# Activity Review

North Carolina State
Board of Certified Public
Accountant Examiners

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## Verifying Client Information for Lenders and Loan Brokers

Over the past few months, the Board has received numerous phone calls and e-mails from CPAs who have been asked by lenders and loan brokers to provide letters verifying that clients are self-employed, financially sound, profitable, creditworthy, or a combination of such attributes.

There is a strong temptation to comply, especially when the CPA is familiar with the finances of a long-term client who appears to be financially sound.

The CPA wants to help the client and is put in a very difficult position—he or she is told that the client will not qualify for a loan unless he or she provides a letter to confirm or verify certain types of information about the client.

Some lenders and brokers ask for a statement verifying the accuracy of the client's tax returns or verifying that any funds used from the client's business to make a down payment for a loan will not affect the business.

Some lenders and brokers go as far as providing a "canned" letter for the CPA to sign.

The motives behind the lender's requests are important to understand. The client wants to cooperate with the lender in order to get the loan approved, while the broker wants to make the client happy and earn a commission, neither of which will happen unless the loan is approved. The lender's motive, however, is not necessarily so simple.

Normally, when a lender grants a loan to a borrower, it relies on many factors to determine the advisability of extending credit to the borrower. These factors include, but are not limited to, assessing the creditworthiness of the customer, collateral, primary sources of repayment, as well as market conditions.

However, some lenders have been attempting to shift onto the CPA the burden of responsibility for assessing the information supplied by the borrower in the event the borrower defaults on the loan and the lender incurs a loss.

The CPA should be concerned about providing what is in effect an attest letter based on nonattest work. He or she may be providing a false sense of assurance to the lender or broker by complying with the request.

If the client defaults on the terms of the loan, the lender could argue that it relied on the CPA's letter (in lieu of other due diligence steps) and as a result suffered a loss. The CPA may then be at risk for a lawsuit.

Even an apparently harmless verification of client information, such as self-employment, carries much more risk than it appears to, especially if the CPA prepared tax returns based on information provided by the client without performing procedures to verify the information.

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The CPA should communicate to the client and the lender (if the client has authorized such communication) that although the CPA would like to comply with the lender's request, the services rendered in this situation were limited to the preparation of tax returns from the information that the client provided to the CPA.

Since the CPA has not audited, reviewed, or otherwise verified the information provided by the client, the CPA is not in a position to make any conclusions or assurances regarding the accuracy or completeness of the information, nor is the CPA able to forecast the future ability of the client to repay a loan.

However, if the client agrees, the CPA may offer to send a copy of the tax returns or client payroll records so that the lender may compare the records in its possession with the returns prepared by the CPA.

The bottom line is that the CPA should speak with his or her client, verify all information, review all applicable attest and assurance standards, and check with his or her professional liability insurance carrier before providing any information to a lender or loan broker.