



**School of Commercial Lending**  
**October 28-November 1, 2024**

**Curriculum**

**Assessing Borrower Financial Performance**

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 critical key variables. Historical financial analysis is the primary tool used in the objective evaluation. This analysis includes income statement/balance sheet (component), comparative/ common size, ratio and cash flow analysis. The module also addresses the analysis of personal financial statements and tax returns, as well as business tax returns.

**Identifying and Managing Problem Loans**

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 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

**Assessing Risk Facing the Borrower**

This module explores the risks impacting any business, including risks introduced by the economic environment, the borrower's industry and the borrower's market. The module begins with an overview of the risks introduced by the economic environment. The module reviews the role of business and competitive strategy and defines three basic types of competitive strategies — price, product differentiation and product focus. The module identifies the various factors influencing a company's choice of business strategy.

**Loan Structure and Support**

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 ensure 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. Although not a substitute for demonstrated ability to repay, loan support is useful in shoring up a loan that has a few potential weaknesses. 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.

**Effective Relationship Management**

This module focuses on developing and managing profitable customer relationships. The module opens with a discussion of the changing role of the lender. The elements of a value-added relationship are defined, with emphasis on how the lender can become a trusted adviser. The module then explores life cycle relationship management and effective customer calling. Profitably pricing relationships is often the hardest part of relationship management. The module outlines nine steps for more profitable relationship pricing. The module concludes with a discussion of negotiating skills to enhance the lender's ability to negotiate a fair relationship package for the borrower and the bank.

### **Projecting Future Performance**

Projections focus on quantifying 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 used to prepare proformas, projections and cash budgets. The module then focuses on stress testing key assumptions to determine the potential volatility in earnings and cash flow and the impact on the borrower's ability to repay debt.

### **Establishing Credit Discipline**

This module, the final one of the course, outlines a framework for establishing credit discipline in a bank. The module then reviews 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 functions, well-trained lending officers and a positive lending environment. When combined, these components result in a quality loan portfolio. The integration of all the aspects of credit administration is termed credit discipline.

### **Responsible Commercial Real Estate Lending**

Commercial real estate (CRE) lending, including financing owner occupied real estate, income property and acquisition/development/ construction, has been a significant source of loan volume and income for many banks. Unfortunately, this type of lending also has been a source of significant loan losses. This module will discuss responsibly financing the three broad types of commercial real estate property. The module will address information requirements, underwriting and monitoring these types of loans. The module also will focus on assessing environmental risks, appraisals and insurance.

### **Evaluating Management**

This module examines the management process. The emphasis is on evaluating the management team focusing on aspects of management, including skills, integrity and core competence. The module also discusses tools available to the lender to evaluate management and monitor management performance.

### **Understanding the Borrower's Business**

This module examines how the typical business operates focusing on the operating, fixed asset, profit, life and cash cycles. It identifies key variables that are critical to the success of the business. The module demonstrates how financing needs arise, defines the sources of repayment and appropriate loan structures to meet financing needs.

### **Foundational Concepts in Lending**

This module begins with an overview of the business of banking and the role of the lender. The module introduces risk appetite, risk tolerance, risk culture and the risks assumed in the loan portfolio. The module introduces the elements of the external environment and identifies key variables or things within the business that management can manage to mitigate the impact of the external environment.