



# How a Bank Looks at Your Financial Statements

Christian Brim, CPA/ABV, CMA



## OUTLINE

- The Investment/Lending Continuum
- Common Elements to all Lenders
- How Lenders Differ
- Bank Structure and Regulation
- Underwriting Guidelines
- The Three C's of Credit
- Detail of Three C's

## Invest Continuum



## Common Elements

- Risk versus reward
- Expected rate of return
- Expected rate of default
- Lending Policies
- Underwriting

## How Lenders Differ

- Variance of Common Elements
- Time Horizon
- Risk Tolerance

## Bank Structure & Regulation

- FDIC
- Comptroller of the Currency
- Federal Reserve
- State Banking Department
- External/Internal Audit
- Bureau of Consumer Financial Protection



## Underwriting Guidelines

- Not Set in Stone**
- Sample 1: Car Loan**
  - Up to 100% of NADA loan value
  - 72 month term
  - Loan Payment not to exceed 20% of income
  - Credit Score of 650 or above
  - Rate based upon term and credit score
- Sample 2: Commercial Real Estate**
  - Up to 80% appraised value/purchase price
  - 5 year note with a 15 year amortization
  - Minimum debt coverage ratio of 1.10
  - Owner occupied preferred
  - Rate based upon term

# Three C's of Credit

## 01. Cash Flow

- Cash is King
- Historical Cash Flow
- Industry Averages

## 02. Collateral

- Secondary Repayment
- Valuation

## 03. Character

- Credit Score
- Leverage

### EXAMPLE 1

Cash flow from a Tax Return

Statement of Cash Flows	\$6,095,783
Add: Depreciation	\$680,972
Add: Interest	\$47,000
Add: Owner's Compensation	\$6,823,755

### EXAMPLE 2

Cash flow from a GAAP Financial Statement

Income from tax return	\$25,703
Add: Depreciation	\$8,762
Add: Interest	\$13,079
Add: Owner's Compensation	\$47,000
Net Cash Flow	\$43,768