



Western Technical College

10114187 Lending Principles

Course Outcome Summary

Course Information

Description	Students learn about the control and management of credit and the underlying principles that govern lending decisions. Consumer, commercial, and real estate lending is the focus of this course. Students examine the lending decisions made by loan officers.
Career Cluster	Finance
Instructional Level	Associate Degree Courses
Total Credits	3
Total Hours	54

Textbooks

Commercial Lending: A Decision Tree Approach Part 2. 7th Edition. Copyright 2013. Publisher: American Bankers Association. **ISBN-13:**978-0-899-82682-0. Required.

Success Abilities

1. Refine Professionalism: Act Ethically
2. Refine Professionalism: Improve Critical Thinking
3. Refine Professionalism: Participate Collaboratively
4. Refine Professionalism: Practice Effective Communication

Program Outcomes

1. Create reports.
2. Analyze financial statements.
3. Analyze investments.
4. Apply financial laws and regulations.

5. Demonstrate an understanding of the role of financial institutions.
6. Create and analyze budgets.
7. Evaluate and sell financial products.

Course Competencies

1. Explore the business lending environment

Assessment Strategies

- 1.1. score at least 70% on a true/false and multiple choice exam
- 1.2. score at least 70% on a business risk rating exercise
- 1.3. score at least 70% on a loan loss reserve analysis exercise

Criteria

You will know you are successful when

- 1.1. you describe the personal characteristics of a successful business banker.
- 1.2. you describe of the professional skills of a successful business banker.
- 1.3. you know the competitors in the lending business.
- 1.4. you list the U.S. Government regulations that address lending.
- 1.5. you describe the responsibilities of a commercial lender.

Learning Objectives

- 1.a. Describe personal characteristics and professional skills needed to become a successful business banker
- 1.b. Summarize major legislative actions and regulations affecting business lending activities
- 1.c. Be aware of how alternative lending sources complement or compete with banks in providing loans to commercial borrowers
- 1.d. Identify local, national, and international economic factors that shape the financial environment in which business loans are made
- 1.e. Describe the objectives of depositors, borrowers, and lenders and explain how the lending process meets their needs.

2. Explain loan interviewing and the credit investigation process

Assessment Strategies

- 2.1. score at least 70% on a true/false and multiple choice exam
- 2.2. score at least 70% on a loan interview exercise
- 2.3. score at least 70% on a business development call exercise
- 2.4. score at least 70% on a 5 C's of lending exercise
- 2.5. score at least 70% on a stress test exercise

Criteria

You will know you are successful when

- 2.1. you know the four basic loan questions.
- 2.2. you identify the steps in the credit investigation process.
- 2.3. you explain the five C's of credit.
- 2.4. you list the typical types of information required for a loan request.

Learning Objectives

- 2.a. Explain why loan interviewing and credit investigation are necessary to the commercial loan process
- 2.b. Define the five C's of credit
- 2.c. Acknowledge how to question, listen to, and observe a client during a loan interview
- 2.d. Recognize the types of information the commercial loan officer must acquire during the various interviews
- 2.e. Identify useful materials generally available from a client when evaluating a loan request
- 2.f. Explain the importance of credit investigation and describe what it entails

3. Analyze financial statements, ratios, and cash flows

Assessment Strategies

- 3.1. score at least 70% on a true/false and multiple choice exam
- 3.2. score at least 70% on a loan presentation assignment

Criteria

You will know you are successful when

- 3.1. you list the five categories of financial ratios.
- 3.2. you calculate the various liquidity ratios.
- 3.3. you calculate the various leverage ratios.
- 3.4. you calculate the various coverage ratios.
- 3.5. you calculate the various activity ratios.
- 3.6. you calculate the various profitability ratios.
- 3.7. you identify the three sections of the statement of cash flows.
- 3.8. you identify the limitations of financial analysis
- 3.9. you list the four types of financial audits

Learning Objectives

- 3.a. Describe the uses and limitations of ratios in evaluating financial performance
- 3.b. Calculate and interpret liquidity, leverage, activity, profitability, and coverage ratios
- 3.c. Construct a cash flow statement
- 3.d. Explain operating, investing, and financial activities
- 3.e. Define the role and purpose of financial analysis in the commercial lending process
- 3.f. Describe the basic steps in the financial analysis process: obtaining, process, spreading and interpreting financial statements

4. Identify the structure of loans and loan support

Assessment Strategies

- 4.1. score at least 70% on a true/false and multiple choice exam
- 4.2. score at least 70% on a loan structure exercise

Criteria

You will know you are successful when

- 4.1. you consider the factors when determining if a loan should be secured or unsecured.
- 4.2. you list the types of short-term and long-term loans available.
- 4.3. you explain the purpose of a loan guarantee.
- 4.4. you list the four types of loan guarantees.

Learning Objectives

- 4.a. Explain the role and importance of loan structuring in the commercial lending process
- 4.b. Identify different borrowing arrangements and describe the advantages each offers to the borrower and the bank
- 4.c. Describe the features of unsecured, secured, and guaranteed loans
- 4.d. Explain how to value collateral
- 4.e. Explain how a loan agreement supports a commercial loan
- 4.f. Describe the issues to consider in pricing a commercial loan
- 4.g. Describe the process by which a bank rejects or approves a commercial loan request and informs the customer

5. Explain loan documentation and loan closing procedures

Assessment Strategies

- 5.1. score at least 70% on a true/false and multiple choice exam
- 5.2. score at least 70% on a loan covenants exercise

Criteria

You will know you are successful when

- 5.1. you list the steps to proper loan documentation.
- 5.2. you identify who has borrowing authority for a business.
- 5.3. you identify the various parts of a promissory note.
- 5.4. you identify the purpose of loan agreements.
- 5.5. you summarize the purpose of the Uniform Commercial Code (UCC) law.

- 5.6. you describe the process for obtaining a security interest for a secured loan.

Learning Objectives

- 5.a. Explain why loan documentation and closing are critical parts of the lending process
5.b. Define the purpose of the Uniform Commercial Code (UCC)
5.c. Explain how the UCC and federal and state statutes govern the documentation of collateral
5.d. Identify the documents commonly used in evidencing the authority to borrow, indebtedness, the terms and conditions of a loan, and collateral
5.e. Explain how a security interest in collateral is attached and perfected
5.f. Outline the steps in a loan closing

6. Define problem loans and how to deal with them

Assessment Strategies

- 6.1. score at least 70% on a true/false and multiple choice exam
6.2. score at least 70% on a small claims court assignment
6.3. score at least 70% on a problem loan case study

Criteria

You will know you are successful when

- 6.1. you identify some of the costs associated with problem loans.
6.2. you list several reasons for problem loans.
6.3. you identify several ways to resolve problem loans.
6.4. you list the emotional stages borrowers go through when dealing with problem loans .
6.5. you identify the four types of bankruptcy allowed by law.

Learning Objectives

- 6.a. Explain why problem loans are an inevitable part of commercial lending
6.b. Explain how commercial loan officer errors lead to problem loans
6.c. Recognize the role of the business banker in problem loan resolution
6.d. Describe some of the warning signs that indicate an impending problem loan
6.e. Review the measures that can be taken to resolve a problem loan to the satisfaction of the bank and the borrower
6.f. Recognize ways to rehabilitate or liquidate a borrower

7. Define the consumer credit market

Assessment Strategies

- 7.1. score at least 70% on a true/false and multiple choice exam
7.2. score at least 70% on a consumer credit exercise

Criteria

You will know you are successful when

- 7.1. you list several types of consumer credit.
7.2. you summarize how consumer credit has evolved to where it is today.
7.3. you describe the financial needs of consumers.
7.4. you explain the difference between closed-end loans and open-end loans

Learning Objectives

- 7.a. Define consumer credit and give examples of the types of credit products that are included in the definition
7.b. Discuss the relationship between consumer credit and retail banking
7.c. Explain the role of laws and regulations and their importance to the consumer credit market
7.d. Explain how socio-demographic trends affect the consumer credit market and demand for credit
7.e. Discuss the evolution of consumer credit in the United States and trace the development of current lending practices and attitudes
7.f. Explain the benefits that consumer credit offers financial institutions and consumers

8. Explore the key consumer credit regulations

Assessment Strategies

- 8.1. score at least 70% on a true/false and multiple choice exam
8.2. score at least 70% on consumer credit regulations assignment

Criteria

You will know you are successful when

- 8.1. you describe the two main reasons for consumer credit laws.
- 8.2. you identify the various banking regulators and who they are responsible for regulating.
- 8.3. you summarize some of the provisions of the Equal Credit Opportunity Act.
- 8.4. you summarize some of the provisions of the Truth in Lending Act.
- 8.5. you summarize some of the provisions of the Fair Credit Reporting Act.
- 8.6. you summarize some of the additional consumer credit regulations.

Learning Objectives

- 8.a. Discuss the primary focus of federal and state laws relating to consumer credit
- 8.b. List at least five key laws or regulations affecting consumer lending activities
- 8.c. List nine bases on which a provider of credit may not discriminate under the Equal Credit Opportunity Act
- 8.d. Describe the primary purpose of the Truth in Lending Act
- 8.e. Discuss the general requirements of the Community Reinvestment Act and cite the consequences of noncompliance

9. Explain the mortgage lending business

Assessment Strategies

- 9.1. score at least 70% on a true/false and multiple choice exam
- 9.2. score at least 70% on a mortgage ratio calculation exercise
- 9.3. score at least 70% on a real estate appraisal exercise

Criteria

You will know you are successful when

- 9.1. you comprehend the size of the U.S. mortgage market.
- 9.2. you track changes in the U.S. housing market.
- 9.3. you explain what a Mortgage Backed Security is.
- 9.4. you define an Adjustable Rate Mortgage.
- 9.5. you explain the purpose of a Real Estate Investment Trust (REIT).
- 9.6. you identify the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, Equal Credit Opportunity Act and the Truth in Lending Act
- 9.7. you explain loan underwriting

Learning Objectives

- 9.a. Discuss the history of mortgage lending
- 9.b. Describe the involvement of commercial banks in mortgage lending
- 9.c. Describe some of the sources of funds used in real estate lending
- 9.d. Describe the various types of mortgage instruments
- 9.e. List some of the adverse effects inflation can have on real estate credit and some of the methods real estate lenders use to deal with these effects
- 9.f. List several career opportunities available in the field of real estate lending
- 9.g. Outline the essential steps and requirements of credit underwriting and analysis for residential real estate loan applications

10. Describe the legal issues in real estate lending

Assessment Strategies

- 10.1. score at least 70% on a true/false and multiple choice exam
- 10.2. score at least 70% on a legal descriptions assignment

Criteria

You will know you are successful when

- 10.1. you identify the requirements for a promissory note to be legal.
- 10.2. you explain the difference between title theory and lien theory.
- 10.3. you explain the difference between a judicial foreclosure and a power of sale foreclosure.
- 10.4. you describe a mortgage loan deficiency is and identify who is responsible for it.

Learning Objectives

- 10.a. List the basic parts of the promissory note, including any special conditions that may be attached to repayment
- 10.b. Explain the different applications of a trust deed and a mortgage
- 10.c. Cite the basic procedures and requirements for a foreclosure proceeding for both mortgages and trust deeds
- 10.d. List the essential elements of a real estate loan agreement and explain their functions