

# ABA Commercial Lending Schools

Foundational School

April 28–May 3, 2019  
Southern Methodist University | Dallas, TX

Note: Content Subject to Change

## Financial Statement Analysis Workshop\*

\*requires separate registration

**Instructor:** Richard Hamm

Length: 11.25 hrs

### **Course Description:**

This two-day session\* is immediately prior to the ABA Commercial Lending Schools and ensures that participants have a basic understanding of financial statement analysis and cash flow analysis. It is intended as either a refresher course for bankers that may have been away from commercial lending for a period of time, or for those who may not have received formal credit training.

### **Course Objectives:**

Students will be able to:

- Describe and use basic financial ratios to establish the financial condition of a commercial business
- Determine the basis of accounting used and its effect on the financial statement or tax return
- Develop and analyze a cash flow model for a more complete picture of business cash flow

### **Summary of Course Content:**

#### **Introduction to Business Financial Statements**

- Identify financial statement analysis options and tools
- Describe the basic structures and purposes of financial statement components and their tax return equivalents
- Compare and contrast the three primary methods of accounting
- Explain key standards, limitations and alternatives within accrual accounting or generally accepted accounting principles (GAAP)
- Identify where other comprehensive bases of accounting (cash and income tax) are appropriate and not appropriate
- Identify various levels of accountant prepared financial statements (compilations, reviews and audits)

#### **How Business Financial Statements and Tax Returns are Constructed (Accounting Refresher)**

- Compare and contrast the cash basis and accrual basis of accounting
- Construct a balance sheet, income statement and statement of cash flows on the accrual basis for a business
- Construct a balance sheet, income statement and statement of cash flows on the cash basis for a business
- Construct a balance sheet (Schedule L), income statement and Schedule M-1 on the cash basis for same example business
- Compare and contrast the differences in all three presentations of the financial performance of a business (cash vs. accrual vs. cash/income tax basis)

#### **Ratio Analysis**

- Describe basic guidelines for classifying and spreading the data
- Identify the key components of a balance sheet
- Calculate liquidity and leverage ratios for an example business and interpret the results
- Identify situations with positive or negative working capital
- Identify the key components of an income statement
- Calculate profitability and traditional cash flow measures for an example business and interpret the results
- Calculate efficiency and debt coverage ratios for an example business and interpret the results
- Explain the use of industry and comparative data within financial analysis

#### **Cash Flow Analysis**

- Explain the limitations of ratio analysis and why cash flow analysis is needed
- Identify cash flow statements and models and their evolution

- Describe the two methods for a statement of cash flows (SCF): indirect and direct
- Construct an SCF on the indirect method for an example business
- Compare the formats of the banker-developed UCA cash flow model and the accountant-developed SCF
- Construct a UCA model for an example business and interpret the results
- Describe the advantages and disadvantages of the UCA and SCF
- Explain how the SCF and UCA results expand and assist in the overall financial analysis

\* The Financial Statement Analysis course requires separate registration to enroll.

## Banking, the Economy and Credit Outlook

**Instructor:** Scott MacDonald

Length: 2 hrs

### **Course Description:**

Is this economy going to ever fully recover from the great recession? When does the government exit from its monetary stimulus strategy? What extraordinary reshaping of the financial services industry is still to come? Get answers to questions like these and predictions of what's ahead from a noted economist.

### **Course Objectives:**

Students will be able to:

- Return to their bank with an improved understanding of what impacts the commercial loan market.
- Gather insight into the latest market and economic conditions impacting their business.

### **Summary of Course Content:**

#### **Economic Update**

- Latest market and economic changes
- GDP
- Unemployment

#### **Prices**

- Housing Market
- Mortgage Market

#### **Debt**

- Federal Debt Impacts
- Interest Rates & Monetary Policy

#### **Money Supply**

- Federal Reserves
- Federal Liabilities
- Risk

#### **Health of the Financial Industry**

- Credit Markets
- Liquidity

# The Importance of Cash Flow

**Instructor:** Scott MacDonald

Length: 5.25 hrs

## **Course Description:**

This course equips students with questions to ask to gather information related to the business and related industry of the borrower, the management quality of the company, the nature of the loan request and the quality of the data provided. Four critical steps to ensure diligent review are provided along with questions and issues that must be resolved at the onset of the loan request.

## **Course Objectives:**

Students will be able to:

- Effectively conduct an initial review of the loan request, implementing sound judgment.
- Ask appropriate questions, gathering information related to the requestor's likelihood of default or repayment.
- Complete all necessary steps in managing the loan process.

## **Summary of Course Content:**

### **Overview of Management & Operations**

- Information to gather
- Data quality

### **Spread the Financials**

- Compute common size
- Conduct performance ratios to assess risk

### **Ratio Analysis**

- Liquidity and activity ratios
- Leverage ratios
- Profitability ratios

### **Cash Flow Analysis**

- Sources of cash
- Cash flow statement
- Forms and definitions of cash flow

### **Pro forma Projections**

- What pro forma projections reveal
- Calculating pro forma projections

# Bank Loan Simulation and Debrief

**Instructors:** Scott MacDonald and Matthew Earl

Length: 10.5 hrs

## **Course Description:**

Bank Loan Simulation combines case studies of actual bank loans with commercial bank financial reports to create a decision-making environment similar to that faced by bankers. Join breakout groups with fellow students from different banks for bid sessions. Bid sessions meet various times during the School week for teams to prepare credit decisions and bid for dozens of loan applications. You experience, first-hand, the formation of a commercial credit

group and develop confidence in maintaining a solid credit culture in the face of potentially profitable but risky opportunities. Your bid sessions will be analyzed by instructors for lessons learned.

## Evaluating the Commercial Borrower's Business Strategy

**Instructor:** Kevin Nickodem

Length: 1.5 hrs

### **Course Description:**

In order to have a successful business all borrowers should have considered a business strategy. This course will focus on the understanding of key business strategies that a borrower should have in order to be successful. It will cover some critical areas where businesses typically can go wrong and cover such areas of industry considerations, understanding the business cycle and determining if your borrower has devoted sufficient time to understanding critical challenges that can impact their business strategy. The program will conclude with a discussion of the success rates of business and which ones lean toward higher risk lending.

### **Summary of Course Content:**

- Risk management
- Lessons learned
- Industry analysis (sources)
- Background information
- Borrower Analysis
- Non-Financial credit considerations
- SWOT Analysis
- Portfolio Analysis
- Opportunities

## Underwriting the Loan Request

**Instructor:** Kevin Nickodem

Length: 2.25 hrs

### **Course Description:**

This session focuses on the factors to consider when underwriting a credit loan request to a business client: Confirm or set the amount, term, pricing, collateral, guarantees, covenants and conditions to repay the loan based on the identified risks. Case studies are utilized to assist participants in identifying these risks.

### **Course Objectives:**

Students will be able to:

- Describe the major risks in a credit request and how to structure a loan to mitigate those risks
- Determine the proper size of a line of credit
- Identify the strengths and weaknesses of the collateral and guarantors

### **Summary of Course Content:**

#### **Risk Pyramid**

- Business risk
- Financial risk
- Structural risk
- Operational risk

### **Industry Issues**

- Current and future environment
- Management's strategy
- Understand the industry dynamics

### **Underwriting Cash Flow**

- Simple
- Global
- UCA

### **Collateral Evaluation**

- Lines of credit
- Equipment
- Real estate

### **Guarantor Evaluation**

- Where to focus
- Common errors

### **Structure & Pricing**

- Covenants
- Loan grading
- Understanding pricing factors

## **Developing the Credit Memo**

**Instructor:** Matthew Earl

Length: 1.5 hrs

### **Course Description:**

The course covers the critical elements of construction of a bank's credit memorandum typically associated with commercial lending. This will cover the details necessary in a formal loan presentation. It should provide a framework to allow the participant to either construct or make improvements to their own credit memo. The course will also not only cover the topics by section but include sound reason and rationale behind the recommendation.

### **Summary of Course Content:**

- Expectations
- Challenges
- Requirements
- Managing Risk

## **Influential Client Conversations**

**Instructor:** Vernon Roberts

Length: 1 hours

### **Course Description:**

Sometimes we need to share news that clients may consider "bad" or not meeting their needs. It is critical that we communicate this information in a way that the client understands that we have their best interest at heart. Not doing

this could damage our relationship with the client and we could lose their business. In this session we will discuss best practices in conversations that will help you make meaningful connections with clients and earn their trust.

### **Course Objectives:**

Students will be able to:

- Set proper expectation for a client's request
- Demonstrate to a client that they are truly listening
- Respond in a way that the client feels heard

### **Summary of Course Content**

- Preparing for a conversation
- Conversation Tools
- Crafting question that uncover needs

## **Specialized Lending: CRE**

**Instructor:** Richard Hamm

Length: 2 hrs

### **Course Description:**

Commercial real estate (CRE) loans continue to be a major portion of bank loan portfolios. Also, many borrowers continue to hold significant amounts of income-producing or rental real estate on their balance sheets. Whether directly financing these assets or including the income stream(s) in your overall credit analysis, it is important to understand key analytical concepts in evaluating real estate cash flow. And with the longer-term structure of these credits, it is important to use the updated cash flow analysis as part of ongoing loan monitoring and updating of collateral values – not in lieu of appraisals, but as interim and supplemental steps between formal valuations.

### **Course Objectives:**

Students will be able to:

- Identify the key variables involved in developing CRE cash flow
- Calculate (from a case study) net operating income (NOI) and cash flow available for debt service (CFADS) for an income-producing property
- Estimate property value using NOI and an estimated capitalization rate

### **Summary of Course Content:**

#### **CRE Cash Flow**

- Key variables, including an imputed management fee and replacement reserves
- How to determine historical and projected vacancy rates
- Where to find key information from tax returns
- Role of capitalization (cap) rates
- Transaction-level stress testing

#### **Key Risk Areas in CRE Lending**

- Overview of risks unique to CRE lending, such as refinancing risk, re-lease and rollover risk
- Differences between major property groups (apartments, office, retail, etc.)

## Presentation Skills for Lenders

**Instructor:** Vernon Roberts

Length: 2 hours

### **Course Description:**

We make formal and informal presentations to clients and peers all the time. The challenge is that we must cut through all the noise to be heard and understood. Failing to do this could hurt client satisfaction and how we are viewed internally. In this program we will cover the fundamentals of thinking clearly to create a strong message and speaking your message in a way that gets the intended results.

### **Course Objectives:**

Students will be able to:

- Craft a listener centric message
- Deliver a message that is clear and concise
- Utilize effective presentation skills in a presentation or conversation

### **Summary of Course Content**

- How to prepare for a presentation
- Building a presentation structure
- Delivering a presentation that is engaging

## An Introduction to Credit Risk Management: Credit Policy and Credit Culture

**Instructor:** Derrick Jackson

Length: 2.25 hrs

### **Course Description:**

This session will focus on industry “Best Practices” for asset quality controls. The initial control apparatus employed by banks is Loan Policy. Most loan policies focus on credit standards and procedures, while they should also encompass Credit Culture. Credit culture defines the rigor employed in the underwriting and loan approval process, as well as, the consistent identification and recognition of potential risk factors. The loan committee structure should be used to vet potential deals, in addition to the approval of specific credits. The risk rating system used must be confirmed by Loan Review and Regulatory examination. Another major consideration must be the Board of Directors. The Boards involvement includes Policy and loan approval and MIS for oversight and control.

### **Summary of Course Content:**

- Risk Rating Systems
- Concentration Risk Controls
- Loan Review (Internal & External)
- Board MIS

# Fundamentals of Asset Based Lending

**Instructor:** Phil Trammell

Length: 2 hrs

## **Course Description:**

Commercial borrowers depend on reliable access to cash for working capital. Secured working capital financing is as an attractive and sound credit product for banks to fuel commercial loan growth, particularly those that need to diversify away from a heavy dependence on real estate.

The market for working capital financing is extremely competitive. Furthermore, loans secured by working assets can be structurally complex, and oversight of asset based loans can be operationally demanding. The successful commercial lender must understand the fundamentals of asset based financing to properly communicate structural options and risks to borrowers and bank credit committees.

## **Course Objectives:**

Students will be able to:

- Differentiate between different types of secured working capital loan products
- Understand a borrowing base calculation and estimate a company's borrowing capacity
- Identify risks inherent in asset based loans and understand structural options to mitigate those risks
- Describe advantages and disadvantages of asset based loans from both a borrower and lender perspective

## **Summary of Course Content:**

### **Overview**

- Differentiate between working capital loan products
- Understand working capital loan collateral types and eligibility
- Calculate a borrowing base
- Understand and identify fraud, collateral, valuation, liquidation, and operational risks
- Understand lockbox, borrowing base, field exam, appraisal and reporting tools and how they can be incorporated into asset based loan structures
- Apply course objectives to typical asset based lending decisions using a case study

# Underwriting Case Study

**Instructor:** Matthew Earl

Length: 4 hrs

## **Course Description:**

This course will allow the participant to review an actual credit presentation and underwriting that a bank has previously done. During the program the class will perform a loan review analysis of the credit that would include underwriting observations, financial analysis and related portfolio management activities. Critical will be the evaluation of the credit from a grading aspect and making appropriate recommendations. Participants will divide into groups in order to work more efficiently. The wrap up following will effectively cover and emphasize topics covered during the week as a basis for discussion.

# Monitoring your Commercial Loan Portfolio

**Instructor:** Matthew Earl

Length: 2 hrs

## **Course Description:**

This course will cover portfolio risk management which is a critical requirement necessary to minimize loss exposure for a bank. Balancing business development and portfolio management is a necessary requirement in today's business banking world. Regulators expect banks to have a robust risk management process in place. As part of regulatory oversight they will be evaluating a bank and bankers' approach to credit risk management. The program will cover specific process and procedures items that are expected as part of portfolio risk management. It will also include some bench mark performance measurements in order to maintain good portfolio quality.

## **Summary of Course Content:**

- Managing Risk
- Risk Tolerance
- Credit Standards
- Regulatory Prospective
- Portfolio Management Tools
- Critical elements of effective risk management