

ForsythTech at innovation quarter

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Commercial Credit Approval Process

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Commercial Relationship Officer

Introductions....

- Jim Tobin
- Commercial Relationship Manager
- 32 + years banking experience

Key Players in the Credit Approval Process

- Relationship Manager
 - Borrowers main point of contact
 - Financial institution sales person
 - Loans
 - Deposits

Key Players in the Credit Approval Process

- Credit Analyst
 - The number cruncher
 - Analyzes all financial data necessary
 - Business
 - Personal
 - Performs industry analysis
 - Recommends credit decision

Key Players in the Credit Approval Process

- Credit Officer
 - Has certain levels of authority to approve credit
 - Loan amount
 - Total credit exposure
 - Respective risk involved
 - Request may be large enough or present enough risk for co-approver with larger authority
 - Senior Credit Approver
 - Credit Committee
 - Re-reviews Credit Analysis
 - Issues loan approval with terms and conditions

How Loans are Made

- Relationship Manager identifies loan prospect
 - Has initial conversations with prospect regarding
 - Loan amount
 - Rate, terms, collateral
- Gathers information to analyze
 - 2-3 years of Business and Personal Tax Returns
 - Personal Financial Statement from all key players
 - Business Plan (if applicable)
- Provides information to Credit Analyst

How Loans are Made

- Credit Analyst completes narrative memo
 - Summary of request
 - High level review of request: loan amount, term, rate, collateral, guarantors, use of funds
 - Information about the borrower
 - Who are the principals, operating experience, company longevity and what they do
 - Industry research
 - Industry trends and analysis compared to prospect
 - Repayment analysis
 - Analysis of historical financial data, industry growth trends, proposed loan terms
 - Compute the Debt Service Coverage Ratio: free cash flow of prospect divided by proposed debt service
 - Borrower analysis
 - Explore financial statements with calculated critical ratios
 - Guarantor analysis
 - Generally analyzes individuals financial strength in terms of cash flow and liquidity in support of loan request
 - Relationship analysis
 - Analyzes any existing bank services

Final Credit/Loan Approval

- Usually 2-3 rounds of discussions between Credit Analyst, Relationship Manager and Credit Officer
- Term Sheets/commitment letters are issued
- Terms/conditions can be negotiated
- Commitment Letter executed by the Bank and Prospect
- Proceed to Closing

Know what lenders Look For

- 5 c's
 - Credit History
 - Capacity
 - Collateral
 - Capital
 - Conditions

Know what lenders look for

- Credit History

- The track record you have established while managing credit and making payments over time
- Credit reports include:
 - Names of lenders who have extended credit to you
 - Type of credit provided
 - Of course, your payment history
 - Generates a credit score between 300 and 850
 - Generally, the higher the score the better

Know what lenders look for

- Capacity (for individuals)
 - Lenders need to determine whether you can comfortably afford your payments.
 - Income and employment history are good indicators
 - All credit payments, including any proposed payments, are compared to your pre-tax and post-tax income
 - Computes your personal debt to income ratios
 - The lower the ratio the better

Know what lenders look for

- Collateral

- All loan types can be either secured or unsecured
- Secured loans are those will pledged assets to support a secondary source of repayment when the primary source fails.
- All collateral is evaluated and must also support the loan amount

Capital

- Represents savings, investments and other assets that help support loan repayment if the primary source of repayment fails
 - Savings
 - Certificate of Deposits
 - Brokerage Accounts
 - Cash Value of Life Insurance
 - To a lesser degree: retirement accounts

Conditions

- Purpose of the loan
 - Does it make sense?
 - Do the terms/conditions match the purpose?
- Economy
 - Industry trends
 - Recessions
- Environmental
 - Is the business feasible and how does the loan enhance its feasibility?