

CALIFORNIA BANKERS ASSOCIATION

COMMERCIAL LENDING CURRICULUM

ACCOUNTING FOR LENDERS (2 DAYS)

The purpose of this course is to introduce the participant to the flow of accounting from identifying economic occurrences and how they are reported in financial statements. Our aim is to demonstrate how the Balance Sheet, Income Statement, Reconciliation of Net Worth and Cash Flow Statement are developed and connected to each other. Specifically, the course will cover:

- Underlying Assumptions Used by Accountants
- Rules of Debits and Credits
- Construction of the Balance Sheet, Income Statement, Reconciliation of Net Worth and the Statement of Cash Flow
- Difference between Accrual and Cash Basis Accounting
- Analysis of Accounts often used as Collateral such as:
 - Accounts Receivable (Aging Schedules, Allowance Calculations, etc)
 - Inventory (Effect of LIFO, FIFO and Average Cost Costing Methods)
 - Fixed Assets (Effect of varying Depreciation Methods)
- Analysis of the Notes to the Financial Statements
- Types of Financial Statements and meaning of CPA' Opinions

ANALYZING PERSONAL AND CORPORATE FINANCIAL STATEMENTS AND TAX RETURNS (2 DAYS)

This course will provide bankers (with the responsibility of examining personal and corporate financial statements and tax returns) a clear understanding of this type of financial source. The primary objective of having this required knowledge is to allow the banking analyst to determine the creditworthiness of current customers and prospects. We will start by identifying situations when personal financial statements and tax returns are required as opposed to a credit application and then move on to identify the quality of the financial information and making necessary adjustments to reflect the true status of the borrower's financial condition. This course will familiarize participants with fundamental analytical tools including shaping a mental picture of your borrower based upon their organizational structure; key financial ratios to consider, cash flow analysis and global cash flow analysis. Specifically, the course will cover:

- Knowing when to require personal financial statements
- Making required adjustments to personal financial statements for cooperative borrowers and belligerent borrowers during a problem loan situation
- Review of the personal and corporate financial statement and the major components
- Calculation of key ratios to determine liquidity, leverage, asset management, operations and cash flow
- Review of personal and corporate tax returns and how they relate to each other through a case study
- Review of key tax schedules including Schedules C, D, E, K-1 and others

CBA COMMERCIAL LENDING CURRICULUM

FUNDAMENTALS OF CREDIT ANALYSIS (2 DAYS)

The workshop takes key financial principles back to the basics to provide bankers with the tools they need to be conversationally competent when interacting with business clients and prospects. The key to producing high quality analysis is being able to understand the actions or inactions of your borrower's management team. We then must be able to ask the borrowers the "right" questions. The goal is to measure risk, develop loan structure, and the capacity to repay the loan. The loan officer/analyst must be able to communicate that information to loan committee and the customer. Ultimately, good bankers are able to provide value-added information that allows their borrowers to make better business decisions. Specifically, the course will cover:

- A review of key accounting concepts
- Identifying the business activities that cause the need for cash, the borrowing causes
- Ratio analysis
- Cash flow analysis
- Financial projections
- A better understanding of risk factors
- The ability to provide consulting services for your clients

COMMERCIAL LENDING 101: LOAN UNDERWRITING (5 DAYS)

Commercial and Industrial Lending has moved to the forefront for many banks. After years of extending loans to develop and support Commercial Real Estate; loan portfolios have become heavily concentrated in loans secured by Commercial Real Estate. Regulators are demanding banks to diversify their commercial loan portfolios to include more commercial and industrial loans thus lessening the impact of commercial real estate loan concentration. The purpose of this five-day Commercial Lending School is to provide participants with the fundamentals required to be successful in the Commercial Lending Process. This school will cover the major areas commercial loan officers must master in order to build a safe and sound loan portfolio.

- Review of Accounting Principles
- Review of Corporate Financial Statements & Corporate Tax Returns
- Credit & Ratio Analysis to Determine a Commercial Borrower's: Liquidity, Leverage, Asset Management Capabilities & Operating Performance
- Determining the Financial Impact on Cash Flow From Changing Asset Turnover Rates and from Changing Cost and Expense Margins
- Calculate the Asset Conversion Cycle to Determine When and How Much Funding a Commercial Borrower Will Require on a Short-Term Basis and When to Expect Payments on the Short Term Loans
- Analysis of Borrowing Causes to Determine the Proper Loan Structure Required to Insure Maximum Repayment Capability
- Calculation and Analysis of Cash Flow
- Developing Projections and Financial Forecasting
- Calculating the Sustainable Growth Rate to Determine How Fast Sales Can Grow Without Increasing Leverage Beyond a Safe Level
- Calculation and Interpretation of Global Cash Flow Analysis Utilizing a Self Employed Borrower with Interest in Various Entities
- Review the Commercial Loan Documentation Process
- Review of Credit Administration Issues
- Comprehensive Case Study & Group Presentation for a Corporate Borrower

CBA COMMERCIAL LENDING CURRICULUM

WRITING AN EFFECTIVE CREDIT MEMORANDUM (2 Days)

After a detailed credit analysis of a loan request, it is now time to communicate your findings in writing. Credit memoranda are a primary means of communications within the banking industry. In writing effective credit memoranda, it is not what you say that commands attention, but how you say it. Credit memoranda serve three functions: 1) they provide information on the condition and status of a customer relationship; 2) they provide a record of thoughts and actions and 3) they support or recommend action. The purpose of this course is to teach skills required to write an effective credit memorandum, which places emphasis upon factors or trends that are important without the need to state the obvious. This course will cover the following topics:

- How to plan and organize the credit memorandum
- How to reduce wordiness and make your memoranda visually appealing
- Review a credit memorandum outline and credit approval document preparation policy to determine what should be covered in a credit memorandum and how to say it.
- Review and interpretation of ratio analysis to enhance the ability to explain the meaning of these ratios in the credit memorandum
- How to explain the results of cash flow analysis to pinpoint the reasons why cash is diminishing or accumulating
- How to risk rate a loan
- Review a series of sample loan presentations that fail to meet the requirements of an acceptable credit memorandum
- Review a Series of Sample Loan Presentations for the Following Types of Loans:
 - Standard Commercial Real Estate Loan
 - Acquisition and Development Loan
 - Multi-family Building Loan
 - Office Building Loan
 - Shopping Center Loan
- Compose a Credit Memorandum for an Operating Company

COMMERCIAL REAL ESTATE LENDING & APPRAISALS (2 DAYS)

Most banks have reassessed their current exposures to risks from their CRE loans and are now looking to the future. They may have to improve the mechanics of their underwriting processes and revisit their current credit administration processes to make sure they are adequately identifying and monitoring the risks associated with the CRE loans they already have on the books. They also need to stay in tune with what the regulators at both the State and Federal levels are expecting.

The reality is that CRE lending opportunities will continue to represent one of the most significant portions of the overall lending activities for commercial banks in California going forward. If banks plan to continue to do new CRE loans, they have to follow a more comprehensive and systematic underwriting process. They will also have to make their CRE Credit Administration processes more proactive and anticipatory to stay in compliance with the enhanced due diligence efforts the examiners expect them to have integrated into their credit administration efforts.

This highly interactive training program is designed to provide participants with the ability to create a better risk management profile for their commercial real estate loans. We will cover:

- The current standards established by the regulators for obtaining and reviewing CRE appraisals.
- How to properly assess operating cash flow performance for a wide range of commercial real estate property types (Loans for Acquisition and Development, Construction, and the purchase of existing Commercial Real Estate)
- Methodologies for stratifying a CRE portfolio to help identify risk concentrations and aggregate credit risk exposure to any specific borrower.
- The unique risk management issues associated with participation interests in CRE loans from both the loan originator and participant points of view.

LOAN REVIEW & MANAGING PROBLEM LOANS (2 DAYS)

This course will develop the skills required to recognize and manage problem loans. Our focus will be on systems and processes that allow a bank to successfully manage the level of risk in its loan portfolio. This program makes extensive use of case studies and class discussions. We will also discuss the most effective bank management structure for managing problem loans. With the new bankruptcy reform comes many changes that will affect how we do business with bankrupt borrowers. The change in the law influences everything from the Automatic stay to Serial filings to Post petition financing. The style of this course is intense but fun. Topics to be covered include:

- Loan Review Process
 - Classification definitions
 - Risk rating your loan portfolio
 - The scope of the review process
- Adverse Regulatory Actions
 - MOUs
 - Agreements
 - C & D Orders
- Workout Guidelines And Strategies
 - Negotiation skills
 - Analysis of the banks risk position
 - Workout agreements
- Bankruptcy Rules
 - What are lenders rights?
 - Chapter 7, 11 and 13 provisions
 - Adequate protection provision
 - What are the major changes to the law?