



Principles of Commercial Lending School (PCLS)
Commercial Lending School (CLS)
Session Overview & Objectives

PRINCIPLES OF UNDERSTANDING BUSINESSES (PCLS)

OVERVIEW

This module begins with an overview of the business of banking, role and characteristics of lenders and a brief introduction to the elements of the loan evaluation process, which forms the foundation for the *Principles of Commercial Lending School* curriculum. The module then shifts to a review of the external environment in which businesses operate. Each type of business and industry has a unique mix of assets, liabilities, margins, asset utilization and financial leverage. It is essential that the lender understand these critical differences among businesses.

Key variables, which can be monitored, managed, and are sources and uses of cash, need to be identified for each type of business. The module examines how the typical business operates focusing on the operating, cash, fixed asset and profit cycles. The cash cycle demonstrates how financing needs arise, defines the source of repayment and appropriate loan structure to meet financing needs. After understanding the cash cycle, the life cycle and company strategy are discussed.

OBJECTIVES

- Identify the role of the bank and five types of risk assumed in commercial lending
- Explain the characteristics of a lender
- Explain the role of the lender
- Describe the loan evaluation process
- Describe the typical business environment
- Identify and explain the significance of the key variables
- Explain the concept of working assets
- Define and apply the concepts of the operating cycle, the cash cycle, the fixed-asset cycle, the profit cycle and the operation of a typical business
- Define net working capital and recognize its role in the typical business
- Use the operating, fixed-asset, profit and cash cycles to explain how financing requirements can arise in the typical business and define the appropriate source of repayment
- Explain how the life cycle affects companies, products, markets, industries and management
- Identify the three competitive strategies.

UNDERSTANDING BUSINESSES (CLS)

OVERVIEW

This module begins with an overview of the business of banking, role and characteristics of lenders and a brief introduction to the elements of the loan evaluation process, which forms the foundation for the *Commercial Lending School* curriculum. The module then shifts to a review of the external environment in which businesses operate. Each type of business and industry has a unique mix of assets, liabilities, margins, asset utilization and financial leverage. It is essential that the lender understand these critical differences among businesses.

Key variables, which can be monitored, managed, and are sources and uses of cash; need to be identified for each type of business. The module examines how the typical business operates focusing on the operating, cash, fixed asset and profit cycles. The cash cycle demonstrates how financing needs arise, defines the source of repayment and appropriate loan structure to meet financing needs. Each business has a competitive strategy. Competitive strategies include: price, product differentiation and product focus. Products are sent either to consumers or businesses.

OBJECTIVES

- Identify the role of the bank and five types of risk assumed in commercial lending,
- Explain the characteristics and role of the lender,
- Describe the typical business environment,
- Identify and explain the significance of the key variables,
- Explain the concept of working assets,
- Define and apply the concepts of the operating cycle, the cash cycle, the fixed-asset cycle, the profit cycle and the operation of a typical business,
- Define net working capital and recognize its role in the typical business,
- Use the operating, fixed-asset, profit and cash cycles to explain how financing requirements can arise in the typical business and define the appropriate source of repayment,
- Explain how the life cycle affects companies, products, markets, industries and management,
- Identify the three business strategies.

PRINCIPLES OF HISTORICAL FINANCIAL ANALYSIS (PCLS)

OVERVIEW

Unlike the first module, which covered the subjective aspects of financial analysis, this module considers the objective evaluation of a company's success in managing the key variables. Historical financial analysis is the primary tool used in this objective evaluation. Evaluating the

life cycle, company strategy, management team and tools available to monitor management conclude the module. This analysis includes comparative/common size, income statement/balance sheet, margin, ratio, cash flow, breakeven, and personal financial statement and tax return analysis. However, first the legal and organizational structures should be considered.

OBJECTIVES

- Identify various legal structures
- Explain the traits of good managers
- Describe the role of financial statements
- Explain how the life cycle affects companies, products, markets, industries and management
- Identify the three competitive strategies
- Define the types of financial statement opinions rendered by accountants
- Utilize five tools of historical analysis – comparative, common-size, ratio, cash flow and breakeven
- Explain breakeven analysis
- Evaluate a personal financial statement and cash flow and adjust net worth
- Apply the tools of historical analysis in a series of exercises/cases

HISTORICAL FINANCIAL ANALYSIS (CLS)

OVERVIEW

Unlike previous modules, which covered the subjective aspects of financial analysis, this module considers the objective evaluation of a company's success in managing the key variables. Historical financial analysis is the primary tool used in this objective evaluation. This analysis includes comparative/common size, income statement/balance sheet, cash flow, ratio, margin, breakeven, sustainable growth, personal financial statement and tax return analysis.

OBJECTIVES

- Describe the role of financial statements
- Define the types of financial statement opinions rendered by accountants
- Utilize five tools of historical analysis: comparative, common-size, cash flow, ratio, breakeven and sustainable growth
- Explain the concepts of breakeven and sustainable growth
- Evaluate a personal financial statement and cash flow and adjusted net worth
- Apply the tools of historical analysis in a series of exercises/cases

PRINCIPLES OF SENSITIVITY ANALYSIS (PCLS)

OVERVIEW

Sensitivity analysis focuses on quantification of the borrower's ability to make future payments based on past financial performance. This module first explores the concept by describing the information and tools needed to do a sensitivity analysis. It then explores in-depth tools of particular utility – proformas, projections and cash budgets.

OBJECTIVES

- Explain the purpose of sensitivity analysis
- Identify four keys to quality sensitivity analysis
- List information required to employ the tools of sensitivity analysis
- Distinguish between pro formas and projections
- Construct pro formas, projections and cash budgets
- Evaluate projections and cash budgets through the use of a case study

SENSITIVITY ANALYSIS (CLS)

OVERVIEW

Sensitivity analysis focuses on quantification of the borrower's ability to make future payments based on past financial performance. This module first explores the concept by describing the information and tools needed to do a sensitivity analysis. It then explores in-depth tools for projections.

OBJECTIVES

At the end of this module, you will be able to:

- Explain the purpose of sensitivity analysis
- Identify four keys to quality sensitivity analysis
- List information required to employ the tools of sensitivity analysis
- Construct a projections
- Evaluate a projection through the use of a case study

LOAN STRUCTURE, SUPPORT & DOCUMENTATION (PCLS & CLS)

OVERVIEW

Previous modules have focused on understanding the borrower's business and quantifying the borrower's willingness and ability to repay debt. Equally important is structuring the loan to assure that the amount of the loan is appropriate, primary and secondary sources of repayment have been identified and the term of the loan is reasonable. This module defines loan support and identifies those situations where loan support may be required. It then presents four elements of loan support: collateral, guaranty, loan agreement and subordination agreement.

This module also looks at the components of an effective credit administration process: a written loan policy, an asset quality rating system, a formal loan pricing system, an effective committee process, strong credit administration and loan review function, well-trained lending officers and a positive lending environment. When combined, these components result in a quality loan portfolio. The integration of all aspects of credit administration is termed credit discipline. An important element of credit administration is fair lending – assuring that individual lending decisions are made in a fair and unbiased manner.

OBJECTIVES

- Identify each of the elements of loan structure,
- Define the appropriate loan structure to meet the financing needs of a business,
- Explain the various SBA loan types,
- Define collateral and understand how to analyze, value, document, control and monitor it,
- Explain the unique elements of an asset based lending arrangement,
- Define a guaranty, identify various types of guaranties and explain its role,
- Define a loan agreement, explain its role, identify its basic components and describe its use,
- Define the role of a subordination agreement and explain its use,
- Define credit administration,
- Identify the components of effective credit management.

PROBLEM LOANS (PCLS & CLS)

OVERVIEW

Although problem loans are not always preventable, lenders can minimize losses from them with good underwriting, active monitoring, early problem loan identification and aggressive corrective action. This module both draws on earlier material and presents new information to show how problem loans can be identified and what can be done to curtail losses; from meeting with the borrower to managing a bankruptcy.

OBJECTIVES

- Define problem loans
- Identify the causes of problem loans
- Describe how to detect problem loans
- Describe the first steps in dealing with a problem loan
- Describe the elements of a successful meeting with a problem borrower
- Describe how to formulate a problem loan strategy and evaluate the alternatives
- Define the steps in implementing a problem loan strategy
- Understand key legal concepts of bankruptcy

CALLING, NEGOTIATING & SELLING (PCLS & CLS)

OVERVIEW

This module looks at the direct marketing of bank products and services through the sales call process. It first offers effective calling guidance from six different aspects called the 6 P's of Effective Calling. A pre-call strategy form is introduced. The module then identifies key factors that influence prospects in choosing a bank. Next, it covers persuasion and the steps of negotiation to reach a win-win outcome for both the bank and the prospect/customer. The module concludes by looking at the components of a successful call program.

OBJECTIVES

- Identify calling strategies such as professionalism, presentation and persuasion
- Define the negotiation process and identify the key elements of a successful negotiation
- Demonstrate the use of probes in the discovery process
- Recognize tactics used by prospects/customers and closing the negotiation
- Describe consultative selling
- Apply the key elements of a customer call through the use of a role play