FINC 4330: Commercial Bank Lending

Embedded Assessment Questions

Learning Objective Measured: Proficient Knowledge of Bank Operations

Income statement Analysis

1. 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

2. 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

3. 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

Balance Sheet Analysis

4. 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

5. 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 1 – Historical Statement Analysis

6. 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.

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

Chapter 3: Leverage

8. Higher amounts of leverage in a firm often lead to
   A. increased risk and higher ROE
   B. decreased risk and lower ROE
   C. increased risk and lower ROE
   D. decreased risk and higher ROE

9. Current assets are often financed with
   A. permanent capital loans
   B. seasonal lines of credit
   C. working capital loan
   D. all of the above

Chapter 4: The Elements of the Analysis

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

11. The process of breaking down the financing requirement into the four types of loans, then analyzing, documenting, pricing, and monitoring each type accordingly is called
    A. compliance
    B. loan structure
    C. loan review
    D. loan interview

12. Most losses on loans can be attributed to which of the following factors?
    A. changes in the borrower's market
    B. borrower's management failure
    C. increasing interest rates
    D. financial structure of the borrower

13. A borrower's environment includes
    A. market, industry, and exogenous influences
    B. liquidity, leverage, and cash flow
    C. management depth, ability, and character
    D. all of the above

Chapter 5 – Cash Flow

14. 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.

15. 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.

16. 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 6: Loan Structuring

17. The first step in the loan process is to
    A. analyze financial statements
    B. call suppliers and creditors
    C. determine structure
    D. interview the client

18. The maturity on a seasonal loan should usually be set to correspond with
    A. when the line has its largest balance
    B. the low point in borrowing needs
    C. December 31

19. The purchase of equipment, office furniture, and other fixed assets are usually financed with this type of loan
    A. seasonal loan
    B. term loan
    C. bridge loan
    D. permanent capital loan

20. This type of loan is used as short-term financing until some specific event occurs that repays the loan
    A. seasonal loan
    B. term loan
    C. bridge loan
    D. permanent capital loan

<u>Chapter 7: Covenants and Monitoring</u>

21. Which of the following is NOT a characteristic of an effective loan covenant
    A. detects borrower deterioration before payment failure occurs
    B. prevents the borrower from growing
    C. deters deterioration while the borrower is still attractive to another lender
    D. allows the bank to renegotiation the rate, collateral, and terms if risk changes