

THE EXECUTIVE BLUEPRINT FOR SCALABLE COMMERCIAL LENDING

CORE CASH DRIVERS: UNDERSTANDING TRUE REPAYMENT CAPACITY

Scalable commercial lending does not happen by accident. It is designed with structure, discipline and visibility from the start.

For many credit unions and community banks, commercial lending represents a key growth opportunity. Business services strengthen relationships, diversify earnings and expand margin potential. Yet as portfolios grow, institutions face increasing scrutiny from examiners and greater operational complexity.

The challenge is not simply generating loan volume. It is ensuring that growth is supported by consistent underwriting, disciplined financial analysis and clear visibility into borrower cash flow.

Small shifts in working capital performance can quietly erode liquidity long before traditional warning signals appear. Without a structured framework for monitoring these changes, institutions may discover stress only after line utilization rises or repayment capacity weakens.

Sustainable commercial lending requires a repeatable framework. That framework begins with cash.

For executive leadership and boards, the key question is not simply whether borrowers appear profitable, but whether the institution has clear visibility into the drivers that determine whether loans will actually repay.



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The Foundation: The Foundation of Repayment Capacity

Repayment does not occur from accounting profit. It occurs from cash flow.

The most reliable way to assess repayment capacity is to evaluate the seven core cash drivers that determine how cash moves through a borrower's business.

Those drivers include:

- Sales growth
- Gross profit margin
- Operating expense margin
- Inventory days
- Accounts receivable days
- Accounts payable days
- Capital expenditures

Each of these drivers either gathers cash or pushes cash out of the business. Together, they determine whether repayment capacity is real or assumed.

- **Sales growth** influences both net income and working capital needs. Rapid growth can increase receivables and inventory, placing strain on liquidity.
- **Gross profit margin** determines how much revenue converts into usable cash. A declining margin leaves money on the table and weakens coverage.
- **Operating expense margin** reflects management efficiency and cost control. Rising overhead reduces available cash.
- **Inventory days and accounts receivable days** measure how long cash is locked into working capital. When those days extend beyond expectations, liquidity tightens.
- **Accounts payable days** reflect how borrowers manage supplier relationships. Stretching payables may provide short term relief but can signal stress.
- **Capital expenditures** represent long term uses of cash. Planned investments must be evaluated in relation to repayment capacity.

Understanding these drivers individually is important. Monitoring them consistently across a portfolio is essential.

Component Two: Standardized Financial Analysis

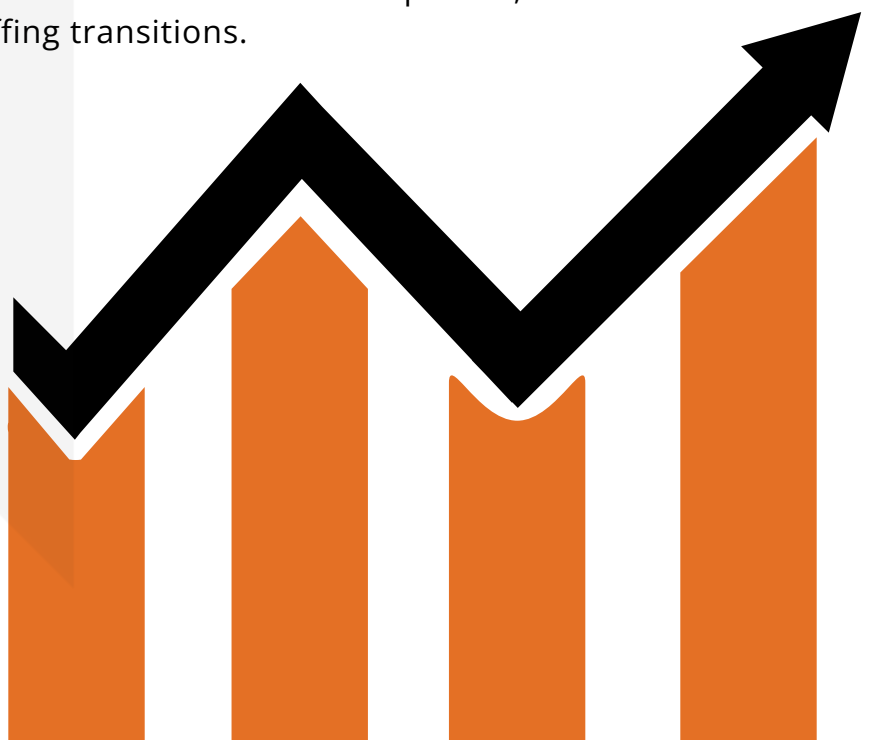
One of the greatest risks in commercial lending is inconsistency.

When financial analysis is performed through lender specific spreadsheets or manual templates, calculations may vary. Trends may not be evaluated uniformly. Documentation may differ from file to file.

Standardization creates discipline.

A scalable program requires that every borrower be evaluated using the same methodology. Sales growth, margin trends, working capital efficiency and capital spending must be calculated and trended consistently. Risk ratings should align directly with financial performance. Documentation should clearly demonstrate how repayment capacity was assessed.

This level of uniformity strengthens credit quality and supports regulatory defensibility. It also reduces reliance on individual lender expertise, which protects the institution during staffing transitions.



Component Three: Working Capital Discipline

Working capital is often where early stress appears.

Inventory and accounts receivable days directly influence liquidity. Typical working capital cycles often fall within a 30 to 45 day range, although expectations vary significantly by industry and operating model. When inventory turns slow or collections extend beyond expected time frames, cash becomes trapped on the balance sheet.

Effective commercial lending requires converting days into dollars. Small changes in working capital drivers can translate into meaningful liquidity shifts.

Mini Case Example: Inventory Strategy Shift

A regional contractor increases inventory days from 42 to 58 due to sourcing delays and larger safety stock.

Annual cost of goods sold: \$10 million.

A 16-day increase represents: $(16 \div 365) \times \$10,000,000 = \mathbf{\$438,356}$

- More than \$400,000 in cash is now locked into inventory.
- The borrower reports strong backlog.
- The line of credit quietly moves toward full utilization.

Without monitoring inventory days in dollar terms, this shift may go unnoticed until liquidity stress surfaces.

Monitoring these drivers at the borrower level and across the portfolio allows institutions to identify potential stress early. Institutions that wait until line utilization spikes may already be reacting to pressure rather than managing it.

Component Four: Capital Planning and Long-Term Liquidity

Capital expenditures can quietly alter repayment capacity.

Equipment purchases, expansion plans and asset replacements consume cash before revenue gains materialize.

A disciplined commercial lending framework evaluates capital spending within the context of cash flow and coverage. Planned investments should be assessed regularly. Leadership should understand how those investments affect repayment capacity and liquidity trends.

When capital planning is integrated into structured financial analysis, institutions gain forward looking visibility rather than relying solely on historical results.

Component Five: Portfolio Level Transparency

Scalable commercial lending requires more than strong individual loan analysis. It requires portfolio visibility.

Executive leadership and boards need access to concentration reporting, risk rating distribution, working capital trends and documentation status. Regulatory expectations continue to emphasize credit risk management and defensible underwriting practices.

A structured system that centralizes analysis, documentation and reporting enables institutions to answer critical questions with clarity:

- How was repayment capacity assessed?
- Where is working capital stress emerging?
- How do borrowers compare to industry benchmarks?
- What capital expenditures are planned?
- How do trends affect risk ratings?

Transparency strengthens governance and supports informed decision making.

Turning the Blueprint into Execution

Square 1 Credit Suite operationalizes this blueprint.

The system standardizes financial spreading and automatically calculates and trends the seven core cash drivers across the portfolio. Sales growth, margin performance, inventory days, receivable days, payable days and capital expenditures are documented within each credit file. Risk ratings align with financial performance. Supporting documentation resides in one centralized platform.

This structure transforms best practices into daily execution. It reduces spreadsheet variation, improves consistency and strengthens examiner readiness. Most importantly, it provides leadership with portfolio level insight that supports confident growth.

Scalable Growth Requires Structure

Commercial lending presents significant opportunity for credit unions and community banks in 2026. Higher yield, deeper business relationships and diversified earnings are achievable outcomes. However, scalability requires infrastructure.

The executive blueprint for scalable commercial lending centers on cash visibility, standardized analysis, working capital discipline, capital planning and portfolio transparency.

Institutions that embed these principles into structured systems position themselves for disciplined growth. Institutions that rely on fragmented tools and manual processes may find growth more difficult to manage.

Scalable commercial lending is not defined by volume alone. It is defined by clarity, consistency and control.

If your institution is evaluating ways to scale commercial lending while maintaining strong credit discipline, [Kerry Ronquillo](#) can provide a short walkthrough of how the system supports those objectives.