**IOWA DIVISION OF BANKING**

**Cash Flow Analysis**

**A Credit Session proposal prepared for**



By

**Thomas Carlin, President, The Financial Training Group Ltd.**

MY UNDERSTANDING OF YOUR NEEDS

The Iowa Division of Banking has approximately 50 individuals many of them are either new hires or fairly new to their regulatory role (junior analysts) that need to be trained in the basics of cash flow. They will need these skills as they review loan portfolios at close to 300 banks throughout Iowa. Almost half of these banks are involved in Ag lending.

This cash flow training should focus on cash flow and repayment analysis in a variety of cash flow situations including, accrual based cash flow both direct and indirect, and cash flow from tax returns.

They should learn the key metrics that drive cash flow and also learn to detect early warning signs of deteriorating cash flows that would cause them to dig deeper into a credit.

RECOMMENDATION

I will develop a customized three day program. Participants will learn a systematic approach to reviewing a credit and discover the factors both internally and externally that impact cash flow. The program will be designed with case exercises to practice specific skills. The instructor will role-play the part of the banker who made the loan so participants will get a chance to see how a banker thinks about a business and the viability of their repayment sources.

The loans will be risk rated using a dual rating system. The participants will review the loan request and either agree or disagree with the lender’s rating.

Special attention will be given to Ag lending as this segment sometimes uses different ratios to evaluate a credit and will often underwrite land to market value.

Participants will be required to complete a pre-work assignment which they would bring to class with them. This would take about an hour to complete.

Participants will present their loan rating and their rationale for the rating at the conclusion of the class.

CUSTOMIZATION

I will tailor the materials to match the aims of the Iowa Division of Banking. The perspective on the class will be that of a regulator evaluating loan decisions made by a banker. They will learn the skills to thoroughly evaluate a loan and either agree or disagree with the rating assigned by the lender.

PARTICIPANT OBJECTIVES

Upon completion of the course, participants will be able to:

* Explain the 5C’s of credit.
* Explain the major accounts on the personal financial statement
* Analyze the major accounts on the Personal Financial Statement (PFS) for completeness and accuracy
* Calculate an adjusted net worth
* Use the Personal Financial Statement (PFS) to evaluate resources available to repay a loan
* Explain different corporate structures and tax returns including: C Corporations, S Corporations, Partnerships, and Sole Proprietorships
* Identify key accounts on the tax returns
* Develop questions to ask about the accounts on the tax returns
* Perform a simple cash flow on a tax return
* Determine the ability of a guarantor to support a loan
* How to skeptically review all of the major accounts in the balance sheet, income statement and statement of cash flows
* How to analyze trend in the major accounts
* How to analyze the company’s performance with ratios and address the implications for a firm’s future debt repayment ability
* How to analyze funds flow, cash flow, and net income
* How to mitigate the risks found in the numbers
* How to evaluate industry risk including strategic plans and market share
* The difference between traditional and modern cash flow analysis
* How to manually do a cash flow analysis
* The primary sources and uses of cash for a company
* The relationships between the cash flow statement and the balance sheet and income statement
* How changes in a company’s working capital may be affecting its cash flow
* How to assess a company’s ability to handle debt obligations
* How cash flow can affect loan structuring
* How to use a dual risk rating system Identify early warning signs of problem loans
* Recognize the causes of business failure and operating losses
* Lessons learned from the recession
* Explain the unique elements and options of problem real estate loans
* Identify collection devices such as judgment, levy, garnishment, and prejudgment remedies
* Describe the types of bankruptcy and hierarchy of claims

**SAMPLE AGENDA (TIMING OF EXERCISES IS ADJUSTED DURING CLASS BASED UPON PARTICIPANT EXPERIENCE LEVEL)**

**DAY 1**

**INTRODUCTION**

* Discuss the 5C’s of credit

**PERSONAL FINANCIAL STATEMENTS AND TAX RETURNS**

* Explain the major accounts on the personal financial statement
* Analyze the major accounts on the Personal Financial Statement (PFS) for completeness and accuracy
* Calculate an adjusted net worth
* Use the Personal Financial Statement (PFS) to evaluate resources available to repay a loan
* Explain different corporate structures and tax returns including: C Corporations, S Corporations, Partnerships, and Sole Proprietorships
* Identify key accounts on the tax returns
* Develop questions to ask about the accounts on the tax returns
* Perform a simple cash flow on a tax return
* Determine the ability of a guarantor to support a loan

**DAY 2**

**BUSINESS (COMMERCIAL AND AGRIGULTURE) FINANCIAL STATEMENT ANALYSIS**

* How to skeptically review all of the major accounts in the balance sheet, income statement and statement of cash flows
* How to analyze trend in the major accounts
* How to analyze the company’s performance with ratios and address the implications for a firm’s future debt repayment ability
* How to analyze funds flow, cash flow, and net income
* How to mitigate the risks found in the numbers
* How to evaluate industry risk including strategic plans and market share

**DAY 3**

**CASH FLOW ANALYSIS**

* The difference between traditional and modern cash flow analysis
* How to manually do a cash flow analysis
* The primary sources and uses of cash for a company
* The relationships between the cash flow statement and the balance sheet and income statement
* How changes in a company’s working capital may be affecting its cash flow
* How to assess a company’s ability to handle debt obligations
* How cash flow can affect loan structuring

**PROBLEM LOANS & FINAL PRESENTATION**

* Identify early warning signs of problem loans
* Recognize the causes of business failure and operating losses
* Lessons learned from the recession
* Explain the unique elements and options of problem real estate loans
* Identify collection devices such as judgment, levy, garnishment, and prejudgment remedies
* Describe the types of bankruptcy and hierarchy of claims
* Explain their risk rating recommendations.

PRICING

The daily teaching fee for the three day course is $5,000 per day x 3 = $15,000.

Travel expenses including airfare, hotels meals etc. are additional. They will be in alignment with state allowances.

I will provide one camera ready copy of the materials or an email based copy. There can be up to 25 participants in any class, extra participants would be billed on a pro-rata basis.

TRAINING DATES AND CANCELLATION

Training dates will be agreed upon in advance. There is a 50% cancellation fee if any of the class dates are cancelled after the contract is signed.

DATES

Please signify your agreement with the terms of this contract by signing the agreement and returning it to my attention. I will then sign the agreement and return it to you. A signed copy of the agreement can be emailed to [Tom@ThomasCarlin.com](mailto:Tom@ThomasCarlin.com)

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Shauna Russell Shields Thomas Carlin

Bank Bureau Chief President

Iowa Division of Banking The Financial Training Group Ltd.

200 East Grand Ave, Suite 300 1889 Palmer Avenue, Suite 1

Des Moines, IA  50309 Larchmont, NY 10538