

READING

ISSUES WHEN COMMUNICATING FINANCIAL INFORMATION

Business bankers need to be aware of the following issues that frequently arise when writing about financial or quantitative information:

Using numerals or words for numbers—Various writing style books have different rules for whether you spell out the numbers as words or use the numerals. Some suggest spelling out numbers ten or lower, while others cut off at twelve because thirteen and fourteen seem awkward. Other rules dictate what to do at the start of a sentence, or when sharing financial data. A business banker should follow the style preferred by the bank, and for clarity within the loan package, be as consistent as possible.

No naked numbers—Where numerals are used, they should always be accompanied by the following:

\$	\$1,000	use commas
%	14.5%	one decimal point is usually enough
d	43d	days
x	1.75x	times, same as 1.75:1.00
M	25M	M = thousand (from Roman numerals)
bp	35 bp	basis points, same as 0.35%
sf	5,000 sf	square feet
< >	<\$1,000>	negative, prefer < > or () over

Keep comparisons parallel—In discussing financial trends, a business banker often will need to compare between time periods. To “spice up” an otherwise un-exciting memorandum, the temptation is to change the order around when making such lists or comparisons. The result usually confuses the readers and slows down the decision-making process. Consider the following examples:

- Mr. Jackson built three homes in 20xy, and in 20xz he built five
- Mr. Jackson built three homes in 20xy and increased to five homes in 20xz (*better*)
- Accounts receivable turnover was 43d at 12/31/20xy, and at 3/31/20xz it was 55d
- Accounts receivable turnover was 43d at 12/31/20xy, and 55d at 3/31/20xz (*better*)

While there is nothing wrong with the first sentence of both comparisons, the second sentence does a better job of allowing the reading to make the comparison.

Keep rounding consistent—The size of a loan request and magnitude of the financial data may warrant rounding of dollar amounts within both the loan request summary and the loan memorandum. A long-standing banking convention has been to use the Roman numeral “M” for thousands, then “MM” for millions. This can be confusing to bankers familiar with “K” for thousands (as used in many computer applications), and printed media usage of “M” for millions. A lender should use the style preferred by the bank, and also be careful to be consistent throughout the loan package, such as the following examples:

- Rental income for 20xy was \$1.05MM while net operating income was \$53M
- Rental income for 20xy was \$1,051M while net operating income was \$53M (*better*)
- Rental income for 20xy was \$1,051,000 while net operating income was \$53,000 (*takes the M/K confusion away*)

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Distinguish points in time versus periods of time—Some financial ratios compare dollar amounts as of a specific date, while others use amounts representing a year or some other period of time. In general, the various liquidity ratios (current ratios, etc.) and financial leverage ratios (debt-to-worth, etc.) are for a point in time or as of a specific balance sheet date. Profitability ratios (net profit margin, etc.) and debt service coverage ratios (interest coverage, etc.) using primarily income statement accounts involve a period of time. Efficiency ratios (accounts receivable turnover, etc.) use both balance sheet and income statement accounts and are usually treated as a point in time, such as the following example:

- Rental income for 12/31/20xy was \$1,051,000 (*Boy, what a day!*)
- Rental income for 20xy was \$1,051,000 (*better*)
- Rental income for FY 20xy was \$1,051,000. For the fiscal quarter ended 4/30/20xy, rental income was \$313,000. (*for an odd fiscal period, using “FY” for fiscal year*)

[For complete information about financial ratios, see Level 2 Course 3 in this curriculum.]

Efficiency and other ratios: clarify what is “good” and what is “bad”—For some ratios, a higher value can indicate improvement, while for others a lower value can indicate improvement. For example, in general, a higher current ratio indicates improved liquidity of the business. However, in general, lower leverage is an improvement. A business banker should try to use words like “improve” or “more/less efficient” when discussing many ratios.

Is a company an “it” or “them/their?”—Businesses are considered a singular entity, so in most cases “it” is the appropriate pronoun to use. However, management or employees can be called “them” or “they.” Many business bankers have their own style or preference on this issue, but regardless of style, it looks more professional to be consistent throughout the loan package.

Be careful using charts and tables—For emphasis, charts and tables can enhance a loan memorandum. However, if over-used, they can detract from the loan package. A business banker should keep the following points in mind when using charts and tables:

- Some software programs automatically left-justify cell contents within tables. If the cell contents are numbers, they are easier to analyze and digest when right-justified
- Show mathematical steps or link the elements with a letter code or asterisk. The reader should be able to follow the math
- Numbers should match or be directly extracted from attachments, if applicable
- Limit abbreviations with row or column labels, in order to avoid confusion
- For columns of data based on dates, show oldest column to the left, newest to the right. In accountant-prepared financial statements, such as audits and reviews, the format is reversed

Avoid “elevator” prose—This is perhaps the most common issue. Simply talking in terms of financial amounts and ratios “going up” or “going down” invokes visions of an elevator. The business banker’s job is to find out and discuss in the loan package the reasons for an increase and decrease, and to relate the various financial amounts and ratios to the qualitative factors you studied in Course 2.