

Pre-Session Activity #1

"ROLE OF FINANCIAL INSTITUTIONS AND COMMERCIAL CREDIT"

This pre-session activity relates to the first recording: "ROLE OF FINANCIAL INSTITUTIONS AND COMMERCIAL CREDIT".

Credit analysis involves the understanding of your borrower and the environment in which each borrower operates. Special focus is on what the future environment may be and its impact on the ability to do business. The first step in credit analysis is to understand the marketplace in which a borrower operates. A borrower's ability to repay will be a function of its response to marketplace factors. Accordingly, the starting point for generating an assessment of risk is to understand the marketplace in which your borrower(s) will be operating.

Prepare a document that will address the following:

- 1) ***Describe your institution's marketplace.*** What is your trade territory and what are the major marketplace drivers in your bank's marketplace; e.g. major industries or employers?
- 2) ***Identify the 2 or 3 key environmental influencers of your institution's marketplace.*** For example, how susceptible are the drivers to changes in the economy, demographics, competition, technology, regulation, etc.?
- 3) ***Anticipate the potential changes in your institution's marketplace during the next 1-3 years.*** Consider any key issues that will impact credit quality; e.g., the economy, regulation, demographics, competition, technology, labor, etc.
- 4) ***Using your anticipated changes prepare a list of the industries that you would expect to experience increasing opportunities and those you feel may generate more risk for your institution.***

For this activity, some resources to consider are: Personal Observation, Information from your Marketing Department, www.city-data.com or www.census.gov, Chamber of Commerce Website or State Website

You are encouraged to utilize any other resources you find beneficial. The intent of this activity is to become familiar with your marketplace and the resources available to monitor those marketplace factors on an ongoing basis.

There are no right or wrong answers to this activity.

Pre-Session Activity #2

"COMMERCIAL CREDIT RISK MANAGEMENT ISSUES/ACTIVITIES"

This activity relates to the second recording: "COMMERCIAL CREDIT RISK MANAGEMENT ISSUES/ACTIVITIES".

Using your marketplace information from activity #1, you are asked to develop an awareness of your institution's current/expected financial performance. For this activity you will need information regarding your institution's financial performance, especially as it relates to credit risk management. Primary sources for your use will be your institution's Annual Report and your institution's UBPR.

[You will be discussing your responses to this activity with other participants so ensure the information used is public information and not internally generated by your bank (be aware of confidentiality issues!).]

Your institution's Annual Report should be attainable directly from your bank.

For the UBPR, please visit the FDIC website, www.FDIC.gov and click on "Industry Analysis"/ Select "Bank Data and Statistics"/ Follow the instructions to obtain your institution's UBPR (Note: You will need your institution's Identifier Number).

Print your institution's UBPR and bring it to class (focus on pages 1, 2, 4, 6, 7, 7A, 7B, 8, 8A, 11, 11A, 11B, and 11C). For this activity you will need at least the past 3 year's data. *(You may want to do some peer analysis using the UBPR but that isn't required for this activity.)*

Using the data available, evaluate the results for the following accounts over at least the past three years:

- 1) Total Commercial Loans (C&I, Ag, CRE, Leasing, etc.)
- 2) Allowance for Loan and Lease Losses (ALLL/Reserves)
- 3) Non-Accrual
- 4) OREO
- 5) Provision
- 6) Non-Interest Income
- 7) Net Income
- 8) ROA
- 9) ROE
- 10) Leverage (ROA x ROE)
- 11) Capital (Tier 1)
- 12) Other key credit risk and/or income issues you feel are relevant to your institution's financial performance

Consider the following questions as they relate to the historical data noted in #1-12 above for your institution:

- 1) For any changes that occurred in these accounts, be prepared to discuss what caused the change(s).
- 2) What do you anticipate will be the results for these accounts for the remainder of 2016 and 2017?

Pre-Session Activity #3

"Making the Commercial Credit Decision"

This activity relates to the third recording: "Making the Commercial Credit Decision".

For most community banks the commercial portfolio will be a major source of profit—and risk! This activity will focus on your job of managing credit risk. Previously you have assessed the marketplace in which your institution operates and your financial performance. Credit risk isn't about the past but about the future. Your decisions today will impact the future financial performance of your institution. This future will be a result of how you manage those commercial credit decisions at the transaction level.

Prior to the start of the Institute please review your institution's Credit Policy and be prepared to discuss the guidance provided for:

- 1) Credit Priority (Quality, Profitability, or Growth)
- 2) Lines of Business/Credit Products
- 3) Lending Limit, House Limits, Concentration Limits, Lending Authority
- 4) Underwriting Criteria (Information Needed; Software Used; Action Taken by Analyst and/or Banker in assessing risk; etc.)
- 5) Structure Approach (Covenants, Collateral, Documentation, Pricing)
- 6) Risk Rating
- 7) Approval Process
- 8) Ongoing Monitoring Activities
- 9) Exception Management

All of these will manifest themselves in your institution's Credit Memo.

There are no right or wrong answers to this activity. Because today's credits will be repaid with tomorrow's cash we want you to be thinking about tomorrow and its impact on your future financial performance.

Also, bring a blank Credit Memo to the Institute for use in class.

Thank you for your attention to the pre-session activities.

Please bring your responses to the Institute as you will have group casework to share your thoughts with other class participants.