FINC 4330: Commercial Bank Lending
Embedded Assessment Questions

Learning Objective Measured: Proficient Knowledge of Bank Operations

Chapter 1 – Commercial Lenders and Their Environment

1. In the US, most community banks create profits by
   a. borrowing from the government and lending to individuals
   b. borrowing from businesses and lending to the government
   c. borrowing from individuals and lending to businesses and individuals
   d. borrowing from individuals and lending to the government

2. What risk has the greatest potential to cut into community bank profits?
   a. interest rate fluctuations
   b. shrinking net interest margin
   c. loan losses
   d. investment banking losses

Chapter 2 – The Business of Banking

3. The risk that a borrower will not pay back a loan amount is called
   A. economic risk
   B. credit risk
   C. interest rate risk
   D. funding risk

4. A bank's interest income minus interest expense is called
   A. net interest income
   B. net income
   C. loan margin
   D. loan income

5. Adding to the provision for loan losses
   A. does not affect net income until a loan is charged off
   B. never affects net income since it is a non-cash expense
   C. reduces net income in the period the addition is made
   D. is a significant source of income for most banks

Chapter 3 – Types of Business Structures and Organizations

6. A firm's operating cycle begins with
   A. distribution of profits
   B. production of products
   C. capital infusion
   D. reinvestment of profits

7. Which of the following is usually *not* a loan request of a retailer?
   A. purchase permanent inventory
   B. carry accounts receivable
   C. fund leasehold improvements
   D. purchase seasonal inventory
   E. all of these are usual requests

Chapter 4 – Loan Interviewing, Credit Investigation, and Negotiation

8. The 5 C's of credit *do not* include which of the following
   A. **control**
   B. character
   C. capital
   D. conditions
   E. these are all included

9. A UCC filing
   A. provides a credit score for a company
   B. lists equipment pledged as collateral
   C. provides industry averages for several ratios
   D. all of the above

10. The loan process begins with
    A. calls to suppliers
    B. analyzing financial statements
    C. examining loan structure
    D. interviews with the potential client

Chapter 5 – Introduction to Financial Statements

11. What is meant by "spreading" financial statements?
    A. taking an average of several years of financial data rather than examining each year
    B. looking at trends of financial data over consecutive periods
    C. comparing different financial statements (such as income statement, balance sheet, and cash flows statement) for the same period
    D. examining the difference between interest income and interest expense for a bank.

12. What is the process of "common-sizing" a financial statement?
    A. expressing all figures in the same currency – the US dollar for example
    B. expressing all dollar figures in the same units – thousands of dollars for example
    C. expressing all figures as a percent of sales for an income statement or as a percent of assets for a balance sheet
    D. expressing all figures as a single average covering several periods

Chapter 6 – Income Statement Analysis

13. An income statement is most helpful to a banker when trying to determine a company's
    A. ability to repay a loan
    B. willingness to repay a loan
    C. collateral that may be needed to repay a loan
    D. B and C only

14. When comparing different companies' income statements, it is most important to *initially* match companies based on
    A. industry
    B. number of employees
    C. location
    D. size

15. Which of the following may be an indication of potential income problems in the near future?
    A. a shrinking profit margin
    B. an increase in accounts receivable as a percent of sales
    C. decreasing cost of goods sold as a percent of sales
    D. A and B only

Chapter 7 – Analyzing Balance Sheet and Personal Financial Statements

16. On a common sized balance sheet, all amounts are listed
    A. at market value
    B. as a percent of sales
    C. as a percent of total assets
    D. both a and b

17. A debt that is paid only after other debt with higher priority is called
    A. equity
    B. senior debt
    C. subordinated debt
    D. reserves

Chapter 8 – Analyzing Ratios and Cash Flow

18. Which group of ratios provides a measure owners' risk vs. debtors' risk?
    A. liquidity ratios
    B. leverage ratios
    C. activity ratios
    D. profitability ratios

19. Why is a cash flow statement important to a lender if he or she already has an income statement?
    A. some items on an income statement are not cash items
    B. some cash payments and receipts are not on the income statement
    C. cash is needed to pay back loans
    D. all of the above.

20. What is the primary difference between cash and accrual accounting
    A. in accrual accounting, a financial entry is made only when cash is paid or received
    B. in cash accounting, a financial entry is made when a good or service is bought or sold, regardless of when the cash is paid
    C. in cash accounting, a financial entry is made only when cash is paid or received
    D. none of the above is correct.

21. All else being equal, an increase in accounts receivable will be listed on a cash flow statement as
    A. a reduction to cash or use of cash
    B. an addition to cash or source of cash
    C. this will not be included on the cash flow statement

Chapter 9 – Structuring and Documenting Commercial Loans

22. Loan structure deals with
    A. loan term
    B. loan amount
    C. interest rate
    D. collateral
    E. all of these

23. Which of the following is usually *not* a short term loan
    A. equipment purchase
    B. line of credit
    C. special commitment
    D. working capital loan

24. Which of the following is best described as a guarantee by a bank to pay for goods or services to be purchased at a future date?
    A. revolving line of credit
    B. commercial paper
    C. letter of credit
    D. term lease

Chapter 10 – Problems Loans

25. The costs of problem loans include
    A. damaged reputation
    B. increased administrative expense
    C. increased regulatory and legal expense
    D. all of the above

26. This type of bankruptcy leads to the liquidation of all assets and distributing the cash collected to creditors
    A. Chapter 7
    B. Chapter 11
    C. Chapter 12
    D. Chapter 13