



CUNA
Lending
COUNCIL

Self-employed Members in Rough Waters



Linda Keith CPA CSP

Tax Return and Financial Statement Analysis
Consulting and Training

Hi!

This is the web-posted version of an in-person presentation I made at the CUNA Lending Council Conference in San Diego November 2009.

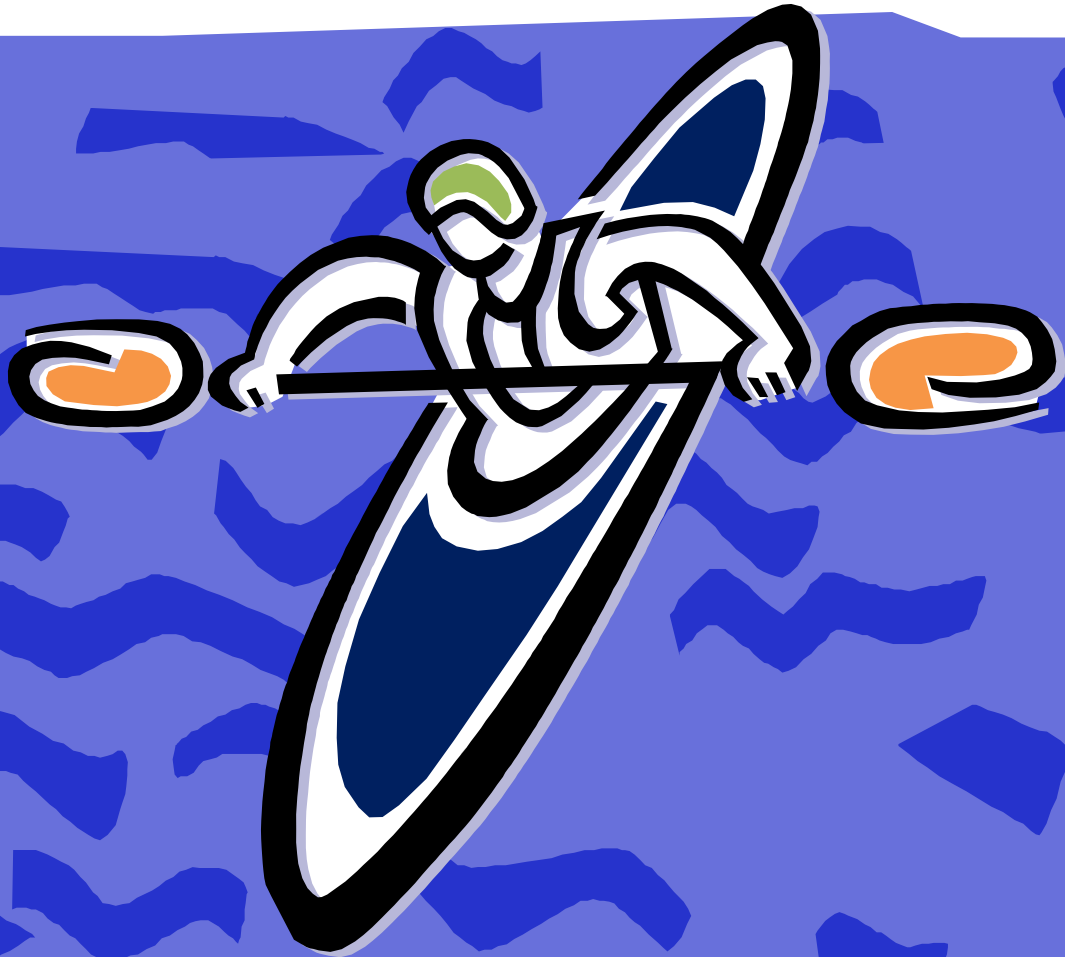
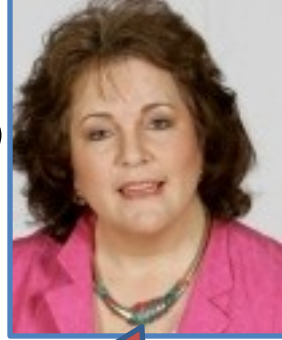


Really, in-person is better! I am happy to present this to your CU League or other CU organization.

For this web version, I'll put my picture and some of my thoughts on the slides.

SELF-EMPLOYED MEMBERS

CAPSIZE Fatigue



The recovery is here. Many of your self-employed members are suffering from capsized fatigue.

Your lenders need to distinguish between those who, with our help, can make it to shore...and those who are too cold, too injured, too tired to make it, even with our help.

SAYING YES IS GETTING HARDER!



2006

2007



Up until October 2009, we were using 2006 and 2007 in our analysis.

Until October 2009

(When the 2008 returns were finally really due!)

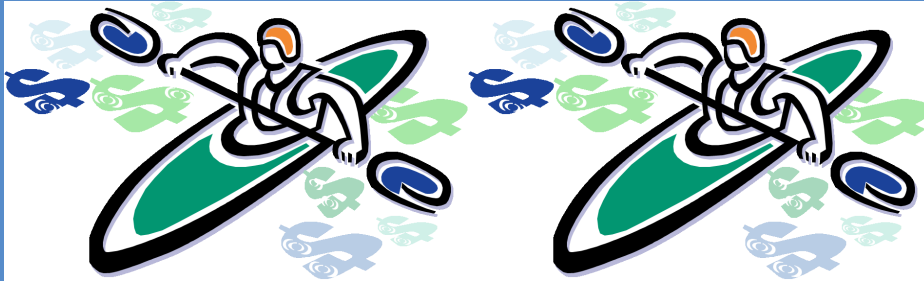
Pre-recession years...

SAYING YES IS GETTING HARDER!



2007

2008



Now we are using
one pre-recession
year and one of
the worst years of
the recession...

But wait!

Through early 2010...but wait!

SAYING YES IS GETTING HARDER!



2008

2009



The congress made it easier to carry back Net Operating Losses. Many businesses will file early to get the tax refunds.

We will be lending in the recovery based on the worst two years of the recession.

The 2009 returns will be filed early in 2010...

PLAN FOR TODAY:

MY GUIDELINE LEVEL RECOMMENDATIONS

#1 #2 #3 #4 #5



In small groups you discuss mine and add yours. Report back.

I cover specific Adds and Add-backs
I'll use the same slides I share with lenders

Q&A

WWW.LINDAKEITHCPA.COM/CUNA.HTM



I'll post Guideline Level Recommendations

All credit unions are welcome to this page.

Mine and Yours

#1

#2

#3

#4

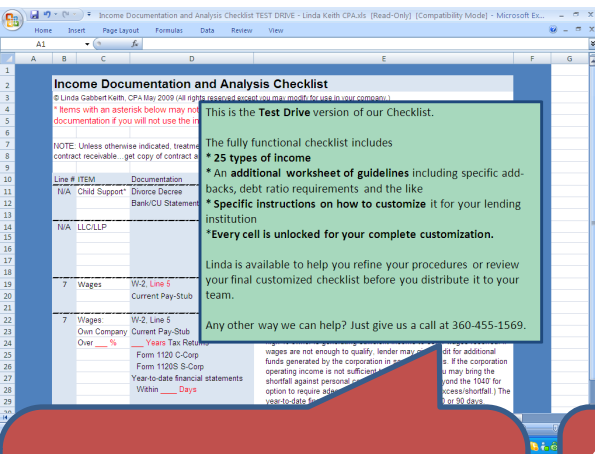
#5

#6

#7

#8

Free eCourse for your lenders



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

Quiz for your lenders

Ask Linda (I'll answer)

WWW.LINDAKEITHCPA.COM/CUNA.HTM

I'll post Guideline Level Recommendations

Mine and Yours

#1

#4

#6

#7

#8

Free eCourse for your lenders

Be sure to type in /Cuna.htm

The screenshot shows an Excel spreadsheet with the following content:

Line #	ITEM	Documentation
1	N/A	Child Support
2	N/A	Divorce Decree
3	N/A	Bank/CI Statement
4	N/A	LLC/LLP
5	7	Wages W-2, Line 5
6	7	Wages W-2, Line 5
7	Own Company	Current Pay-Stub
8	Over %	Years Tax Return
9		Form 1120 C-Corp
10		Form 1120S S-Corp
11		Year-to-date financial statements
12		Within Days

Text on the right side of the spreadsheet:

- This is the Test Drive
- * 25 types of income
- * An additional worksheet including specific add-backs, debt ratio requirements, etc.
- * Specific instructions on how to customize it for your lending institution
- * Every cell is unlocked for your complete customization.
- Linda is available to help you refine your procedures or review your final customized checklist before you distribute it to your team.
- Any other way we can help? Just give us a call at 360-455-1569.

Take our Tax Return Analysis Quiz online now



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

Quiz for your lenders

Ask Linda (I'll answer)

Not A SPEECH
A DIALOGUE
THE LATEST THOUGHTS
FROM ME, FROM YOU
AND PEOPLE LIKE YOU



Let me know
if you want a
speech. I
can do
those, too!



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.

Guideline Level Recommendation #2



Update your Guidelines Clearly Communicate them

Income Documentation and Analysis Checklist
 © Linda Gabbert Keith, CPA May 2009 (All rights reserved except you may modify for use in your company.)
 * Items with an asterisk below may not require documentation if you will not use the income.

NOTE: Unless otherwise indicated, treatment of contract receivable... get copy of contract and

Line #	ITEM	Documentation
N/A	Child Support*	Divorce Decree Bank/CU Statement
N/A	LLC/LLP	
7	Wages	W-2, Line 5 Current Pay-Stub
7	Wages: Own Company	W-2, Line 5 Current Pay-Stub
	Over ___ %	___ Years Tax Returns
		Form 1120 C-Corp Form 1120S S-Corp
		Year-to-date financial statements Within ___ Days

Documentation Checklist

This is the **Test Drive** version of our Checklist.

The fully functional checklist includes

- * **25 types of income**
- * An **additional worksheet of guidelines** including specific add-backs, debt ratio requirements and the like
- * **Specific instructions on how to customize** it for your lending institution
- * **Every cell is unlocked for your complete customization.**

Linda is available to help you refine your procedures on your final customized checklist before you distribute to your team.

Any other way we can help? Just give us a call at 360-425-1234

Available at the CUNA page on my website. I'll even spend up to one hour with you on the phone helping to make guideline decisions to customize it for your use.

25 Types of Income | Personal and Business

What if 2009 is the Upswing?

Balance Sheet

Assets

Cash
Marketable Securities

Accounts Receivable
Less Allowance for Bad Debts
Accounts Receivable, net

Liquidity

Quick Ratio
Current Ratio
Days Accounts Payable

Total Assets

Liabilities & Net Worth

Short Term Debt
Accounts Payable
Other Current Liabilities

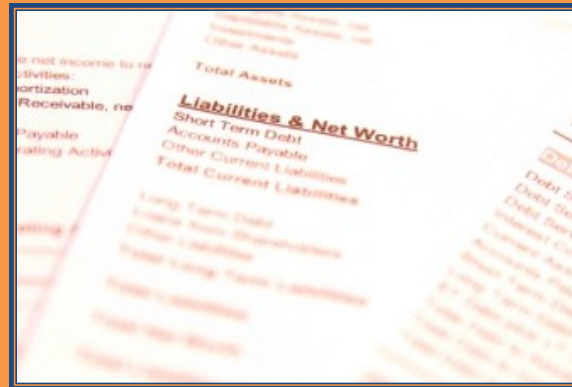
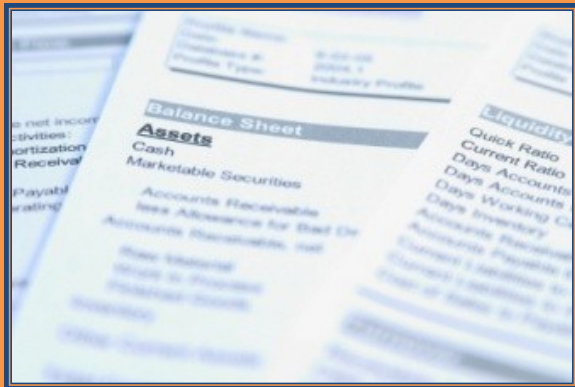
Liquidity

Quick Ratio
Current Ratio
Days Accounts Payable
Days Working Capital

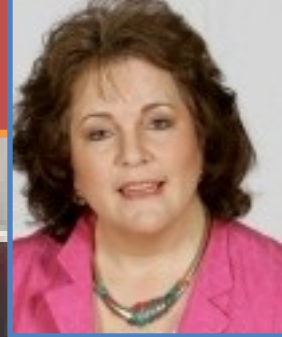
Marketable Securities

Accounts Receivable
Less Allowance for Bad Debts
Accounts Receivable, net

Guideline Level Recommendation #3



Include YTD Financial Statements in Analysis



DO YOUR LENDERS KNOW HOW TO READ FINANCIAL STATEMENTS?

How much do they need to know to obtain the financial statements and then consider them?

I am not suggesting all your lenders know all of what follows on the next slides.

To consider this guideline recommendation, you need to know what is involved.

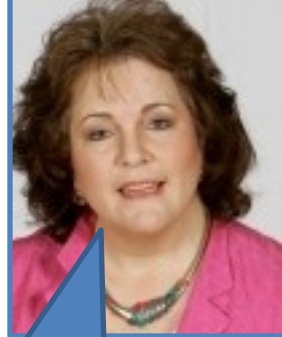
Balance Sheet

- Comparative
- Snap-shot

Assets = Liabilities + Capital, Equity,
Net Worth

Own = Owe + "Owner's Share"

Slides from full-day training on
Financial Statement Analysis:
Understanding the Business Scorecard



Lenders at least need to know the amounts on the balance sheet are not the 'value'.



Goodwill 35,000

Inventory 40,000

Equipment 25,000

Capital 30,000

Loans 70,000

Now it balances!



That goodwill is not necessarily good. That some assets are intangible. That small business owners do not know enough to write-down 'impaired' goodwill.



Retained Earnings

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



They need to know that even though 'Retained Earnings' sounds like profits the business kept, it isn't.



Income Statement

Comparative ~ Motion Picture

.....
Revenue - Costs = Profits

If costs go up and you want profits to hold...
you must increase revenue.

To push revenue up:

Increase price or volume



They need to know the three ways (and only three) that a business can improve their bottom line.



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?

Cash Basis

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

They need to know that cash basis tax returns and financial statements can be a legitimate reason that the tax returns “don’t show what I really made.”



Accrual Basis

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

Accrual basis is a better indicator, but most tax returns are not done this way.

And if the tax returns are cash basis and the same-year financial statements are accrual, your lenders need to know that is a legitimate reason for them to look different.





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



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

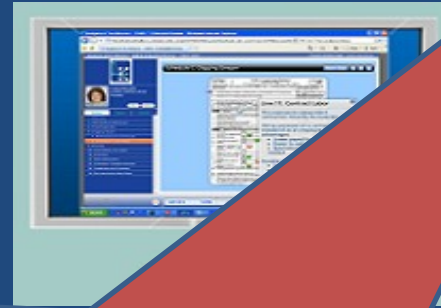
Require CPA Prepared Financials

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

Guideline Level Recommendation #5

Select Subject Matter Experts

Provide Advanced Training and Resources



Choose a level of training appropriate to all lenders who work with self-employed members.

Then choose 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 income sources we do not usually use (such as capital gains)

Provide Advanced Training and Resources



Who will do the training?

Not the CPA on your board or in town

Not (necessarily) your software provider

Not your most experienced lenders

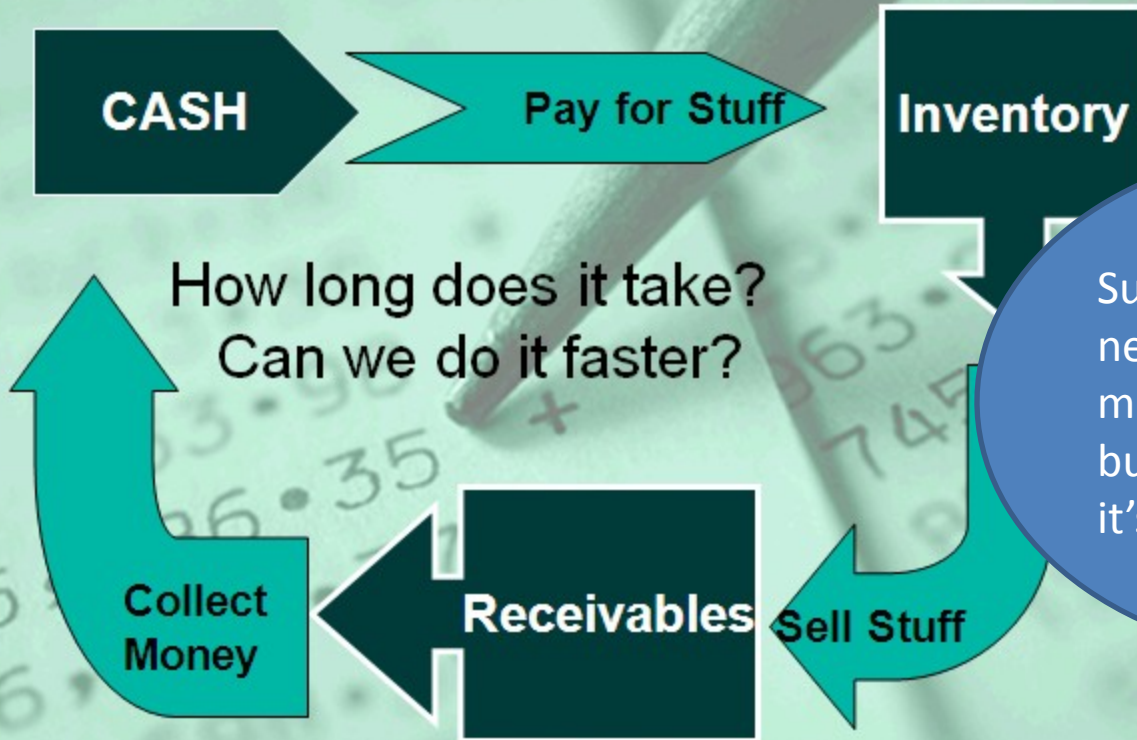
If you choose a **local CPA**, be sure they understand small business tax returns, lender needs, and how to develop and conduct training. **Most CPAs do not.**

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.

Experienced lenders are too busy and are not skilled in developing and conducting training.

Full disclosure: I am one of only 8 CPAs in the country who is also a Certified Speaking Professional and I would be happy to do your training, of course!

Operating Cycle



Subject matter experts need to understand more about how a business can maximize its cash availability.



Your selected Subject Matter Experts might also need to

- Understand ratios
- Understand percentage analysis



Some basic financial statement analysis training including trend and comparative analysis may be needed.



Small Group Discussion....

What do you think of these five ideas?

What other ideas should we consider?

Discuss and report back.



We spent about ten minutes in groups giving feedback on these ideas and coming up with more ideas.

[NOTE: CUNA Lending Council Conference is focused on opportunities for sharing what is working and getting ideas to implement. This small group time was very profitable.]

Your Turn





CU lenders attending my open-enrollment training on 'Tax Return Analysis in a Tough Lending Environment' have come to me at the end of the day saying this.

“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.)

Are you excited???

8:00 Registration

8:30 Program Begins



2008 Tax Forms



Tax Return Analysis Essentials and 1040 Review

Linda Gabbert Keith, CPA, CSP

EXPERIMENT WITH ME! This is the opening slide of my one-day training on **Tax Return Analysis: Essentials and 1040 Review**. In the live session I 'did' my opening and asked the attendees to imagine they were attending a full day.

Then I asked them (and I am asking you) to grab a pen and write down the very first thing that comes to mind when I say 'tax returns'. Do it now before you go to the next slide.



Tax Returns

These are real answers from real lenders...really!



- 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

One of the resources available free to your lenders at www.LindaKeithCPA.com/cuna.htm, this 15 minute on-demand/online eCourse covers the basics of Tax Return Analysis. Additional free and subscriber eCourses are at www.LendersOnlineTraining.com



Green Legos Six Ns and A Map to Tax Returns

www.LendersOnlineTraining.com

A guide to tax return analysis for lenders.

Lender's Online Tools and Training

Make more good loans.

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Say "Yes" to Good Loans...

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★ Visitors:

- Look for the 'stars' on the **eCourses** page to take **free** online courses and recommend to your colleagues.
- Review the **eChecklist** and **eWorksheet** pages for a 'test-drive' version and to learn more about those tools.
- Use the easy **sign-up** link on any page where you discover subscriber-only content you would like to purchase.

"A year ago 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 Bryant, First National Bank of Tennessee



Start your search ...

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

Try before you buy.



Take a free eCourse...
Test the eWorksheet...
Check the eChecklist...

Please log in

You are not currently logged in.

Username:

In the live session I demonstrated my 'Lego' model of a tax return.



Lego™ Approach



To Tax Return Analysis

To get to Historical Cashflow

START WITH TAXABLE INCOME...



The handouts with examples of each of these categories are on the CUNA page of my website.

Add

Add **nontaxed** income

N

Subtract **nondeducted** expenses

Add

Add back **noncash** expenses

Slide from free eCourse:

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

*To get to Recurring Cashflow
Start with historical cashflow...*



Add **new** income



Subtract **nonrecurring** income or
Add back **nonrecurring** expenses



Subtract **nondocumented** income
* **Document** income you usually leave out

Slide from free eCourse:

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

Look at all the additions to taxable income!



Add

Add

N

Add

Add

Add*

Which of these add and add-back opportunities are your lenders missing?



Financial Literacy for Youth 

Helping Lenders say "yes" to Good Loans!

Take a free test-drive of our new online training

Register now for tax return analysis worksh

Sign-up for our 'Lender Asks' monthly e

Lenders

Pull qualifying income and connect with your borrowers.

Lending Managers

Develop your team to deliver quality and quantity of loans.

Ask Linda

Loan Office

www.LindaKeithCPA.com

My website has many free resources, information on consulting and training, and ZIPPY THE PIG!

Zippy spearheads my push for financial literacy for youth, 'Pigs Can Fly'!

I post to the blog twice a week, answer questions from all lenders and have a site-wide search function. This website is a lender's first resource for answers on tax return and financial statement analysis.



training

lender's store

about

pigs can fly

blog

ask linda

contact



I really liked the road map format. It makes lots of sense.

Elizabeth Rodriguez
Consumer Loan Officer
StarOne CU



Self-employed Members in Rough Waters: How to say YES



A Presentation at the November 2009 Conference

Guideline Recommendations for Self-Employed Members

1. Use three year's tax returns
2. Include YTD Financial Statement in averages when appropriate
3. If using YTD Financial Statements, require CPA-prepared
4. Select subject matter experts for advanced training and resources

After the November 2009 presentation, I'll add additional guidelines recommended by the Chief Lending Officers and other lending management in attendance.



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 104

Drops in discretionary costs in this economic environment may be a good thing instead of a red flag. The business may be controlling costs better.

The other three continue to be red flags.





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

50



Digging for dollars has never meant 'make the loan no matter what'. But in this environment, to spot a good loan we may need to dig for dollars.



You may already have won!



Make More Loans!

In the live session we had a drawing for a free 250+ page manual. Think self-study, encyclopedia and dictionary rolled into one.

You did not miss out! You can purchase this and the companion manual on Business Returns at my website.



CUNA
Lending
COUNCIL

Questions?





SELF-EMPLOYED MEMBERS IN ROUGH WATERS **OR NOT**



Linda Keith CPA CSP

- www.LindaKeithCPA.com
- www.LendersOnlineTraining.com
- 360 866 1982

If they qualify ...Say Yes!