



Helping Lenders say "Yes" to good loans!



I'm still in rough waters!

Lending to the Self-employed ... How to Say 'Yes'!

Business and Lending | Consulting and Training

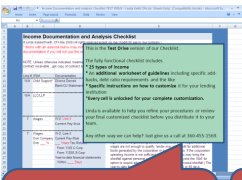


Welcome to this stress-free teleseminar on tax return analysis!


WWW.LINDAKEITHCPA.COM/CU.HTM

Guideline Level Recommendations

Ours **#1 #2 #3 #4**
#5 #6 #7 #8




Free Income Analysis and Documentation Checklist (\$279 value)




Take our Tax Return Analysis Quiz online now

Quiz for your lenders



Ask Linda (I'll answer)



Free eCourse for your lenders

THE PARADOX



Will you lend to the **WRONG** business owner?

THE PARADOX

One member owns her drug store. She is **willing** and **able** to reduce her personal compensation to **keep more employees working, market even during the recession** and keep her business **as strong as possible** for the recovery.



When you calculate her personal historical cashflow, it will be low.

THE PARADOX



Another member owns his construction company. He is **neither willing nor able** to reduce his personal compensation. He had **more layoffs**, **reduced marketing** and **did not replace equipment** during the recession.

When you calculate his personal historical cashflow, it will be higher.

THE PARADOX



Which business is recovery-ready?

Will you lend to the **WRONG** business owner?

PLAN FOR TODAY:

Six Types of Adjustments:

From Taxable Income to Recurring Cashflow
I'll use the same slides I share with lenders

MY GUIDELINE LEVEL RECOMMENDATIONS

What is the first word that comes to mind when I say:

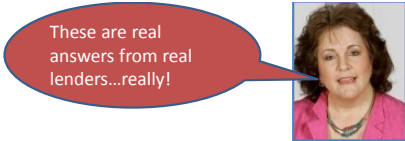
Tax Returns



8

Tax Returns

- Depression
- **Confusing**
- Intimidating
- **Trouble**
- Horror
- **Pain**
- **Income**
- Forms
- **IRS**
- Refund
- **April 15th**
- Fraud
- Money
- **Yuck!**
- Boring
- **Hassle**
- Complicated
- **Examiners**



Slide from full-day training on
Tax Return Analysis: Essentials and 1040 Review

“I am pretty sure I have been turning down good loans.”

Taxable Income
Add Back Depreciation
Add Back Interest
Do Something with Debt

This may not get us to YES!
(Even when the answer should be yes.)

To get to Historical Cashflow

START WITH TAXABLE INCOME...

Add

N

Add

Fill in your handouts as you go.

Green Legos Six Ns and A Map to Tax Returns

To get to Recurring Cashflow

Start with historical cashflow...

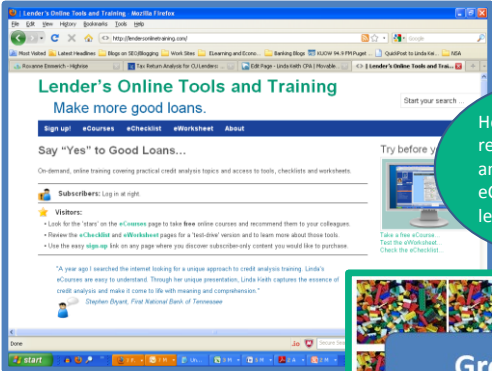
Add

Add

Add*

Slide from free eCourse:

Green Legos, Six Ns and a Map to Tax Return Analysis



Lender's Online Tools and Training
Make more good loans.

Sign up! eCourses eChecklist eWorksheet About

Say "Yes" to Good Loans...

On-demand, online training covering practical credit analysis topics and access to tools, checklists and worksheets.


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- Look for the "Yes" on the eCourses page to take free online courses and recommend them to your colleagues.
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"As your agent I searched the internet looking for a unique approach to credit analysis training. Linda's eCourses are easy to understand. Through her unique presentation, Linda Keith captures the essence of credit analysis and make it come to life with meaning and comprehension."

Stephen Boyert, First National Bank of Tennessee



Here is your resource for free and subscriber eCourses for your lenders.



Green Legos
Six Ns and
A Map to Tax Returns
www.LendersOnlineTraining.com

A guide to tax return analysis for lenders.



LindaKeithCPA
Helping Lenders say "yes" to Good Loans!

Take a free test drive of our new online training courses...
Register now for the online analysis workshops...
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Lenders... Lending Managers... Ask Linda... Lender's eCourses

Ask Linda



Linda's Blog: Good Business, Good Loans.

Blog



CUA, CUES, CU League and Associations

How and the following resources are available for CU Lenders...
November 2009 CUES Lending Council Conference
Self-employed Borrowers: Is Pump Money
How to say YES

Download PDF of this issue...
December 2009 CUES Member
More Trouble-Breaking
Are your Guidelines Getting in the Way of Saying
"Yes" to Self-Employed Borrowers?

CU page



Search for...

Site-Wide Search

Red Flags...

- ❖ Significant drops in discretionary costs ... Maybe!
- ❖ Equipment lists that don't make sense
- ❖ Taxes that do not seem sufficient
- ❖ Business owners whose response to the recession was to work less, take a vacation and ride it out

Slide from full-day training on
Tax Return Analysis: Essentials and 1040 Review

Digging for dollars...

- ❖ Look for and add back nonrecurring expenses
 - ❖ Watch for unusual types
 - ❖ Compare to prior years
- ❖ Consider optional items such as charitable contributions or profit-sharing

Slide from full-day training on
Tax Return Analysis: Essentials and 1040 Review

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Guideline Level Recommendation #1



Use 3 year's tax returns for self-employed members

- Not suggesting you average three years, just take a look!

You need to know what a pre-recession year looks like.
1. We Do it!

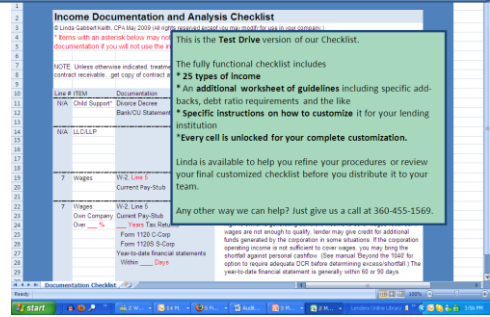
2. Recommend as is!

3. Modify...

4. Does not fit because...

Guideline Level Recommendation #2

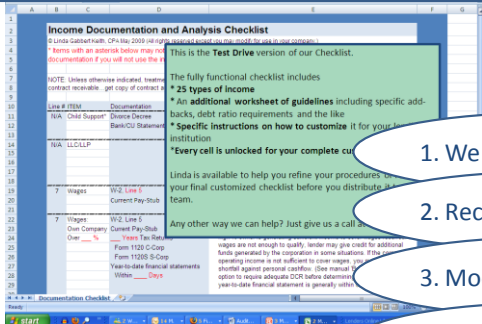
Update your Guidelines
Clearly Communicate Them



www.LindaKeithCPA.com/CU.htm

Guideline Level Recommendation #2

Update your Guidelines
Clearly Communicate Them



- 1. We Do it!
- 2. Recommend as is!
- 3. Modify...
- 4. Does not fit because...

Guideline Level Recommendation #3



Include YTD Financial
Statements in Analysis


Balance Sheet

• Comparative

Goodwill 35,000

Retained Earnings

- Beginning Balance
- Plus
 - Profit or
 - Prior Period Adjustments
- Minus
 - Losses or
 - Dividends or
 - Prior Period Adjustments
- Ending Balance



Cash Basis


- Income when received
- Expenses when paid
- Easy to do
- Can be misleading

Accrual Basis

- Income when earned
- Expenses when incurred
- More accurate picture
- Needs more training
- Owners think accrual

Cash basis:
A legitimate reason the tax returns “don’t show what I really made.”

Most tax returns CASH BASIS.
Difference in cash versus accrual can explain significant differences between tax returns and financial statements.



Guideline Level Recommendation #3



Include YTD
Financial
Statements in
Analysis

- 1. We Do it!
- 2. Recommend as is!
- 3. Modify...
- 4. Does not fit because...

Guideline Level Recommendation #4 WHO PREPARED THE FINANCIAL STATEMENTS?



Did your member
prepare their own
with limited
knowledge?

Or were the
statements
prepared by a CPA
or accounting firm?



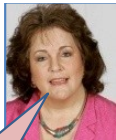
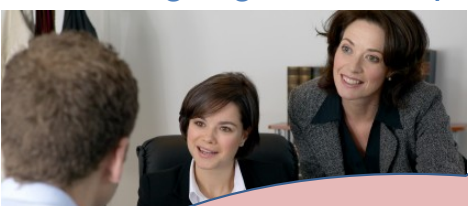
Guideline Level Recommendation #4
If showing Significant Improvement



Require CPA Prepared Financials

Require monthly or quarterly breakout with comparison to same period in prior year

Guideline Level Recommendation #4
If showing Significant Improvement



In the CUNA session, CLOs of smaller credit unions recommended an alternative.
Verify key factors of member-prepared statements such as cash account balances and major liabilities.

Guideline Level Recommendation #4
If showing Significant Improvement



Require CPA
Prepared
Financials

- 1. We Do it!
- 2. Recommend as is!
- 3. Modify...
- 4. Does not fit because...

Guideline Level Recommendation #5
Select Subject Matter Experts



Provide Advanced Training and Resources

Choose a level of training and resources for all lenders.
Then identify the situations that escalate that loan request to your **subject matter experts** such as:

- Initial analysis results in ‘no’ decision **AND**
- Member for over X years **AND**
- Credit Score over X **OR**
- Member has unusual income source (i.e. capital gains)

Who will do the training?



Not (necessarily) the CPA on your board or in town

If you choose a **local CPA**, be sure they **understand small business tax returns, lender needs, and how to develop and conduct training**. **Most CPAs do not understand all three!**

Not (necessarily) your software provider

Your **software provider's training** may be too software focused.
More than 'put this number on this line', you also need **red flags, digging for dollars, understanding the business**.

Not your most experienced lenders

Experienced lenders are generally too busy (especially now) and are not skilled in developing and conducting training.

***Full disclosure:**

I train lenders in tax return and financial statement analysis. CUES offers a business lending school. There are other good resources, but not many.

Guideline Level Recommendation #5
Select Subject Matter Experts

Provide Advanced Training and Resources



- 1. We Do it!
- 2. Recommend as is!
- 3. Modify...
- 4. Does not fit because...

Guidelines Under Consideration:

- 1) Use 3 year's tax returns
- 2) Update guidelines and communicate clearly
- 3) Consider year-to-date financial statements in analysis
- 4) Require CPA-prepared statements if using YTD in averages
- 5) Identify subject-matter experts for add'l training and resources

What other guidelines came to mind...

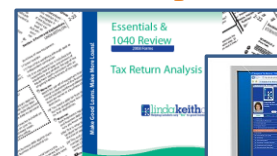
**CUNA Lending Council attendee suggestions:**

- Be sure to look at the **entire relationship**, not just the financials.
- If your credit union is too small to gear up for this, consider hiring **third parties** to do the analysis. (There was discussion about how to find them.)
- As a member benefit, consider **training for self-employed members** about financial statements (preparation and/or analysis for management purposes).
- **Review the member's website** as another way to better understand their business.



- If a lot of rental properties, get the **rent rolls**. Compare to tax returns to see if properties are consistently rented.
- Make decisions about **when we may not need full tax returns**. For example, high credit score or low loan-to-value.
- Align procedures so that **requirements match the complexity and/or amount of the loan**.
- In **policy** require 'verification of income'. In **procedures** spell out what that means regarding different criteria such as number of years membership, credit score, loan-to-value, etc.
- Spend more time with **lenders understanding some of the standard adjustments**, like depreciation.

You may already have won!



Sign up for my ezine in August and you'll be in the drawing for your choice!

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- ☐ Sign up other lenders at my CU for them
- ☐ Follow up on guideline recommendations
- ☐ Download Income and Analysis Documentation list and customize it for our Credit Union
- ☐ Visit www.LindaKeithCPA.com/cu.htm
- ☐ Consider online or face-to-face training
- ☐ _____
- ☐ _____
- ☐ _____



**Lending to the Self-employed ...
How to Say 'Yes'!**

Linda Keith CPA CSP

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