

Commercial Credit Mastery - Day 1

I. The History of Money and Banking

- A. Bartering
- B. Characteristics of Money
- C. Goldsmith Banking
- D. Money and the U.S. Constitution
- E. Central Banking and the Federal Reserve

II. The Business of Banking

- A. Why (internal and external) customer relationships matter
- B. Importance of identifying and managing risk
- C. Risks banks face: credit, market, regulatory, reputational, operational, cyber
- D. Managing risk
- E. Net interest income vs. fee income -- pros and cons
- F. Understanding a bank's financial statements
 - 1. A look at [Your Bank]'s income statement
 - 2. A look at [Your Bank]'s balance sheet
 - 3. Compare / contrast with an operating company

III. Why Businesses Borrow

- A. Working capital financing
- B. Real estate and capital expenditures
- C. Start-ups, buyouts, and financing losses

IV. The Art of Qualitative Underwriting

- A. Industry considerations
 - 1. Subsegments
 - 2. Expertise required for specialties
 - 3. Case study
- B. Life cycle stage of your borrower
 - 1. R&D and start-ups: higher risk
 - 2. Growth and its hazards
 - 3. Maturity
 - 4. Revenue decline
- C. Assessing quality of a management team
 - 1. Competence, experience, reputation
 - 2. Examples

V. Quantitative Underwriting: Revenues & Margins

- A. Four levels of quantitative analysis
- B. Measuring revenue growth
- C. Evaluating profit margins
- D. Return on Assets

VI. Quantitative Underwriting: Coverage & Capacity

- A. Understanding EBITDA
- B. Debt service and fixed charge ratios
- C. Sensitivity Analysis

Commercial Credit Mastery - Day 2

VII. Quantitative Underwriting: Liquidity

- A. Current and quick ratios: pros and cons
- B. Turnover ratios: pros and cons

VIII. Quantitative Underwriting: Leverage

- A. Measuring leverage
- B. Drivers of leverage
- C. Highly leveraged lending

IX. Loan Structuring: Facility Types & Pricing

- A. Types of Credit Facilities
 - 1. Lines of credit for working capital
 - 2. Term loans
 - 3. Bridge loans
 - 4. Letters of credit
 - 5. Multi-draw facilities
- B. Tenor and amortization
- C. How loan pricing really works
 - 1. Risk-based vs. market-based
 - 2. Indices and interest rate spreads

X. Loan Structuring: Collateral

- A. Importance of location
- B. Self-liquidating collateral
- C. Understanding FMV, OLV, and FLV
- D. Non-current assets as collateral
- E. Current Assets as collateral
 - 1. Recording bad debts
 - 2. Borrowing base formulas
 - 3. Collateral audits

XI. Loan Structuring: Guarantees & Covenants

- A. Personal guarantees
 - 1. Joint & several
 - 2. Full vs. limited
 - 3. Highlights importance of relationship
- B. Personal Financial Statements

- 1. Clarifies value of guarantee
- 2. PFS Template
- 3. Analyzing a PFS - example
- C. Loan covenants
 - 1. Not a source of repayment
 - 2. Enforceability
- XII. The Credit Approval Process
 - A. Courtship and the life of a loan
 - B. Selling the deal twice: bank and customer
 - C. Loan documentation
 - D. Drawing credit risk conclusions

Commercial Credit Mastery - Day 3

- XII. The Credit Approval Process (continued)
 - E. Fundamentals of Good Credit Writing
 - 1. Knowing your audience
 - 2. Writing with a purpose
 - 3. Ten tips for winning writing
 - 4. Effective credit presentations
- XIII. Loan and Portfolio Monitoring
 - A. Tools for monitoring existing loans
 - 1. Annual reviews
 - 2. Covenant compliance checks
 - 3. Appraisals and evaluations
 - A. Understanding "expected loss"
 - 1. Probability of default
 - 2. Loss given default
 - 3. Expected loss and CECL
 - B. Loan grading - regulatory definitions
 - 1. Classifications, Criticized, and Classified loans
 - 2. Risk ratings
 - C. Asset performance and loan loss provisions
 - D. A look at [Your Bank]'s provision expense and NPAs
- XIV. The Complex Lending Machine
 - A. Importance of internal relationships
 - B. Introduction to 12 key banking groups
 - C. The critical partnership between credit and lending
- XV. Fundamentals of Commercial Real Estate
 - A. Types of commercial properties

1. Owner-occupied
 2. New construction
 3. Investment
 - B. Simple CRE transactions
 - C. CRE appraisals & methods
 1. Cost
 2. Market
 3. Income: NOI and cap rates
 - D. Environmental issues: toxins, contaminants, wetlands, and floodplains
- XIV. Pro Tips for a Successful Career in Commercial Banking
- A. Understanding your role
 - B. Career paths
 - C. Traits of successful commercial bankers