CREDIT MEMO · DRAFT FOR COMMITTEE

Northgate Supply

Harborline Community Credit Union (sample) · Loan officer: Elena Ruiz (sample) · Analyst: Maria Santos · 11/18/2026

REQUEST	PRO FORMA DSCR	GLOBAL DSCR	PROGRAM
$2,927,500	**1.44x**	**1.50x**	**SBA 7(a) · business expansion**

Summary

Northgate Supply requests a $2,927,500 SBA 7(a) loan to acquire Delta Fastener, a distributor in the same industry. On a combined basis, Northgate Supply and Delta Fastener (target) generate $860,000 of cash flow available for debt service against $596,246 of total debt service, a 1.44x coverage ratio against the 1.15x SBA minimum and the institution's 1.25x policy floor. Combined adjusted EBITDA could decline 13.8% before coverage reaches the SBA minimum. Funded debt will be 2.47x adjusted EBITDA. Global coverage including the guarantor is 1.50x. Equity of $547,500 is invested, including a $173,750 seller note on full standby. Business collateral available is $1,205,000, a $1,722,500 shortfall to the loan amount.

The request

Amount	$2,927,500
Rate and term	10% · 10 years
Annual debt service on the new loan	$464,246
Purpose	acquire Delta Fastener, a distributor in the same industry
Purchase price	$3,150,000
Other uses	$325,000
Total project cost	**$3,475,000**
Equity injection (includes $173,750 seller note on full standby)	$547,500
Loan	$2,927,500
Independent valuation	$2,950,000

Loan structure and pricing

$2,927,500 at 10% fixed; 10-year term; $38,687 a month.

Annual debt service on this loan, used in coverage	$464,246
Interest over the term	$1,714,955

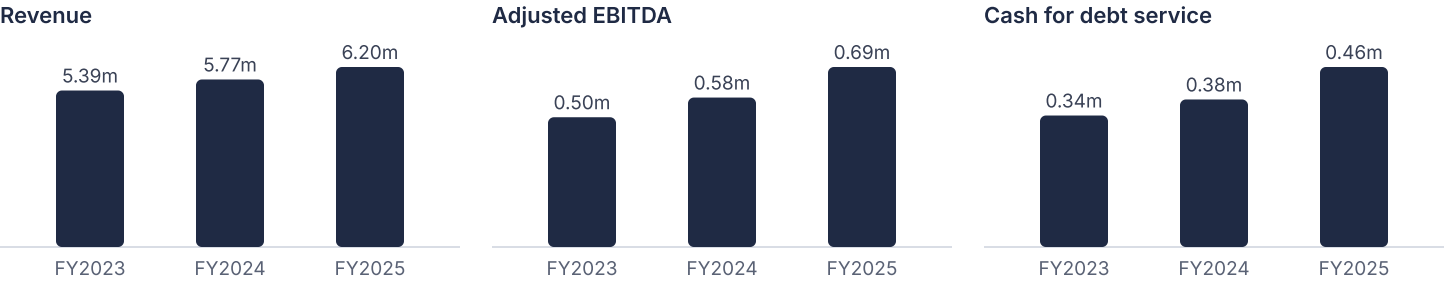
OTHER FACILITIES	AMOUNT	RATE	ANNUAL DEBT SERVICE	IN COVERAGE
Revolving line of credit (renewal) line, 40% average use	$750,000	9.5%	$28,500	No

SBA GUARANTY	
Guaranteed portion (75%)	$2,195,625
Unguaranteed portion	$731,875
Upfront guaranty fee 3.5% of the guaranteed portion up to $1,000,000 plus 3.75% above $1,000,000 (loans over $700,000)	$79,836
Annual service fee, first year	$12,076

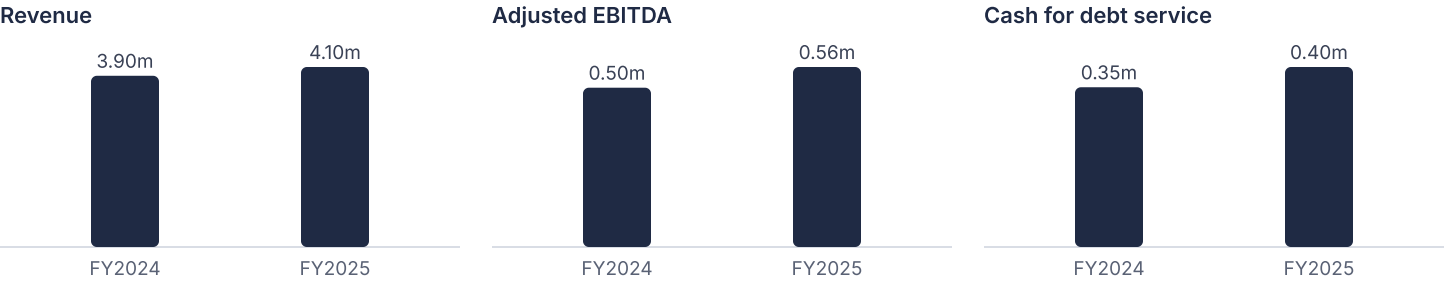
Pricing, first full year: average balance $2,837,711, spread over cost of funds 5.50%, expected loss $2,838 (grade 4), net income $120,248, return on capital 42.4% against a 15% target.

Trends

Northgate Supply



Delta Fastener (target)



Repayment capacity

ENTITY	ADJUSTED EBITDA	CASH FOR DEBT SERVICE
Northgate Supply FY2025	695,000	460,000
Delta Fastener (target) FY2025	565,000	400,000
Combined	**1,260,000**	**860,000**

Existing debt service kept	132,000
Proposed loan	464,246
Total debt service	**596,246**
Pro forma DSCR	**1.44x**
Cushion to the 1.15x SBA minimum (decline in EBITDA)	13.8%
Cushion to the 1.25x policy floor	9.1%
Funded debt to adjusted EBITDA	2.47x

Coverage by year

YEAR	ADJUSTED EBITDA	CASH FOR DEBT SERVICE	DSCR ON TODAY'S DEBT SERVICE	GLOBAL DSCR
FY2024	1,077,000	732,000	1.23x	1.29x
FY2025	1,260,000	860,000	1.44x	1.50x
2-year average			**1.34x**	
Lowest year			**1.23x**	

The decision uses most recent year: 1.44x. Cash flow did not fall in the most recent year.

Verification

Cash proof · Northgate Supply

YEAR	MONTHS	NET DEPOSITS	EXPECTED RECEIPTS	DIFFERENCE	%
FY2025	12	6,085,100	6,110,000	(24,900)	-0.4%

Net deposits exclude transfers between the borrower's accounts, loan proceeds and refunds. Expected receipts are revenue less the increase in receivables, plus sales tax collected.

IRS transcripts

TAXPAYER AND YEAR	FIGURE	TRANSCRIPT	RETURN	RESULT
Northgate Supply FY2025	Gross receipts or sales	6,200,000	6,200,000	Agrees
Northgate Supply FY2025	Ordinary business income / net profit	318,000	318,000	Agrees
Northgate Supply FY2024	Gross receipts or sales	5,770,000	5,770,000	Agrees
Delta Fastener (target) FY2025	Gross receipts or sales	4,100,000	4,100,000	Agrees
Delta Fastener (target) FY2025	Ordinary business income / net profit	472,307	472,307	Agrees
Delta Fastener (target) FY2024	Gross receipts or sales	3,900,000	3,900,000	Agrees
Delta Fastener (target) FY2024	Ordinary business income / net profit	410,825	410,825	Agrees

Quality of earnings

Independent quality of earnings analysis prepared for Harborline Community Credit Union (sample), reviewed and signed off by Philip A. Baratelli. Coverage uses the QoE adjusted EBITDA once it is carried into the spreads.

$	FY2024	FY2025	TTM 10/31/2026
EBITDA, as reported	445,000	505,000	529,000
Adjusted EBITDA, as presented by the seller	568,000	640,000	668,000
Diligence adjustments (net)	(68,000)	(75,000)	(77,000)
QoE adjusted EBITDA	**500,000**	**565,000**	**591,000**

! FY2025: QoE adjusted EBITDA $565,000 against $640,000 presented by the seller, a reduction of $75,000 (11.7%).

i 2 seller adjustments not accepted: IT consulting, presented as one-time; Owner's travel and meals.

✓ Proof of cash FY2024, receipts: deposits net of transfers and non-revenue items $3,900,300 against expected receipts $3,885,000, 0.4% over.

✓ Proof of cash FY2024, disbursements: withdrawals net of transfers, distributions and capital spending $3,460,300 against expected disbursements $3,457,000, 0.1% over.

✓ Proof of cash FY2025, receipts: deposits net of transfers and non-revenue items $4,069,700 against expected receipts $4,070,000, 0.0% under.

✓ Proof of cash FY2025, disbursements: withdrawals net of transfers, distributions and capital spending $3,587,100 against expected disbursements $3,590,000, 0.1% under.

Global cash flow

SOURCE	CASH AVAILABLE	DEBT SERVICE
Businesses	860,000	596,246
Northgate owner (guarantor)	69,000	24,000
Global · 1.50x	**929,000**	**620,246**

Guarantors' financial statements

GUARANTOR	NET WORTH	ADJUSTED NET WORTH	LIQUIDITY AFTER CLOSING	RESIDENCE EQUITY	CONTINGENT
Northgate owner (guarantor)	4,798,000	1,932,000	609,000	53%	190,000

Guarantor credit and cross-checks

GUARANTOR	SCORE	MONTHLY PAYMENTS	REVOLVING UTILIZATION	DEROGATORY ITEMS
Northgate owner (guarantor) Experian FICO 8	768	$2,050	6%	None

✓ Northgate owner (guarantor): credit score 768 (Experian FICO 8), pulled 11/18/2026.

✓ Northgate owner (guarantor): payments on the credit report ($24,600 a year) agree with the personal cash flow.

✓ Northgate owner (guarantor): no derogatory items on the credit report.

✓ Northgate owner (guarantor): liquidity after closing of $609,000.

✓ Northgate owner (guarantor): stated cash and securities are consistent with the investment income on the return.

K-1 income

OWNER AND YEAR	BUSINESS	OWNERSHIP	ORDINARY INCOME	DISTRIBUTIONS	TO PERSONAL CASH FLOW
Northgate owner (guarantor) FY2025	Northgate Supply	100%	318,000	140,000	0

Earnings of businesses in this request are counted once, in business cash flow. Outside businesses count the distributions the owner received.

Management and key-person assessment

The owner has run Northgate for 14 years and spent 22 years in industrial distribution. A tenured operations manager runs the warehouse and fleet, and an outside CPA firm prepares reviewed statements. Delta's general manager stays on after closing, and the seller consults for 24 months.

Key-person risk

Sales relationships rest with the owner. The operations manager and Delta's general manager can run day-to-day operations, and the largest accounts are being introduced to a second salesperson. Life insurance of $1,000,000 is assigned to the lender.

Succession

The operations manager is the designated successor for operations; ownership succession is addressed in the owner's estate plan.

NAME	ROLE	OWNERSHIP	YEARS IN INDUSTRY	YEARS WITH COMPANY
Northgate owner (guarantor)	President and sole owner	100%	22	14

Northgate owner (guarantor) · experience

- 2012-present: Northgate Supply, president and owner
- 2004-2012: regional industrial distributor, branch manager
- 2002-2004: fastener manufacturer, inside sales

Know your customer and background confirmations

CONFIRMATION	NORTHGATE OWNER (GUARANTOR)
Identity verified under the institution's Customer Identification Program	Confirmed 11/12/2026
Beneficial ownership certification collected (25% owners and one control person)	Confirmed 11/12/2026
OFAC sanctions screening clear	Confirmed 11/12/2026
CAIVRS checked: no delinquent federal debt (SBA loans)	Confirmed 11/12/2026
Background and litigation search: judgments, liens, bankruptcies	Confirmed 11/12/2026
SBA Form 1919 character questions answered (SBA loans)	Confirmed 11/12/2026
Trade and bank references checked	Confirmed 11/12/2026

Confirmations provided by the institution's BSA/AML and SBA procedures.

Spreads

Northgate Supply · 1120S

	FY2023	FY2024	FY2025
Revenue	5,390,000	5,770,000	6,200,000
Gross profit	**1,590,000**	**1,720,000**	**1,860,000**
Officer compensation	265,000	275,000	285,000
Other operating expenses	950,000	1,000,000	1,054,000
Net income	**171,000**	**240,000**	**318,000**
EBITDA	**375,000**	**445,000**	**521,000**
Owner pay above (below) market	**110,000**	**115,000**	**120,000**
One-time expenses, documented	—	—	36,000
Personal expenses in the business	16,000	17,000	18,000
Adjusted EBITDA	**501,000**	**577,000**	**695,000**
Maintenance capital spending	85,000	90,000	95,000
Taxes or tax distributions	80,000	110,000	140,000
Cash flow available for debt service	**336,000**	**377,000**	**460,000**

Owner pay above market: $285,000 paid against $165,000 market (regional salary survey). One-time legal settlement $36,000 (signed settlement). Personal vehicle and phones $18,000 (ledger detail tied to bank statements).

Delta Fastener (target) · 1120S

	FY2024	FY2025
Revenue	3,900,000	4,100,000
Gross profit	**1,150,000**	**1,230,000**
Officer compensation	205,000	210,000
Other operating expenses	500,000	515,000
Net income	**395,000**	**457,000**
EBITDA	**445,000**	**505,000**
Owner pay above (below) market	**55,000**	**60,000**
Adjusted EBITDA	**500,000**	**565,000**
Maintenance capital spending	50,000	55,000
Taxes or tax distributions	95,000	110,000
Cash flow available for debt service	**355,000**	**400,000**

Quality of Earnings report: the seller's package claimed $640,000 of EBITDA; the QoE supported $565,000 after removing undocumented add-backs. Spread uses the QoE figures. The independent business valuation of $2,950,000 is measured on the QoE adjusted EBITDA of $565,000 (5.2 times), not the seller's figure.

Northgate owner (guarantor) · guarantor

	FY2024	FY2025
Wages from the business (at market)	160,000	165,000
Interest and dividends	2,400	—
Living expenses	92,000	96,000
Personal cash available	**70,400**	**69,000**
Personal debt service (mortgage, auto, cards)	24,000	24,000

Wages counted at the $165,000 market pay used in the Northgate spread; S corporation income is already in business cash flow.

Ratios

Northgate Supply

	FY2023	FY2024	FY2025
Revenue growth	—	7.1%	7.5%
Gross margin	29.5%	29.8%	30.0%
Adjusted EBITDA margin	9.3%	10.0%	11.2%
Net margin	3.2%	4.2%	5.1%
Current ratio	3.51x	3.58x	3.66x
Quick ratio	1.65x	1.71x	1.76x
Debt to worth	0.45x	0.40x	0.36x
Funded debt to adjusted EBITDA	0.66x	0.45x	0.27x
Days sales outstanding	68	69	69
Days inventory	128	127	128
Days payables	55	54	54

Delta Fastener (target)

	FY2024	FY2025
Revenue growth	—	5.1%
Gross margin	29.5%	30.0%
Adjusted EBITDA margin	12.8%	13.8%
Net margin	10.1%	11.1%
Current ratio	3.86x	3.82x
Quick ratio	1.95x	1.97x
Debt to worth	0.29x	0.30x
Funded debt to adjusted EBITDA	0.00x	0.00x
Days sales outstanding	55	55
Days inventory	90	89
Days payables	41	42

Industry analysis

Hardware merchant wholesalers (fasteners and industrial supplies) · NAICS 423710

Industry conditions and outlook

Demand follows nonresidential construction, maintenance and repair spending and industrial production. Distributors compete on fill rates, delivery speed and credit terms; scale lowers purchasing costs, which favors combinations such as Northgate and Delta.

Economic and local market conditions

Higher interest rates have slowed new construction starts, while repair and maintenance demand has held steady. The combined company's customer base is spread across contractors, plants and municipal buyers in its region.

Industry risks and positioning

Customer credit risk is the main exposure: Northgate's receivables run slower than peers, and collections are a condition of approval. Supplier price increases have been passed through with a short lag, keeping gross margin near 30%.

Benchmarks · Northgate Supply FY2025

MEASURE	UPPER QUARTILE	MEDIAN	LOWER QUARTILE	BORROWER	PLACEMENT
Gross margin	33.0%	28.0%	24.0%	**30.0%**	Second quartile
Adjusted EBITDA margin	10.0%	6.0%	3.0%	**11.2%**	Top quartile
Current ratio	3.00x	2.00x	1.40x	**3.66x**	Top quartile
Quick ratio	1.50x	0.90x	0.60x	**1.76x**	Top quartile
Debt to worth	0.70x	1.50x	3.00x	**0.36x**	Top quartile
Days sales outstanding	35	45	55	**69**	Bottom quartile
Days inventory	60	90	130	**128**	Third quartile
Days payables	25	35	50	**54**	—

Source: Illustrative benchmarks for the sample file (a live file uses the institution's RMA Annual Statement Studies).

UCA cash flow

Northgate Supply

	FY2024	FY2025
Sales	5,770,000	6,200,000
Change in receivables	(80,000)	(90,000)
Cash from sales	**5,690,000**	**6,110,000**
Cost of goods sold	(4,050,000)	(4,340,000)
Change in inventory	(80,000)	(110,000)
Change in payables	30,000	40,000
Cash production costs	**(4,100,000)**	**(4,410,000)**
Gross cash margin	**1,590,000**	**1,700,000**
Operating expenses (cash)	(1,275,000)	(1,339,000)
Change in other current assets	(5,000)	(5,000)
Change in other current liabilities	10,000	10,000
Cash after operations	**320,000**	**366,000**
Other income and expense	0	0
Income taxes paid	0	0
Net cash after operations	**320,000**	**366,000**
Interest paid	(70,000)	(62,000)
Distributions and dividends	(110,000)	(140,000)
Cash after debt service on interest and distributions	**140,000**	**164,000**
Current portion of long-term debt (prior year)	(70,000)	(70,000)
Cash after debt amortization	**70,000**	**94,000**
Capital spending	(90,000)	(95,000)
Financing surplus (requirement)	**(20,000)**	**(1,000)**
UCA coverage (net cash after operations before distributions ÷ interest and prior-year current maturities)	**1.50x**	**1.71x**

Delta Fastener (target)

	FY2025
Sales	4,100,000
Change in receivables	(30,000)
Cash from sales	**4,070,000**
Cost of goods sold	(2,870,000)
Change in inventory	(20,000)
Change in payables	20,000
Cash production costs	**(2,870,000)**
Gross cash margin	**1,200,000**
Operating expenses (cash)	(725,000)
Change in other current assets	0
Change in other current liabilities	5,000
Cash after operations	**480,000**
Other income and expense	0
Income taxes paid	0
Net cash after operations	**480,000**
Interest paid	0
Distributions and dividends	(110,000)
Cash after debt service on interest and distributions	**370,000**
Current portion of long-term debt (prior year)	0
Cash after debt amortization	**370,000**
Capital spending	(55,000)
Financing surplus (requirement)	**315,000**
UCA coverage (net cash after operations before distributions ÷ interest and prior-year current maturities)	—

Stress test

SCENARIO	CASH FOR DEBT SERVICE	DEBT SERVICE	DSCR
Base case	860,000	596,246	1.44x
Rate up 2.00%	860,000	636,013	1.35x
Revenue down 10%	551,000	596,246	0.92x
Revenue down 20%	242,000	596,246	0.41x
Gross margin down 2 points	654,000	596,246	1.10x
Combined downside: revenue down 10%, margin down 1 point, rate up 2%	458,300	636,013	0.72x
Your scenario: revenue down 5%, margin down 0.5 points, rate up 1%	656,575	615,916	1.07x

Revenue can fall 3.7% or gross margin 1.1 points before coverage reaches the 1.25x floor.

Projections

	YEAR 1	YEAR 2	YEAR 3
Revenue	10,712,000	11,140,480	11,474,694
Adjusted EBITDA	1,328,700	1,400,697	1,442,718
Cash flow available for debt service	910,569	963,646	992,555
Synergies	40,000	90,000	120,000
DSCR without synergies	**1.53x**	**1.62x**	**1.66x**
DSCR with synergies	**1.59x**	**1.77x**	**1.87x**

Growth 4%, 4%, 3%; operating costs up 3% a year; gross margin change 0 points. SBA coverage is measured on historical results.

Valuation and loan-to-value

Adjusted EBITDA	1,260,000
Value at 5x	**6,300,000**
Funded debt after the loan	3,117,500
Loan-to-value	**49%**
Equity cushion	51%
Implied purchase multiple	5.58x

Collateral

ASSET	VALUE	ADVANCE	COUNTED	ALREADY OWED	AVAILABLE
Warehouse (guarantor-owned)	1,680,000	85%	1,428,000	905,000	523,000
Northgate equipment	520,000	50%	260,000	190,000	70,000
Delta equipment (appraised)	410,000	80%	328,000	0	328,000
Furniture and fixtures	140,000	10%	14,000	0	14,000
Receivables	1,180,000	10%	118,000	0	118,000
Inventory	1,520,000	10%	152,000	0	152,000
Business collateral available					**1,205,000**
Shortfall to the loan					1,722,500

Real estate

PROPERTY	NOI	VALUE	LTV	DEBT YIELD	COVERAGE
Warehouse (guarantor-owned, leased to Northgate)	121,600	1,680,000	54%	13.4%	1.27x

Environmental review

PROPERTY	INVESTIGATION	REPORT	CONCLUSION
Warehouse (guarantor-owned, leased to Northgate) Warehouse and distribution since 1998 (NAICS 423710); prior use, truck terminal	Phase I ESA (ASTM E1527-21)	09/27/2026 · Environmental professional (sample)	Acceptable

Warehouse (guarantor-owned, leased to Northgate). No recognized environmental conditions. Historical REC: a former underground storage tank from the truck terminal was removed in 2009 under a state no further action letter.

- ✓ Warehouse (guarantor-owned, leased to Northgate): Phase I ESA (ASTM E1527-21) dated 09/27/2026; acceptable.
- ✓ Warehouse (guarantor-owned, leased to Northgate): environmental questionnaire completed by the borrower.
- ✓ Warehouse (guarantor-owned, leased to Northgate): records search reviewed for the property and adjoining sites.
- ✓ Warehouse (guarantor-owned, leased to Northgate): current and prior uses checked against environmentally sensitive industries.
- ✓ Warehouse (guarantor-owned, leased to Northgate): level of investigation meets the institution's policy and, for SBA loans, the SOP.
- ✓ Warehouse (guarantor-owned, leased to Northgate): report within 180 days of closing (ASTM E1527-21 viability).
- ✓ Warehouse (guarantor-owned, leased to Northgate): reliance letter names the institution (and SBA, for SBA loans).
- ✓ Warehouse (guarantor-owned, leased to Northgate): phase I prepared by a qualified environmental professional.

Borrowing base

Available on receivables	836,000
Available on inventory	500,000
Borrowing base	**1,336,000**
Available to draw	**440,000**

Receivables and payables aging

RECEIVABLES AS OF 10/31/2026	CURRENT	1-30	31-60	61-90	OVER 90	TOTAL
Amount	737,000	244,000	78,000	26,000	95,000	1,180,000
Share	62.5%	20.7%	6.6%	2.2%	8.1%	100%

Largest customer Midstate Builders at 21.4%; top five 57.6%. Eligible receivables $1,035,000 after over-90, cross-aged, contra and concentration exclusions.

PAYABLES AS OF 10/31/2026	CURRENT	1-30	31-60	61-90	OVER 90	TOTAL
Amount	498,000	130,000	12,000	0	0	640,000

Risk rating

FACTOR	MEASURE	SCORE	WEIGHT
Pro forma coverage	1.44x	3	25%
Global coverage	1.50x	4	10%
Funded debt to EBITDA	2.47x	4	15%
Debt to worth	0.36x	5	10%
Current ratio	3.66x	5	5%
Revenue trend	7%	5	10%
Collateral coverage	41%	1	10%
Guarantor liquidity after closing	102%	5	5%
Guarantor credit	768	5	5%
Management and experience	4 of 5	4	5%
Industry and market	3 of 5	3	5%
Weighted score · indicated grade		**3.76**	**4 · Satisfactory**

SBA eligibility

NAICS 423710 · size standard 150 employees · jobs created 6, retained 52

- ✓ Operating business, organized for profit, located in the United States
- ✓ Meets the SBA size standard for its NAICS code, with affiliates included
- ✓ Not an ineligible business type (passive real estate, lending, speculation, gambling and the other types in the SOP)
- ? Credit elsewhere: the lender documents why credit is not available on reasonable terms without the guaranty
- ✓ Every use of proceeds is eligible, with sources and uses documented
- ? Ownership meets the SOP's citizenship and residency requirements for owners
- ✓ Every owner of 20% or more gives an unlimited personal guaranty
- ? No delinquent federal debt for the business or owners (CAIVRS checked)
- ? Character determination complete for each owner (SBA Form 1919)
- ✓ Equity injection verified with bank statements before disbursement
- ? Hazard, life and other required insurance identified

SBA credit memo elements

ELEMENT (SOP 50 10 8.1)	STATUS
Repayment ability on historical or projected cash flow	Documented: Coverage 1.44x against the 1.15x minimum for this transaction.
Repayment analysis uses the two most recent months of bank statements	**Issue**: The latest statement month in the cash proof (Dec 2025) is not recent; add the two most recent months.
IRS transcripts (Form 4506-C) reconciled to the returns spread	Documented: Transcripts agree to the returns.
Credit not available elsewhere, with the specific conventional policy tests the applicant does not meet	Documented: Reasons are written below.
Equity injection: at least 10% of project cost where required, verified with bank statements, wires or settlement statements	Documented: Injection $547,500 against $347,500 required.
Seller note counted in the injection is on full standby for the life of the loan and no more than half the required injection	Documented: Seller note $173,750 is within half the required injection.
Quality of earnings report for change-of-ownership transactions of $3 million or more	Documented: Quality of earnings report on file.
Every direct and indirect owner identified (100% of ownership)	Documented: Owners listed add to 100%.
Owners and guarantors are U.S. citizens, U.S. nationals or lawful permanent residents	Documented: Confirmed by the lender from the eligibility documents.
CAIVRS and delinquent federal debt checked for the business and every owner	Documented: CAIVRS confirmed for every owner.
Personal guaranty from every owner of 20% or more	Documented: Guaranties identified.
Debt schedule identifies every balance refinanced; no merchant cash advances or factoring refinanced	Documented: Confirmed by the analyst from the debt schedule.
Hazard insurance on loans over $50,000; life insurance where the loan is not fully secured	Documented: Confirmed by the analyst.
Size standard met, with affiliates	Documented: Within the size standard.

Credit not available elsewhere. The 10-year term needed to repay an acquisition of this size is beyond the lender's 5-year conventional maximum for business acquisitions, and business collateral covers about half of the loan against the 80% conventional policy minimum.

Covenants

COVENANT	REQUIREMENT	LATEST	RESULT
Debt service coverage, combined	at least 1.25x	FY2025: 1.44x	Met
Global coverage	at least 1.25x	FY2025: 1.50x	Met
Debt to worth Northgate Supply	at most 3.00x	FY2025: 0.36x	Met
Current ratio Northgate Supply	at least 1.50x	FY2025: 3.66x	Met
Guarantor liquidity, minimum Northgate Supply	at least $500,000	FY2025: $609,000	Met

Policy and program checks

- ✓ Pro forma coverage 1.44x against the 1.15x SBA minimum for business expansion.
- ✓ Pro forma coverage 1.44x against the 1.25x policy floor.
- ✓ Global coverage 1.50x with 1 guarantor.
- ✓ Equity injection $547,500 is 15.8% of the $3,475,000 project cost; the baseline is 10% ($347,500); reducible for an expansion with documented liquidity and no negative net worth at the last fiscal year-end.
- ✓ Seller note counted toward the injection $173,750; the limit is half of the required injection ($173,750), on full standby for the life of the loan.
- ✓ Purchase price $3,150,000 is $3 million or more: an independent Quality of Earnings report is required and is in the file. Coverage must use the QoE earnings.
- ! Purchase price exceeds the independent valuation by $200,000; the gap is funded with equity, not loan proceeds.
- i Coverage is measured on historical results; projections do not satisfy the SBA floor.
- ! Coverage in the weakest of the last 2 years was 1.23x, below the 1.25x floor; the decision uses the most recent year.
- ✓ Independence: no relationship found (checked 11/18/2026).
- ✓ Northgate owner (guarantor): credit score 768 (Experian FICO 8), pulled 11/18/2026.
- ✓ Northgate owner (guarantor): payments on the credit report ($24,600 a year) agree with the personal cash flow.
- ✓ Northgate owner (guarantor): no derogatory items on the credit report.
- ✓ Northgate owner (guarantor): liquidity after closing of $609,000.
- ✓ Northgate owner (guarantor): stated cash and securities are consistent with the investment income on the return.
- ✓ Warehouse (guarantor-owned, leased to Northgate): Phase I ESA (ASTM E1527-21) dated 09/27/2026; acceptable.
- ! Industry benchmarks: 4 of 7 measures in the top quartile; bottom quartile in days sales outstanding.
- ✓ Northgate owner (guarantor): identity, ownership, sanctions and background confirmations recorded.
- ✓ Cash proof FY2025: deposits net of transfers and loan proceeds $6,085,100 against expected receipts $6,110,000, a 0.4% shortfall.
- ✓ IRS transcript FY2025, Northgate Supply: 2 figures agree to the return.
- ✓ IRS transcript FY2024, Northgate Supply: the figure agrees to the return.
- ✓ IRS transcript FY2025, Delta Fastener (target): 2 figures agree to the return.
- ✓ IRS transcript FY2024, Delta Fastener (target): 2 figures agree to the return.
- ✓ K-1 FY2025: Northgate owner (guarantor)'s 100% share of Northgate Supply ordinary income ($318,000) ties to the business return.
- ✓ Receivables over 90 days are 8.1% of the total ($95,000); 1 cross-aged account left out entirely.
- ✓ The receivables aging ($1,180,000) ties to the balance sheet within 2%.

Exceptions to policy

POLICY	ACTUAL	LIMIT	APPROVAL
Collateral coverage (lendable value to loan)	41%	100% minimum	Chief credit officer, Approved

Mitigants

- **Collateral coverage (lendable value to loan):** Lien on the guarantor's residence and the warehouse; life insurance on the owner assigned to the lender. SBA guaranty covers 75% of the loan.

Strengths

- Coverage of 1.44x on proven earnings, above the 1.25x policy floor and the 1.15x SBA minimum
- Same-industry acquisition with overlapping customers and suppliers
- Three years of revenue growth at Northgate
- Delta earnings verified by a Quality of Earnings report

Weaknesses and mitigants

- Collateral shortfall typical of an acquisition; mitigated by a lien on the guarantor's residence and life insurance
- Price $200,000 above the independent valuation; funded with buyer cash
- Coverage is sensitive to earnings: adjusted EBITDA could fall about 9% before coverage reaches the 1.25x policy floor and about 14% before the 1.15x SBA minimum; mitigated by the annual coverage covenant and quarterly interim statements
- Receivables run 69 days, slower than the industry; collections reporting is a condition

Suggested conditions

- Seller note on full standby for the life of the loan
- Annual tax returns and financial statements within 120 days of year-end
- Minimum DSCR of 1.25x tested annually
- Life insurance on the owner assigned to the lender

Recommendation

Approve the SBA 7(a) loan of $2,927,500 to Northgate Supply to acquire Delta Fastener, on the terms requested and subject to the conditions above. Coverage on proven earnings is above the 1.25x policy floor, the target's earnings are verified by a lender-ordered quality of earnings report, and the guarantor has the liquidity and credit to support the loan. The main risk is a decline in revenue; the coverage covenant and quarterly reporting give the bank early warning.

Document checklist

34 of 38 items received or waived.

ITEM	STATUS
Signed credit application and borrower information	Received
Business tax returns, three most recent years	Received
Year-end financial statements, three most recent years	Received
Interim financial statements and a year-to-date comparison	**Outstanding**
Accounts receivable and accounts payable agings	Received
Schedule of business debt	Received
Personal tax returns for each guarantor, three most recent years	Received
Personal financial statement for each guarantor	Received
IRS Form 4506-C for the business and each guarantor	Received
Business bank statements, twelve months	Received
Articles, operating agreement or bylaws, and ownership chart	**Outstanding**
Copies of leases for the business premises	Received
SBA Form 1919, Borrower Information Form	Received
SBA Form 413, Personal Financial Statement	Received
Resumes of the owners and managers	Received
Business plan and two years of projections	Received
Use of proceeds with quotes or invoices	Received
Purchase agreement or letter of intent	**Outstanding**
Seller's business tax returns, three years	Received
Seller's interim financial statements	Received
Quality of Earnings report	Received
Independent business valuation	Received
Seller note with full standby agreement	Received
Equity injection source: bank statements	Received
Transition or consulting agreement with the seller	**Outstanding**
General ledger detail for every month in the periods covered (QuickBooks: Reports > General Ledger, or Transaction Detail by Account; export to Excel or CSV)	Received
Bank statements for every business account, every month in the periods covered (PDF, or a CSV export from online banking)	Received
Sales by Customer Summary, one column per year, plus year to date (CSV or Excel)	Received
Monthly income statements and balance sheets for the periods covered	Received
Trial balance at each fiscal year-end and at the most recent month-end	Received
Federal business tax returns for the last three years, with all schedules	Received
Payroll registers and Form W-3 (or all Forms W-2) for each year	Received

Receivables and payables aging at each year-end and at the most recent month-end	Received
Owner and family pay, benefits, vehicles, and personal expenses paid by the business	Received
The seller's list of add-backs, with the support for each one	Received
Leases and agreements with related parties (rent, management fees, loans)	Received
Loan and credit line statements, equipment financing, customer deposits and deferred revenue	Received
Inventory counts or reports at each year-end	Received