

Springfield national bank essay

[Finance](#), [Banks](#)



Case 1. Springfield National Bank Executive Summary Dawson Stores, Inc.

is in need of a US \$ 1 million credit line from Springfield National Bank on an unsecured basis. This study was conducted to determine if Dawson Stores Inc. will be a good credit risk for the bank by taking into consideration the company's financial condition, character reference and loan security.

Financial ratio and trend analyses show the company's increasing profitability and long-term stability.

It is recommended that the bank approves the credit line that Dawson Stores, Inc. is requesting, as the company knows how to maximize its assets and has shown improving profitability through the years. The long-standing and untainted relationship of the Dawson Stores Inc. and the bank is another factor that supports this recommendation.

Case Context Dawson Stores Inc, represented by Mr. John Dawson Jr. , wants to apply for a \$1M credit line on an unsecured basis for their short-term needs. The company has been a client of the bank for a long time, though it has not availed of bank credit in the last ten years. To support the company's application, they submitted their financial statements for the last four years.

Problem Definition This report aims to determine if Dawson Stores Inc.

will be a good credit risk for Springfield National Bank. **Framework for Analysis** Considerations for extending the credit line requested are Dawson Stores Inc.'s are a loan would be financial condition, character reference and loan collateral. **Financial Condition** The company's profitability, liquidity, and solvency were determined by the trend analysis of the financial ratios.

Character Reference and Collateral The company's history and its

relationship with the bank were considered. Analysis Financial statement ratio analysis was conducted based on the information given.

Results are as follows: Table 1. Profitability Ratios 1990199119921993 Rate of Return on Assets2. 985. 636. 49 Profit Margin for ROA Cost of Goods Sold / Sales70.

0470. 9969. 0068. 50 Operating Expense / Sales26. 1725.

6824. 6724. 16 Accounts Receivable Turnover6. 666. 886. 75 Inventory Turnover5.

575. 835. 59 PPE Turnover3. 874.

164. 35 Table 2. Short-Term Liquidity Ratios 1990199119921993 Current Ratio2. 122. 21. 741.

67 Quick Ratio1. 121. 131. 021. 00 Cash from Operations to Average Current Liabilities 30.

52 43. 71 32. 00 Accounts Payable Turnover11. 7910. 658. 32 Table 3.

Long-Term Liquidity Ratios 1990199119921993 Long-Term Debt 44. 1042. 5037. 8033. 50 Debt ? Equity59.

1758. 4158. 9357. 69 Cash from Operations to Total Liabilities 12.

85 21. 37 18. 17 Financial Condition The profitability of Dawson Stores, Inc. can be established through the ratios calculated.

Both the rate of return on assets and profit margin for rate of return on assets percentages have been rising. Total asset turnover of the firm also increased, indicating that the firm has been making most of its assets. Moreover, the operating expense to sales ratio decreased leading to an increasing profit margin. All these ratios illustrate a trend of increasing profitability through the years.

The short-term liquidity ratios for Dawson Stores, Inc. are decreasing. However, this does not necessarily mean that they are not paying their current liabilities. The company may just be prolonging their payments to use current assets for more productive investments but still paying their financial obligations when due.

This way, they are maximizing their assets while upholding their reputation for honorable transactions. Another factor is the decreasing long-term liquidity ratios which shows that the company can meet the principal payments and interest in the long run. This reflects the long-term stability of Dawson Stores, Inc. Character Reference and Collateral Dawson Stores, Inc. , represented by its President, Mr.

John Dawson Jr. , would like to obtain a credit line with no collateral. However, their long-standing relationship with Springfield National Bank has not been tainted. Furthermore, the company has maintained an average account balance of \$350, 000 for the past year. These are major factors that must also be considered in approving their application.

Decision It is recommended that the bank approves the application of Dawson Stores, Inc. Basic Justifications After reviewing all presented data, it is evident that Dawson Stores, Inc. is a company that knows how to maximize its assets and shows an improving profitability through the years. The company's long-standing relationship with the bank is also a consideration. Operationalizing the Decision Once the proposal is approved, the following terms, agreed upon by both parties, must commence: 1. Dawson Stores, Inc.

must pay the full amount within one year on monthly installments at prevailing bank rates. 2. Corresponding penalties will also be imposed on Dawson Stores, Inc. for non-compliance of payment terms.

3. The loan package vis-à-vis Dawson Stores, Inc.'s up-to-date financial statements will be reviewed semi-annually and revisions such as change on the terms of credit will be made if necessary.