

COMMERCIAL LENDING ESSENTIALS FOR CONSUMER AFFAIRS

Federal Reserve Board

Course Description
for
CLECA

Course Catalog Detail

COMMERCIAL LENDING ESSENTIALS FOR CONSUMER AFFAIRS

Type of Participant Targeted

The Commercial Lending Essentials for Consumer Affairs (CLECA) School is designed to be an optional training opportunity for consumer compliance examiners. The overall goal of the course is to familiarize learners with the basic techniques used to underwrite and price commercial loans.

- The ideal participant for this school is a learner who has recently attended the BaSE, Introduction to Consumer Compliance Examinations (CA I), and Real Estate Lending Examination Techniques (RELET) Schools. Since this course covers basic commercial lending concepts, it is **not** intended for individuals with strong commercial lending experience or a background in safety and soundness examination concepts.

Prerequisites

Participants should have:

- Completed the Examiner Orientation Program, the BaSE, CA I, and the RELET Schools.
- Completed the pre-course reading assignment, including review of the Sunshine State Bank Commercial Loan Policy, in order to ensure preparation for the development of articulated lending standards during the class.
- Completed the pre-course written assignment - Ratio Exercise. This assignment *takes approximately one hour to complete*.

Course Overview

This course provides learners with the fundamentals of commercial lending, beginning with the review of a fair lending scope memo that explains why commercial loans have been selected as a focal point for a fair lending examination. Actual commercial loan file information will be used by participants as they walk through the underwriting process. Small lectures will be interspersed with exercises, as participants learn how commercial real estate and agricultural loans were underwritten, priced, and structured. Participants will be given 10 case study loans to evaluate to decide if the bank would have approved or denied them based upon the loan policy and articulated lending standards that they have developed. Participants will be required to summarize their analysis in a Summary Memo, which the instructors will review; feedback will be provided to each group. The memos will be used in debriefing the entire class and in discussing how they can incorporate what they have learned into a fair lending examination.

There is no written test or formally assigned homework. Instead, the participant's understanding of the course material is demonstrated through the development of a case study summary memo.

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Course Objectives

After completing this 5-day course, the participant, at a minimum, will be able to complete the following objectives.

- Demonstrate a fundamental knowledge of small business lending that can be utilized in a fair lending examination
- Discuss how a bank underwrites, prices, and structures commercial loans
- Recognize the appropriate role of lender judgment in commercial lending as the lender applies the bank's underwriting standards

Post-Course Intervention

After completing the CLECA course, participants should be given on-the-job assignments that will allow application of the concepts and competencies covered in the class. Such on-the-job assignments include the following examples:

- Assist in an evaluation of a bank's commercial lending activities in a fair lending or CRA exam
- Conduct/participate in a discussion with bank commercial lending personnel
- Assess a bank's commercial lending efforts regarding several criteria

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Overview of Commercial Lending Essentials for Consumer Affairs Curriculum

| Subject | Approximate Class Hours | Homework Hours |
|---|------------------------------------|---------------------------|
| Introduction & Icebreaker | 1.00 | 1 |
| Fair Lending Scope | 1.50 | -- |
| Commercial Loan Policies | 1.50 | -- |
| Commercial Loan Decision Process | 7.50 | -- |
| Commercial Lending Law & Loan Documentation | 2.00 | -- |
| Real Estate Appraisals | 2.00 | -- |
| Loan Structure & Pricing | 2.00 | -- |
| An Overview of Agricultural Lending | 2.75 | -- |
| Bank Case Study | 10.75 | -- |
| Total | <u>31.00</u> | |

Learning Objectives

After completing each subject area, the participant, at a minimum, will be able to demonstrate the following skills and knowledge.

Course Introduction and Icebreaker

- Explain and apply the fundamental concepts and principles of commercial lending

Loan Documentation

- Identify documents that a bank will require a borrower to execute prior to making a loan to a privately owned business

Commercial Loan Decision Process and Loan Analysis

- Identify and analyze the purpose of the borrowing relationship
- Analyze business financial statements for strengths, weaknesses, cash flow, and repayment ability
- Review and compare RMA peer data
- Assess a borrower's management ability via the financial performance of the borrowing entity

Collateral and Security Interests

- State the different types of commercial collateral
- Discuss what a lender might need to do while considering the collateral
- Describe what happens when a borrower defaults on the loan

¹ Homework for this course consists of daily unfinished in-class exercises or case study work.

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Appraisals

- Determine appraisal requirements
- Discuss what is contained in an appraisal
- Describe how to review an appraisal
- Describe the relationship of an appraisal with the consumer affairs function

Loan Structure and Pricing

- Describe the structures of various types of commercial loans
- Determine the most appropriate loan product for a particular borrower in a particular situation
- Identify the factors considered and reflected in pricing loans

An Overview of Agricultural Lending

- Discuss the implications related to lending to sole proprietorships
- Compare and contrast the credit risks of crop production and livestock production loans versus commercial manufacturing loans
- Perform credit analysis of agricultural production loans from living sources
- Compare and contrast the credit risks of agricultural machinery and equipment loans to the credit risks of commercial machinery and equipment loans
- Analyze the financing structure of land loans

Class Size

The optimal class size for the CLECA School is 20 participants. To provide sufficient variety of interaction among class participants, the minimum class size is 15 participants. Because this course incorporates small group work to present some instructional material, sufficient instructors should be available to assist these small groups. Accordingly, to ensure a manageable instructor workload, and to maintain a reasonable participant-to-instructor ratio, the maximum class size is 25 participants.

Instructors

CLECA includes one lead instructor and three additional instructors with commercial lending/safety & soundness examination experience.