional renewal and increase of the revolving commitment from \$250,000 to \$500,000, with total bank commitments of \$1,000,000 including the existing \$500,000 term loan. Pro forma borrower coverage is 3.14x and global coverage is 3.50x. The combined downside produces 1.70x global coverage. These results depend on reducing capital spending to \$80,000, maintaining \$120,000 of guarantor cash flow and collecting receivables. Before any real decision, obtain current interim financials, verify the aged receivable, establish lien priority and confirm the institution's policy and loan-document definitions. No approval or bank risk grade is assigned by this fictional example.

What this sample demonstrates

Financial spreading and ratios; business and global cash flow; linked UCA; receivable aging and borrowing-base eligibility; collateral and guarantor analysis; rate and operating stress; covenant design and a documented recommendation.

How this example was prepared

The figures were calculated with the actual Credit Co-Pilot 1.7 preview calculation source. The narratives were entered into its credit-memo fields and checked through its native memo and selected-section print routines. This PDF uses a presentation layout prepared for the website sample; it is not a screenshot of the default export.

In the product, the analyst supplies facts, assumptions and written judgment. Credit Co-Pilot calculates and organizes the review; it does not write an AI credit opinion or approve loans. Product and Demo: coming soon.

02 / TRANSACTION OVERVIEW

Request, structure and repayment

Item	Illustrative request
Borrower / guarantor	AlderWorks Components LLC / Jordan Example; fictional sole owner
Purpose	Renew the \$250,000 revolving line at a \$500,000 commitment to support working capital.
Proposed line	12 months; 8.00% variable assumed rate; monthly interest; principal due at maturity. No automatic renewal assumed.
Other bank exposure	\$500,000 existing term loan; \$100,000 scheduled annual principal and interest.
Total bank commitments	\$1,000,000 after the proposed line increase; \$250,000 incremental commitment.
Credit support	Illustrative blanket business-asset lien and full guaranty, subject to legal and lien diligence.

Business and relationship context

AlderWorks Components LLC and Jordan Example are entirely fictional. The assumed company distributes industrial components and is wholly owned by the assumed guarantor. Sales are treated as credit sales for turnover analysis. The revolver funds timing differences between customer collections and inventory purchases. No operating history, management track record, credit report, customer contract or tax return has been verified; these would be essential diligence in an actual request.

Three repayment layers

Primary: cash from selling inventory and collecting receivables; term amortization from recurring business cash flow. Test the ability to repay or appropriately revolve principal, not just to pay interest.

Secondary: realization of verified collateral, after lien claims and liquidation costs.

Tertiary: accessible guarantor resources under an enforceable guaranty. The company interest in personal net worth is not a second independent source of cash.

Scope matters. The \$500,000 request is one facility. The bank relationship is \$1,000,000. The global debt schedule is \$1,200,000 because it also includes the guarantor's \$200,000 outside mortgage. These are different, intentional scopes.

03 / THREE-YEAR FINANCIAL SPREAD

Profitability, liquidity and working capital

USD thousands, except ratios	2023	2024	2025
Revenue	3,200	3,600	4,000
EBITDA	510	590	670
Net income before distributions	340	420	500
Total assets	1,600	1,900	2,250
Total liabilities	1,100	1,150	1,150
Equity	500	750	1,100
Working capital	450	550	750
Current ratio	1.69x	1.79x	2.07x
Quick ratio	1.00x	1.07x	1.29x
Liabilities / net worth	2.20x	1.53x	1.05x

All three balance sheets reconcile to zero variance. Annual periods end December 31; 2024 uses 366 days and the other years use 365. Figures are synthetic, with pass-through owner taxes modeled personally.

Fictional revenue grows from \$3.20 million in 2023 to \$3.60 million in 2024 and \$4.00 million in 2025. EBITDA rises from \$510,000 to \$590,000 to \$670,000, while the EBITDA margin improves from 15.94% to 16.75%. Fiscal 2025 net income is \$500,000 before owner distributions. These are annual illustrative pass-through company statements with owner taxes modeled personally. The 2026 pro forma assumes unchanged revenue and operating costs, \$20,000 additional interest on full line utilization, and no speculative revenue growth.

Fictional year-end 2025 assets of \$2,250,000 equal liabilities of \$1,150,000 plus equity of \$1,100,000. Current assets of \$1,450,000 and current liabilities of \$700,000 produce a 2.07x current ratio and \$750,000 working capital. Current liabilities include \$250,000 of revolving borrowings and \$50,000 current principal on the term loan. The 2025 quick ratio is 1.29x. Receivable days increased from 48.3 to 50.2 and the cash conversion cycle from 76.0 to 79.2 days, supporting closer monitoring as revenue grows. The \$120,000 receivable older than 90 days is excluded from the borrowing base and requires collectability review; its gross book value has not been written off in the illustrative spread.

What changed? Revenue rises 11.11% in 2025, but receivable days also rise. The 79.2-day cash conversion cycle makes collections and inventory discipline material to the line request. No 2023 turnover comparison is shown because a 2022 opening balance was not supplied.

04 / CASH FLOW AND REPAYMENT CAPACITY

Profit is not the same as available cash

Business cash-flow bridge (USD thousands)	2025 historical	2026 pro forma
Net income	500	480
Add interest and depreciation	170	190
Less owner distributions	(150)	(150)
Less capital expenditures	(250)	(80)
Cash flow before debt service	270	440
Scheduled business debt service	120	140
Business DSCR	2.25x	3.14x

Global coverage without counting distributions twice

Pro forma business cash flow of **\$440,000** plus personal cash flow of **\$120,000** equals **\$560,000**. Divide by \$140,000 company debt service plus \$20,000 outside mortgage service to obtain **3.50x** global coverage. The company deducts the same \$150,000 distribution that the owner receives; no second K-1 adjustment is included.

UCA makes the working-capital use visible

2025 linked UCA bridge	USD thousands
EBITDA / cash earnings before working capital	670
Receivable increase	(100)
Inventory increase	(50)
Payable and accrual movement	0
Cash flow before debt service, capex and distributions	520

The direct and indirect UCA methods both total \$520,000, with a \$0 reconciliation difference. This is a different numerator from the \$270,000 traditional after-capex/distribution measure. After \$120,000 debt service, \$250,000 capex and \$150,000 distributions, the UCA bridge is zero. An assumed \$50,000 gross borrowing offsets principal repayment and explains the \$50,000 cash increase.

Key pro forma assumption: sales and operating costs remain at 2025 levels. Full line utilization raises interest by \$20,000. Reducing capex from \$250,000 to \$80,000 releases \$170,000 of cash; it must be supported by a credible maintenance and replacement plan. Historical performance does not prove that plan.

05 / RECEIVABLES, BORROWING BASE AND COLLATERAL

What supports the revolving line?

AR eligibility at December 31, 2025	USD
Gross receivables: five fictional customers	\$600,000
Customer E: entirely older than 90 days	-\$120,000
Eligible receivables after cross-aging	\$480,000
AR availability at 80%	\$384,000
Eligible inventory: \$400,000 at 50%	\$200,000
Other reserves	-\$20,000
Calculated borrowing base	\$564,000
Less fully drawn proposed line	-\$500,000
Borrowing-base cushion	\$64,000

Customer E is 20% of gross receivables and is fully excluded. Each remaining customer is 25% of eligible AR, so the illustrative 25% concentration cap adds no further exclusion. The 25% cross-aging trigger, 80% AR rate, 50% inventory rate and \$20,000 reserve are case assumptions, not recommended universal policy.

Relationship collateral is a separate view

Collateral	Gross value	Assumed rate	Adjusted value
Receivables	\$600,000	75%	\$450,000
Inventory	\$500,000	50%	\$250,000
Equipment	\$800,000	60%	\$480,000
Total	\$1,900,000		\$1,180,000

Against \$1,000,000 bank commitments, gross relationship LTV is **52.63%** and adjusted collateral coverage is **1.18x**. This broad collateral view does not replace the stricter borrowing base or confirm collectible/liquidation value. No senior lien is assumed; lien search, perfection, insurance and independent valuation are still required.

Availability is capped. A \$564,000 borrowing base does not authorize borrowing above the \$500,000 commitment. The \$64,000 figure is collateral cushion, not unused commitment at full utilization.

Show the weakness before it becomes a surprise

Scenario	Available cash flow	Annual debt service	Global DSC
Pro forma base	\$560,000	\$160,000	3.50x
Rate +200 basis points only	\$560,000	\$170,000	3.29x
Combined: sales -5%, cash outflows +2%, rate +200 bps	\$288,800	\$170,000	1.70x
Combined; no guarantor cash-flow support	\$168,800	\$170,000	0.99x
Combined; capex remains \$250,000	\$115,400	\$170,000	0.68x

Make the assumptions inspectable

The rate shock affects the \$500,000 variable-rate revolver: 8% to 10% raises annual interest from \$40,000 to \$50,000. The fixed-rate term loan and personal mortgage retain their entered service amounts.

The operating stress begins with \$4,000,000 revenue and a \$3,560,000 cash-outflow base: \$2,280,000 COGS + \$1,050,000 cash operating expenses + \$150,000 distributions + \$80,000 capex. Revenue declines to \$3,800,000. The whole outflow base rises 2% to \$3,631,200. Add unchanged guarantor cash flow of \$120,000 to obtain \$288,800.

The no-support case removes that \$120,000. The high-capex case resets base cash outflows to \$3,730,000 before the same 2% shock, producing \$115,400 global cash flow. These are sensitivities, not predictions. All outflows are stressed together; the model does not assume variable costs automatically fall with sales.

Analyst interpretation

The combined case exceeds the illustrative 1.25x review threshold, but the result is conditional on the spending plan and guarantor contribution. Either alternative produces less than 1.00x global coverage. Obtain evidence of necessary capex and accessible owner liquidity; do not treat the headline pass as an approval.

Principal still matters. Interest-only revolver service omits repayment of the line principal at maturity. Evaluate inventory conversion, collection timing, line clean-up and the maturity exit separately.

Guarantor support, conditions and monitoring

Fictional guarantor snapshot	USD
Stated total assets	\$2,300,000
Direct liabilities	\$200,000
Stated net worth	\$2,100,000
Product-weighted liquidity	\$610,000
Contingent company guarantee	\$1,000,000

Weighted liquidity uses cash at 100% and securities at 90%: \$250,000 + \$360,000. It is not confirmed available cash. The \$1,100,000 company interest is excluded from this liquidity figure, and the guarantee is disclosed separately from direct debt. Verify ownership, restrictions and other obligations before assigning support value.

Illustrative conditions and monitoring

Control	Proposed treatment / owner
Before credit approval	Analyst: current interim financials; aged-AR collectability; documented maintenance capex; guarantor income/assets; policy and risk-grade review.
Before closing or advance	Lender and counsel: verified borrowing base, lien priority, executed documents, insurance and funding conditions.
Annual borrower DSCR	Sample minimum 1.25x after agreed distributions and capex. Exact numerator, denominator, test date and cure rights must be documented.
Quarterly current ratio	Sample minimum 1.50x. 2025 historical 2.07x is a reference point, not current covenant compliance.
Monthly collateral reporting	Borrower / monitoring officer: AR and AP aging, inventory eligibility, borrowing-base certificate and collection follow-up.
Escalation triggers	Borrowing-base deficiency, covenant breach, unsupported distributions/capex or worsening aging: reassess availability, structure and risk grade.

Risk grade remains unassigned. No bank scale or approval policy was supplied. Credit Co-Pilot's illustrative scoring tool is not substituted for an institution's grade, classification or approval authority.

A reviewable conclusion, with the limits visible

Recommendation | analyst-written

This fictional analyst would advance only a conditional structure for further review. Approval remains dependent on current financials, collectability, a verified borrowing base, lien and collateral diligence, guarantor documentation, realistic maintenance capex and institution-specific policy/risk-rating review. Closing requires executed legal documents, perfection, insurance and verified funding conditions. During monitoring, escalate covenant breaches, borrowing-base shortfalls or renewed collection deterioration. No real borrower, commitment, loan approval, compliance finding or assigned bank risk grade is represented.

What the calculations do not resolve

Growing earnings and modeled coverage support further review. They do not prove the aged receivable is collectible, that lower capex is sustainable, that collateral is perfected, or that personal support is available. The proposed controls address those specific gaps; they do not manufacture evidence.

Reconciliation and presentation notes

Item	Treatment in this sample
Invented source schedule	2023-2025 annual statements; annual 2026 pro forma cash flow; year-end 2025 AR/AP, collateral and PFS. All values and counterparties are synthetic.
Balance-sheet check	All three annual statements balance. Accumulated depreciation is a negative contra-asset. \$50,000 current term principal is included in current debt.
Equity roll-forward	2024: \$500,000 + \$420,000 income - \$170,000 distributions = \$750,000. 2025: \$750,000 + \$500,000 - \$150,000 = \$1,100,000.
Request / schedule flags	The application flags the request against the larger combined debt and exposure totals. Here \$500,000 request, \$1,000,000 bank relationship and \$1,200,000 global debt are intentional; the outside mortgage is not bank exposure.
Ratio definitions	Current ratio = current assets / current liabilities. Quick ratio excludes inventory and other current assets. DSCR = stated available cash flow / period-matched scheduled service.
Scope and provenance	Credit Co-Pilot version 1.7 preview calculation source; native memo/print routines checked with this synthetic case. PDF layout formatted for the website; narratives supplied by the analyst.

Read the sample alongside the product tour and FAQs at www.arvanalytics.com. Credit Co-Pilot and its separate Demo are coming soon. This sample PDF is not an installer, license or product download.