MBA

MARYLAND BANKERS ASSOCIATION

Bank Credit

Mr. Tom Lofland

BANK CREDIT

SYLLABUS

THIRD YEAR 2024

INSTRUCTOR: Thomas W. Lofland

COURSE DESCRIPTION:

This course will cover the fundamentals of analyzing financial information of different types of commercial loan situations. Students will learn the basics of commercial lending from the application process to the loan approval process. The course will also cover the loan interview process, what financial information is necessary to make a commercial loan decision, how to prepare a loan presentation, the many different financial and non-financial attributes of different types of companies, and making a commercial loan request presentation before a loan committee.

The course concludes with groups of students making loan presentation and discussing loan situations before the class.

COURSE OBJECTIVES:

The student should come away with a basic understanding of the commercial loan credit process and should understand the importance of asset quality in today's banking environment. Various types of loan offerings will be understood by the student.

The Basic Objectives of the course will be as follows.

Loan Analysis
Loan Interview
Loan Structuring
Problem Loan Recognition
Guaranties
Legal Documentation
Cash Flow Analysis
Fair Lending

FORMAT:

Lecture and class discussion.

TIMELINE:

Day 1 – Review of financial analysis, ratio analysis and financial interpretation.

Day 2 – Class divided into groups and said groups will work on assigned commercial loan project.

Day 3 – Groups to make commercial loan presentations to class.

MARYLAND BANKING SCHOOL

THIRD YEAR CASE STUDY PROJECTS

2024

STUDENT GROUPINGS

Case One – Ethan's Auto	**Case Two – Home Care Plus, Inc.**	**Case Three – La Bodega**
Lacy Harkins	Alyssa Applebaum	Gene Spear
Lourdes Lopez	Scott Martin	Michael Pallansch
Brandi Rice	Justin Sherman	Drake Swiger
Diana Wigginton	Hermon Abdellas	Karen Bauswell
Erin Beatty	Eureka Herring	Erin Dieterich
Preeti Ghosh		Sonia Murphy

ETHAN'S AUTOS

Business Overview

Company:	Ethan's Auto
Annual Sales:	$7,384,000
Total Assets:	$697,000
Type of Business:	Used Automobile Dealer
Established:	2013
SIC Code:	5521
Legal Structure:	C Corporation

Background Information

Ethan Blake is the tennis pro at Hickory Hills Country Club. He is 44 and married with two children, ages 9 and 12. As he approached his 40th birthday, Ethan began to worry about how to support his family when he could no longer teach tennis. In 2013 he started a business on the side, a used car dealership of high-end luxury cars. Four of his acquaintances from the country club, members he had worked with for years, agreed to support him in this venture by guaranteeing the floor plan line for his inventory. These four individuals have never been involved in the business in any way. Ethan located a prime spot for the business and purchased the land by using all his available cash for the site and obtaining a mortgage from the seller.

Ethan sold used Mercedes, Saabs, Lexus, and similar luxury cars. Business was encouraging at first, but even though Ethan did not take an owner's draw, the lot did well to break even. In mid-2014 Ethan expanded his inventory to include lower-priced pre owned vehicles purchased at auction, but this strategy had tome troubling results. The inventory turn slowed considerably. Ethan realized his lot was not well located for the lower-end market, and the popular practice of leasing new vehicles for two years caused a considerable glut of quality low- and mid-priced pre-owned cares on the market. In 2015 Ethan cut prices on his entire inventory to generate much needed cash flow quickly. With the reduction in inventory, he began to feel some relief until he received his bank statement. Ethan was astounded at the amount outstanding on his floor plane line of credit.

Bank Relationship

While your bank does do some dealer floor plan financing, it do not normally finance used car dealers. You did, however, agree to give Ethan a $700,000 floor plan line because three of Ethan's four guarantors are clients of your bank's private banking department. When the line was first put into place in 2013, all four guarantors provided current financial statements and tax returns, showing substantial support for the credit. It has been difficult to maintain files on the guarantors, however. When you called for updated statements, one of the gentlemen impatiently explained that he had already provided a statement to his private banking account officer.

Since then, the private banking department has instructed you to go through them to obtain annual statements on their clients. Several months ago, you received statements on you bank's personal financial statement forms, but these were hastily completed updates of previous year's statements. You requested tax returns through the private banking account officer and were told that all three had filed for extensions. You finally received the tax returns, appended with every schedule imaginable and sent them to the credit department to have cash flows created. The fourth guarantor, the former vice chairman of a local company, lost his job and has relocated out of state. Repeated efforts to get him to mail you current financial information have not produced results.

When the line was first created, it was structured as a typical floor plan line, with the bank hold title to the cars in inventory. As each car was sold, the title was released as a specific pay-down on the line for that vehicle as received. This procedure became cumbersome because Ethan's luxury cars turned quickly, the purchasers were eager to obtain title, and Ethan did not have anyone on his staff to follow through on the paperwork. Because of the strong guarantors on the credit, you relaxed your requirements two years ago and no longer have physical possession of the title. Prior to making this procedural change, the bank met with the three guarantors and explained to them that the bank would maintain a first security interest in the inventory but no longer hold the titles. The guarantors executed new guaranty agreements that contained consent to impairment of collateral provision. You sent a new guaranty form to the fourth guarantor with a letter explaining the change, but he never signed or returned it.

Ethan called you this morning to verify the amount on his line. He couldn't believe he owed the amount on his monthly statement because he has recently sold so much of his inventory. The outstanding balance on his statement is correct. You have cause for concern since it appears that cars have been sold "out of trust" and you now regret relaxing the underwriting of the credit two years ago. You call the credit department and put a rush on the analysis of the tax returns of the three guarantors. They have almost completed the assignment when you were told there are some areas of concern you will want to know about.

You have scheduled a meeting with a representative of the workout department and with the account officer from the private banking department. How do you prepare for this meeting?

ETHAN'S AUTOS
Balance Sheet ($000s)
December 31

	YE/2017	**YE/2018**	**YE/2019**	**YE/2020**
ASSETS				
Current Assets				
Cash	13	14	10	20
Marketable Securities	0	0	0	0
Accounts Receivable (Net)	32	32	32	32
Inventory	375	382	721	562
Other Current Assets	0	0	0	0
Total Current Assets	420	428	763	614
FIXED ASSETS				
Property, Plant & Equipment	143	187	189	189
Accumulated Depreciation	(22)	(44)	(73)	(107)
Net Fixed Assets	121	143	116	82
Investments	0	0	0	0
Other Noncurrent Assets	1	1	1	1
Intangible	0	0	0	0
Total Assets	**542**	**572**	**880**	**697**
LIABILITIES				
Floor Plan Line – Bank	335	340	645	535
CPLTD	10	10	10	10
Accounts Payable	16	39	68	40
Accrued Expenses	12	4	0	0
Interest Payable	0	0	0	0
Dividends Payable	0	0	0	0
Taxes Payable	0	17	1	0
Other Current Liabilities	0	0	0	0
Total Current Liabilities	373	410	724	585
OTHER IABILITES				
Long term Debt #1	90	80	70	60
Deferred Taxes	0	0	0	0
Other Noncurrent Liabilities	0	0	0	0
Total Liabilities	463	490	794	645
STOCKHOLDERS'S EQUITY				
Common Stock	1	1	1	1
Capital Surplus	75	75	75	75
Retained Earnings	3	6	10	(24)
Total Stockholders' Equity	79	82	86	52
Total Liabilities & Equity	**542**	**572**	**880**	**697**

ETHAN'S AUTO
INCOME STATEMENT ($000s)
DECEMBER 31

	YE/2017	YE/2018	YE/2019	YE/2020
Net Sales	3,754	5,084	5,798	7,394
Cost of Goods Sold	3,415	4,640	5,275	6,842
Depreciation	22	22	29	34
Gross Profit	317	422	494	518
Operating Expenses	275	379	435	494
Operating Income	42	43	59	24
Interest Expenses	38	39	54	59
Miscellaneous Expenses	0	0	0	0
Miscellaneous Income	0	0	1	1
Net Profit Before Taxes	4	4	6	(34)
Income Tax Provision	1	1	2	0
Net Profit After Taxes	**3**	**3**	**4**	**(34)**
Dividends	0	0	0	0
Change In Retained Earnings	3	3	4	(34)
Adjustment to Equity	0	0	0	0
Change in Net Worth	3	3	4	(34)

ETHAN'S AUTOS
Cash Flow Statement ($000s)
December 31

	YE/2017	YE/2018	YE/2019	YE/2020
NET SALES	3,754	5,084	5,798	7,394
Change in Accounts Receivable	(32)	0	0	0
CASH FROM SALES	3,722	5,084	5,798	7,394
C0GS (Less noncash expenses)	(3,415)	(4,640)	(5,275)	(6,842)
Change In Inventory	(375)	(7)	(339)	159
Changes in Accounts Payable	16	23	29	(28)
CASH PRODUCTION COST	(3,774)	(4,624)	(5,585)	(6,711)
GROSS CASH PROFITS	(52)	460	213	683
SG&A (Less noncash expenses)	(275)	(379)	(435)	(494)
Changes in Prepaid Expenses				
Change in Accrued Expenses	0	0	0	0
CASH OPERATING EXPENSES	(263)	(387)	(439)	(494)
CASH AFTER OPERATIONS	(315)	73	(226)	189
Miscellaneous Income (Expenses)	0	0	1	1
Change In Other Noncurrent Assets	(1)	0	0	0
Change In Other Noncurrent Liabilities	0	0	0	0
Income Tax Provision	(1)	(1)	(2)	0
Change In Taxes Payable	0	17	(16)	(1)
MISCELLANEOUS INOME & TAXES PAID	(2)	16	(17)	0
NET CASH AFTER OPERATIONS	(317)	89	(243)	189
Interest (Existing Debt)	(38)	(39)	(54)	(59)
Dividends	0	0	0	0
TOTAL FINANCING COSTS	(38)	(39)	(54)	(59)
NET CASH INCOME	(355)	50	(297)	130
CPLTD	0	(10)	(10)	(10)
CASH BEFORE LONG-TERM USES	(355)	40	(307)	120
Capital Expenditures	(143)	(44)	(2)	0
FINANCING SUPPLUS REQUIREMENT	(498)	(4)	(309)	120
Change In Short-Term Debt	335	5	305	(110)
Change In Long-Term Debt	100	0	0	0
Change In Equity	76	0	0	0
TOTAL EXTERNAL FINANCING	511	5	305	(110)
CASH AFTER FUNDING	13	1	(4)	10
ACTUAL CHANGE IN CASH	13	1	(4)	10

ETHAN'S AUTOS
Notes to Financial Statements

1. **Basis of Accounting:** The Company reports net income on the accrual basis of accounting Whereby revenues are recognized when earned and expenses are recognized when incurred.

2. **Depreciation:** Fixed assets are stated on the basis of cost and depreciation is primarily calculated on the straight-line method.

3. **Income Taxes:** Current income tax provisions approximate taxes to be paid or refunded for the applicable period.

LA BODEGA

Business Overview

Company:	La Bodega
Annual Sales:	$4,536,187
Total Assets:	$648,356
Type of Business:	Independent Grocer
Established:	2013
SIC Code:	5411
Legal Structure:	C Corporation (Family Owned)

Background Information

L Bodega was established in 2013 by Julio Sanchez. In late 2011, Sanchez, a long –time active community member, began expressing concerns regarding the slow, yet constant, deterioration of the intercity neighborhood. Sanchez was quoted in the local press saying:

The continued erosion of the Intracity area results from the near mass exodus of such basic services as dry cleaners, Laundromats, grocery stores, shoe repair shops, and the like. This exodus, which is occurring at an ever-increasing rate, stems from the merchants' fear of a basic change in the demographic makeup of the Intracity area. Instead of getting to know their new neighbors, who essentially hard working immigrants, the merchants are simply leaving. The result is gaps (abandoned builds) in the cityscape. The long-term effect will be a continuous decline in the neighborhood's economic base. This development is clearly unacceptable to the people remaining, and it conflicts with basic premise of the founders of Intracity. The problem, however, is that the people who remain in Intracity do not have the political influence to stop the deterioration.

As a result of the efforts of Sanchez and other community activists, private and public sector support was rallied and La Bodega was established. In 2012, the town of Intracity sold to Sanchez an abandoned building containing a large storefront for the sum of $1.00. The town had foreclosed on the building for nonpayment of taxes. A local association of building managers assisted in the La Bodega project, while regional food wholesalers provided lines of credit for the purchase of inventory and lease financing for the needed refrigerated display units.

Sanchez is now ready to expand and refurbish the store and has asked his priest, Father Mendez, for help. Father Mendez is extremely well connected in the community and has been heavily involved in community-based economic development projects.

Bank Relationship

Your bank established "Your Community Development Corporation" (YCDC), a wholly owned subsidiary of the holding company, within the past nine months and hired you. The senior management of Your Bank has stated, "We are pleased and proud to announce the establishment of Your Community Development Corporation, which is the vehicle that will be aggressively used by Your Bank in the revitalization of the communities we serve and to achieve our community reinvestment goals and responsibilities". In a recent speech, the newly elected chairman of Your Bank stressed that active involvement in the low-to moderate-income communities is an integral component of the corporation's mission. Given the corporate importance of YCDC and its high level of visibility, the staff of Your Community Development Corporation has been handpicked by senior management.

Your Community Development Corporation has been established to provide a gamut of financial services including:

- Equity and debt investments in development projects and local business.
- Loans to community developers and small business.
- Technical assistance such as assisting local business owners with marketing needs assessment, and feasibility studies.
- Term loan and lines of credit to small business, ranging from $20,000 to $500,000, maximum term of seven years.

To date, YCDC has not made any loans or investments. Given the fanfare surrounding the opening, the pressure to achieve results is mounting. Nonetheless, everyone acknowledges that early losses at YCDC could adversely affect the corporate (parent) support it current enjoys.

The majority of staff time has been consumed with understanding the market and the key players. While this is an essential step in entering any new market, given the general lack of available information, it is extremely important within this market of microenterprises.

You have recently received information regarding La Bodega. The information package was forward to you by Father Mendez, who you recently met at a community function. Based on your brief meeting with Mendez, you know that his financial knowledge is extremely limited. However, owing to his incredible persistence, you have agreed to review the information on La Bodega and meet with Sanchez. Your gut is telling you beware. Father Mendez seems to be a very aware of the tremendous pressure you are under to show results (book loans and investments).

Sanchez is requesting a $175,000 term loan for six years at the market interest rate of (assume Prime +2.00%). This request is rather large given that the company is unknown to the management of Your Bank and the store is located in one of the most unsafe sections of Intracity.

LA BODEGA
Balance Sheet ($s)
December 31

	YE/2018	**YE/2019**	**YE/2020**
ASSETS			
Current Assets			
Cash	64,449	67,154	70,350
Marketable Securities	0	0	0
Accounts Receivable (Net)	23,589	24,226	18,642
Inventory	215,644	212,137	217,258
Other Current Assets	29,065	19,580	20, 089
Total Current Assets	322,747	323,097	326,339
FIXED ASSETS			
Property, Plant & Equipment	629,343	675,285	722,555
Accumulated Depreciation	(426,468)	(464,302)	(504,840)
Net Fixed Assets	202,875	210,983	217,715
Investments	0	0	0
Other Noncurrent Assets	76,560	84,215	92,638
Intangible	11,070	11,368	11,664
Total Assets	**613,252**	**629,663**	**648,356**
LIABILITIES			
Notes Payable Bank	27,605	74,802	84,694
CPLTD	28,200	28,200	28,200
Accounts Payable	134,777	138,350	145,468
Accrued Expenses	0	0	0
Interest Payable	0	0	0
Dividends Payable	0	0	0
Taxes Payable	3,075	3,158	3,240
Other Current Liabilities	0	0	0
Total Current Liabilities	249,817	302,916	322,345
OTHER IABILITES			
Long term	120,000	91,800	63,600
Deferred Taxes	644	690	739
Other Noncurrent Liabilities	17,400	17,400	17,400
Total Liabilities	**387,861**	**412,806**	**322,345**
STOCKHOLDERS'S EQUITY			
Common Stock	5,000	5,000	5,000
Capital Surplus	20,000	20,000	20,000
Retained Earnings	200,392	191,857	219,272
Total Stockholders' Equity	225,392	216,857	244,272
Total Liabilities & Equity	**613,253**	**629,663**	**648,356**

LA BODEGA
INCOME STATEMENT ($s)
DECEMBER 31

	YE/2018	**YE/2019**	**YE/2020**
Net Sales	4,305,000	4,431,235	4,536,187
Cost of Goods Sold	(3,279,582)	(3,366,517)	(3,447.791)
Depreciation	(35,268)	(37,834)	(40,537)
Gross Profit	**990,150**	**1,016,884**	**1,047,859**
Operating Expenses	(912,660)	(937,302)	(966,208)
Operating Income	77,490	79,582	81,651
Interest Expenses	(19,927)	(23,153)	(26,477)
Miscellaneous Expenses	0	0	0
Miscellaneous Income	0	0	0
Net Profit Before Taxes	**57,563**	**56,429**	**55,174**
Income Tax Provision	(19,571)	(19,186)	(18,759)
Net Profit After Taxes	**37,992**	**38,243**	**36,415**
Dividends	(7,000)	0	(9,000)
Change In Retained Earnings	30,992	37,243	27,415
Adjustment to Equity	0	(45,777)	0
Change in Net Worth	30,992	(8,534)	27,414

LA BODEGA
Cash Flow Statement ($s)
December 31

	YE/2018	YE/2019	YE/2020
NET SALES	4,305,000	4,421,235	4,536,187
Change in Accounts Receivable	2,211	(621)	5,584
CASH FROM SALES	4,307,221	4,420,598	4,541,771
C0GS (Less noncash expenses)	(3,279,582)	(3,366,517)	(3,447,791)
Change In Inventory	1,556	3,507	(5,121)
Changes in Accounts Payable	8,777	3,573	7,118
CASH PRODUCTION COST	(3,269,249)	(3,359,437)	(3,445,794)
GROSS CASH PROFITS	1,037,962	1,061,161	1,095,977
SG&A (Less noncash expenses)	(912,660)	(937,302)	(966,208)
Changes in Prepaid Expenses	0	0	0
Change in Accrued Expenses	0	0	0
CASH OPERATING EXPENSES	(912,660)	(937,302)	(966,208)
CASH AFTER OPERATIONS	**125,302**	**123,859**	**129,769**
Miscellaneous Income (Expenses)	0	0	0
Change In Other Current Assets	(465)	(515)	(509)
Change In Other Current Liabilities	2,160	2,246	2,337
Change In Other Noncurrent Assets	(6,960)	(7,655)	(8,423)
Change In other Noncurrent Liabilities	0	0	0
Income Tax Provision	(19,571)	(19,186)	(18,759)
Change In Taxes Payable	75	83	82
MISCELLANEOUS INOME & TAXES PAID	(24,717)	(24,981)	(25,223)
NET CASH AFTER OPERATIONS	100,585	98,878	104,546
Interest (Existing Debt)	(19,927)	(23,153)	(26,477)
Dividends	(7,000)	0	(9,000)
TOTAL FINANCING COSTS	(26,927)	(23,153)	(35,477)
NET CASH INCOME	73,658	76,725	69,069
CPLTD	(28,200)	(28,200)	(28,200)
CASH BEFORE LONG-TERM USES	46,458	47,525	40,869
Capital Expenditures	(42,543)	(45,942)	(47,269)
Change In Intangibles	(270)	(298)	(296)
Change In Long-Term Investments	0	0	0
FINANCING SUPPLUS REQUIREMENT	2,645	1,285	(6,696)
Change In Short-Term Debt	(595)	47,197	9,892
Change In Long-Term Debt	0	0	0
Change In Equity	0	(45,777)	0
TOTAL EXTERNAL FINANCING	(595)	1,420	9,892
CASH AFTER FUNDING	2,050	2,705	3,196
ACTUAL CHANGE IN CASH	2,050	2,705	3,196

LA BODEGA
FACT SHEET
December 31

	YE2018	**YE2019**	**YE2020**
Return On Equity	19.9%	17.2%	14.9%
Return On Sales	0.9%	0.8%	0.8%
Asset Turnover	7.02	7.02	7.00
Asset Leverage	2.72	2.90	2.65
Profitability			
Sales ($s)	4,305,000	4,421,235	4,536,187
Percentage Change	N/A	2.7%	2.6%
Cost Of Goods Sold/Sales	76.2%	76.1%	76.0%
Gross Profit Margin	23.0%	23.0%	23.0%
Operating Profit Margin	21.2%	21.2%	21.3%
Net Profit Before Taxes/	1.8%	1.8%	1.8%
/Net Profit Before Taxes	1.3%	1.3%	1.2%
Asset Efficiency			
Accounts Receivable Days On Hand	2	2	2
Inventory Days On Hand	24	23	23
Accounts Payable Days on Hand	15	15	15
Liquidity & Leverage			
Current Ratio	1.29	1.07	1.01
Quick Ratio	0.35	0.30	0.28
Coverage Ratio	0.83	0.78	0.81

LA BODEGA
Notes to Financial Statement

We have complied the accompany balance sheet of La Bodega as of December 31, 2020 , and the related statement of income, retained earnings, and changes in financial position for the year ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting, in the form of financial statements, information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance

1. **Basis of Accounting:** The Company reports net income on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

2. **Depreciation:** Fixed assets are stated on the basis of cost and depreciation is primarily calculated on the straight-line method.

3. **Income Taxes:** Current income tax provisions approximate taxes to be paid or refunded for the applicable period.

HOME CARE PLUS, INC.

Business Overview

Company:	Home Care Plus, Inc.
Annual Sales:	$4,430,000
Total Assets:	$1,145,000
Type of Business:	Home Health Care Agency
Established:	2013
SIC Code:	8082
Legal Structure:	C Corporation

Background Information

Home Care Plus, Inc. was founded in 2013 by Joan and John Carter as a successor company to the nurses' registry that Joan, a registered nurse, had been running for years. The Company leases office space in a suburban office building near the Carter's home. Home Care Plus has experienced the same double-digit annual growth rates that the rest of the home health care industry has been experiencing since the later 1980s. Home Care Plus provides services to the elderly and handicapped in their home. In addition, it provides in-home physical therapy and intravenous treatment and administers medications to the ill. The agency is licensed with the state and is certified to receive Medicare and Medicaid reimbursements. Home Care Plus contracts with two local hospitals that recommend this agency to patients being discharged in need of further treatment or care at home. Approximately 70% of net revenue each year comes from Medicare patients, and this percentage is projected continually increase.

Joan's niece, Brenda, works for the agency on the insurance side. Prior to accepting a new client, Brenda verifies insurance coverage. Brenda files Medicare claims electronically; Medicaid, blue Cross, Blue Shield and private insurance claims are submitted in paper form. Brenda is responsible for following up on any delinquent insurance claims, which are generally the result of a misunderstanding or error in filing. Brenda does a good job, and as a result, Home Care Plus has a respectable 3% Medicare denial rate (questions or changes to billings) and a 5% Medicare medical review rate (percent of billings that are reviewed as to documentation before Medicare pays, which delays reimbursement on that portion).

Joan Carter is the clinical administration of the agency, managing the nurses, licensed practical nurses, and home care aides that the company employs. John Carter is responsible for the marketing and business aspects, including the bank relationship.

Bank Relationship

Home Care Plus has banked with Sixth National Bank for the past four years. You moved to town a year ago and went to work for Third American Bank, a competitor of Sixth National Bank. Through civic and community work, you have gotten to know John Carter and you believe you could get him to move the Company's business to your bank. It was recently announced that Sixth National Bank is being acquired by an out-of-state bank, and you feel the time is ripe to approach John for the business. When you discuss your interest with you manager, you are told to stay away from the home health care industry. This shocks you, as you know it to be a rapidly growing, potentially high profitable segment of the health care industry. Your manager explains that Third American took a loss on a loan to Stay at Home, Inc., a home health care agency, three years ago and no one wants to go through that again. However, you feel that your knowledge of the industry would protect the bank from losses. You ask if you can review the file of the loan that went bad and make a case for how a loan to Home Care Plus would be a different story. Your manager agrees.

You review the file of Stay at Home, Inc. and discover the following:

The bank not only had a working capital line to the agency (to cover timing difference between weekly payroll for nurses and aides and monthly or longer collection of Medicare and insurance receivables), it also had a term loan to the agency, unusual since home health care companies rarely have any fixed assets.

While Stay at Home was a licensed agency in the state, it was not certified for Medicare and Medicaid Patients. The owner had intended to go after a different market, but they didn't realize that blue Cross, blue Shield, and some private insurers will not pay an agency that is not approved for Medicaid.

Stay at home was a closely held company, but its owners did not guarantee the debt.

Both Loans were secured by "all the assets of the company", primarily accounts receivable, but there was no advance ratio. Monthly aging's were not required.

John Carter has shared his financial statements with you and you know that home Care Plus has a substantial amount of Medicare business. You also know that home health care, like psychiatric care and rehabilitation, is still reimbursed by Medicare on a cost-plus basis that is a more desirable from of reimbursement that the type received by acute care and nursing homes.

You feel that third American's problems in lending to Stay at Home had to do with a lack of knowledge of the home health Care industry and improper underwriting for a growth service company. You would really like to get the home Care Plus business away from Sixth National Bank. You decide to study the financial statements (historical and projected) and develop a proposal that you can take to your manager for approval.

HOME CARE PLUS, INC.
Balance Sheet ($000s)
December 31

	YE/2018	YE/2019	YE/2020
ASSETS			
Current Assets			
Cash	74	139	151
Marketable Securities	0	0	0
Accounts Receivable (Net)	545	630	714
Inventory	33	38	41
Other Current Assets	30	34	37
Total Current Assets	682	841	943
FIXED ASSETS			
Property, Plant & Equipment	345	345	345
Accumulated Depreciation	(140)	(165)	(190)
Net Fixed Assets	205	180	155
Investments	0	0	0
Other Noncurrent Assets	38	44	47
Intangible	0	0	0
Total Assets	**925**	**1,065**	**1,145**
LIABILITIES			
Notes Payable Bank	389	437	470
CPLTD	0	0	0
Accounts Payable	107	124	133
Accrued Expenses	28	32	34
Interest Payable	0	0	0
Dividends Payable	0	0	0
Taxes Payable	0	0	0
Other Current Liabilities	12	14	15
Total Current Liabilities	527	607	652
OTHER IABILITES			
Long term	0	0	0
Deferred Taxes	0	0	0
Other Noncurrent Liabilities	30	34	37
Total Liabilities	557	641	689
STOCKHOLDERS'S EQUITY			
Common Stock	1	1	1
Capital Surplus	49	49	49
Retained Earnings	318	374	406
Total Stockholders' Equity	368	424	458
Total Liabilities & Equity	**925**	**1,065**	**1,145**

HOME CARE PLUS, INC.
INCOME STATEMENT ($000s)
DECEMBER 31

	YE/2018	**YE/2019**	**YE/2020**
Net Sales	3,425	3,850	4,430
Cost of Goods Sold	2,450	2,755	3,173
Depreciation	25	25	25
Gross Profit	950	1,070	1,232
Operating Expenses	715	805	926
Operating Income	235	265	306
Interest Expenses	27	30	35
Miscellaneous Expenses	0	0	0
Miscellaneous Income	10	10	13
Net Profit Before Taxes	218	245	284
Income Tax Provision	72	80	93
Net Profit After Taxes	**146**	**165**	**191**
Dividends	71	109	159
Change In Retained Earnings	75	56	32
Adjustment to Equity	0	0	0
Change in Net Worth	75	56	32

HOME CARE PLUS, INC.
Cash Flow Statement ($000s)
December 31

	YE/2019	YE/2020
NET SALES	3,850	4,430
Change in Accounts Receivable	(85)	(84)
CASH FROM SALES	3,765	4,346
C0GS (Less noncash expenses)	(2,756)	(3,173)
Change In Inventory	(5)	(3)
Changes in Accounts Payable	17	9
CASH PRODUCTION COST	(2,743)	(3,167)
GROSS CASH PROFITS	1,022	1,179
SG&A (Less noncash expenses)	(805)	(926)
Changes in Prepaid Expenses		
Change in Accrued Expenses	4	2
CASH OPERATING EXPENSES	(801)	(924)
CASH AFTER OPERATIONS	221	255
Miscellaneous Income (Expenses)	10	13
Change In Other Current Assets	(4)	(3)
Change In Other Current Liabilities	(2)	(1)
Change In Other Noncurrent Assets	(6)	(3)
Change In other Noncurrent Liabilities	(4)	(3)
Income Tax Provision	(80)	(93)
Change In Taxes Payable	0	0
MISCELLANEOUS INOME & TAXES PAID	(74)	(82)
NET CASH AFTER OPERATIONS	147	173
Interest (Existing Debt)	(30)	(35)
Dividends	(109)	(159)
TOTAL FINANCING COSTS	(139)	(194)
NET CASH INCOME	8	(21)
CPLTD	0	0
CASH BEFORE LONG-TERM USES	8	(21)
Capital Expenditures	(0)	(0)
FINANCING SUPPLUS REQUIREMENT	8	(21)
Change In Short-Term Debt	57	33
Change In Long-Term Debt	0	0
Change In Equity	0	0
TOTAL EXTERNAL FINANCING	57	33
CASH AFTER FUNDING	65	12
ACTUAL CHANGE IN CASH	65	12

HOME CARE PLUS, INC.
Notes to Financial Statements

1. **Basis of Accounting:** The Company reports net income on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

2. **Depreciation:** Fixed assets are stated on the basis of cost and depreciation is primarily calculated on the straight-line method.

3. **Income Taxes:** Current income tax provisions approximate taxes to be paid or refunded for the applicable period.