

FUNDAMENTALS OF C&I AND BALANCE SHEET LENDING

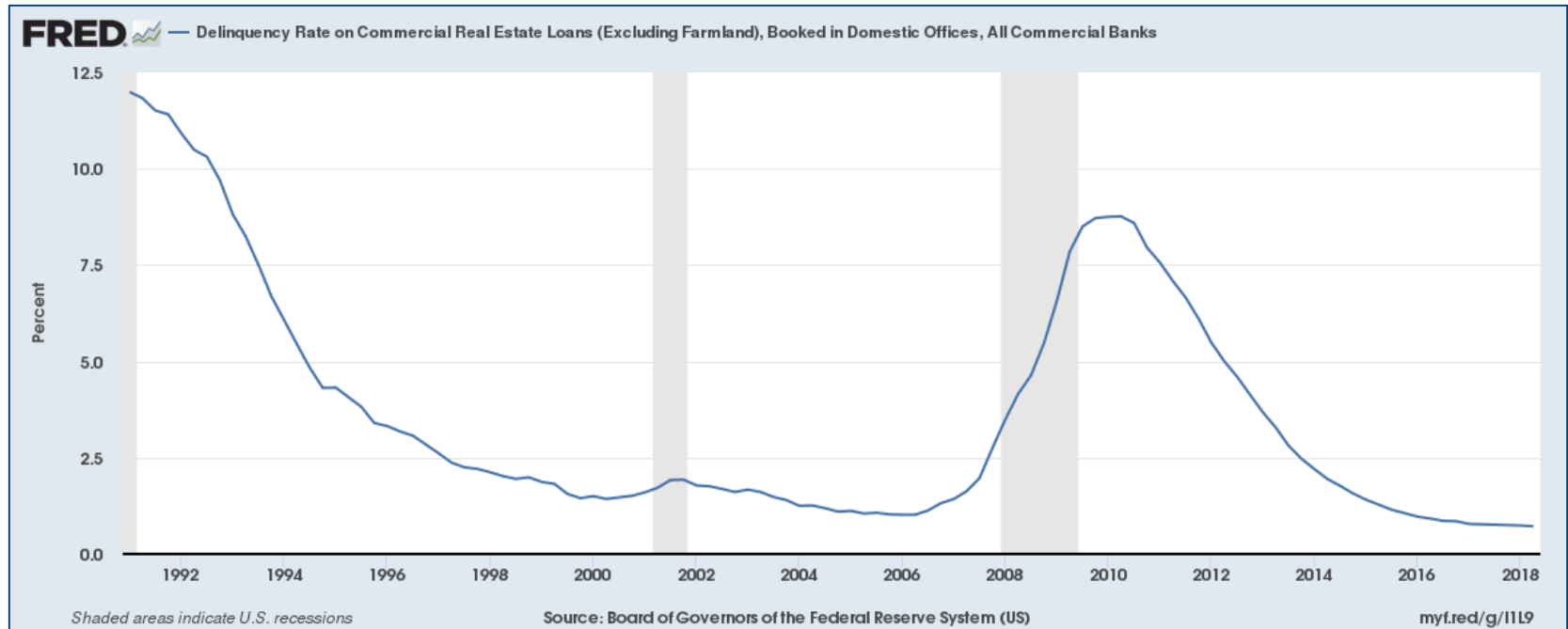
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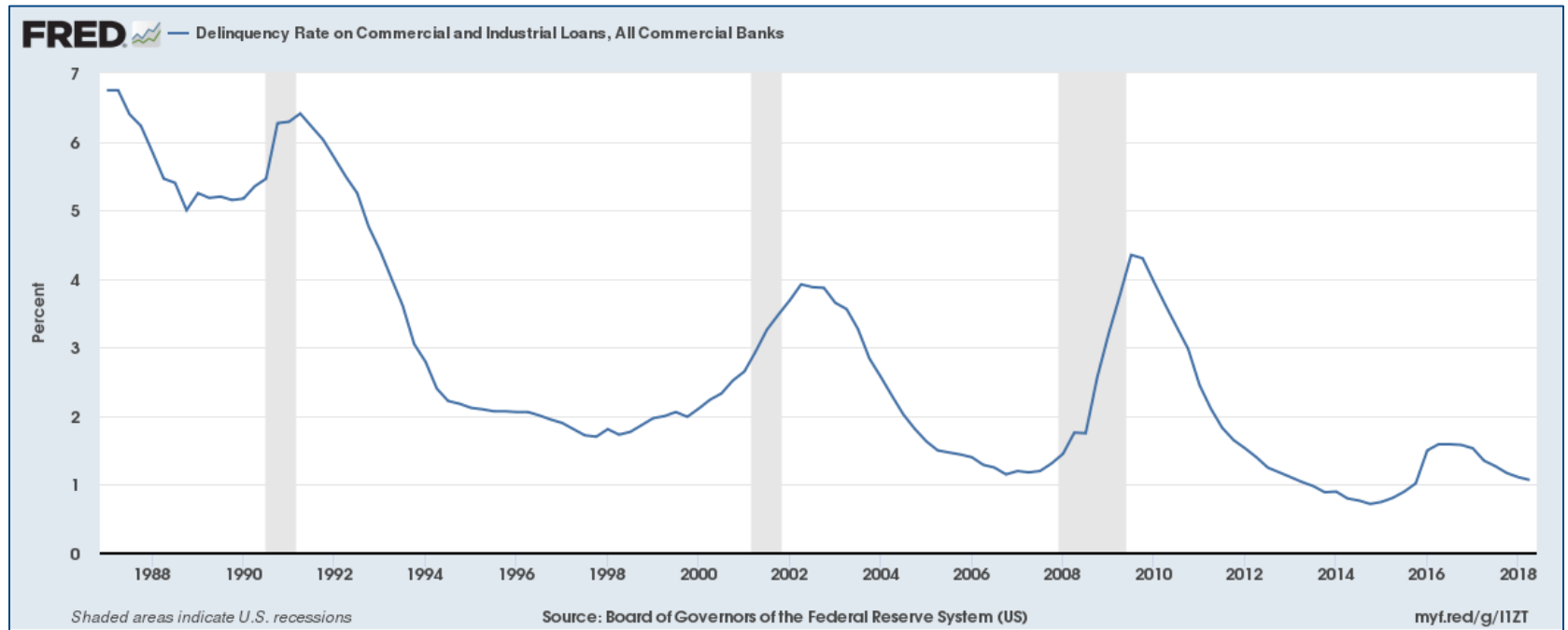
WHAT COMPRISES C&I LENDING

- Accounts Receivable
- Inventory
- Equipment
- Working Capital Term Loans
- Acquisition Financing

DELINQUENCY RATE ON CRE (EXCLUDING FARMLAND)



DELINQUENCY RATE ON C&I LOANS



CREDIT ISSUES

- Cash Flow Coverage
- Collateral Valuation
- Collateral Liquidation

ACCOUNTS RECEIVABLE

- Cash Flow Coverage
 - Interest Expense/CFADS
 - A/R Turnover Ratio – Net Sales/Accounts Receivable
 - A/R Turn – 365/Turnover Ratio
- Collateral Valuation
 - Advance Rates (typically 70% to 90%)
 - Dilution (Return and Allowances, Bad Debt)
 - Audits
- Collateral Liquidation
 - How to collect
 - Collection issues

INVENTORY

- Cash Flow Coverage
 - Interest Expense/CFADS
 - Inventory Turnover Ratio – $\text{COGS}/\text{Average Inventory}$
- Collateral Valuation
 - Advance Rates (typically 50% to 80%)
 - FIFO or LIFO
 - Raw Material, WIP, Finished Goods
 - Audits
- Collateral Liquidation
 - Selling the inventory
 - Accessing the inventory (Landlord Waivers)

EQUIPMENT

- Cash Flow Coverage
 - Debt Service/CFADS
- Collateral Valuation
 - Book Value vs Market Value
 - Valuation engagements
- Collateral Liquidation
 - Selling the equipment
 - Accessing the equipment

WORKING CAPITAL TERM LOANS

- Cash Flow Coverage
 - Debt Service/CFADS
- Collateral Valuation
 - What is the collateral?
 - Is it shared with other loans?
- Collateral Liquidation
 - Same issues as above

ACQUISITION FINANCING

- Cash Flow Coverage
 - Debt Service/CFADS
 - Global Cash Flow
- Collateral Valuation
 - What is the collateral
 - The unsecured portion (Cashflow Recapture)
- Collateral Liquidation
 - Similar issues to above

MONITORING

- Monitoring accounts receivable
 - Reporting Requirements
 - A/R Aging
 - Borrowing Base Certificates
 - Should you lockbox
 - Should you verify
- Monitoring term loans
 - Financial Statements
 - Cash Flow Coverage Covenants
- Monitoring inventory
 - Reporting requirements
 - Audits

RED FLAG WARNING SIGNS

- Early warning signs in accounts receivable
 - Deteriorating Aging
 - Re-aging
 - Concentrations
- Early warning signs in term loans
 - Deteriorating cash flow coverage
- Early warning signs with inventory
 - Deteriorating inventory turn
 - Inspections

LIQUIDATION

- Account receivable
 - Collecting receivables
 - Discounts
 - Excuses
- Equipment
 - Selling equipment
 - Landlord's Waivers
- Inventory
 - What type of inventory do you have?
 - Is it still there?
 - Who do you sell it to?

ADVANTAGES

- Shorter term rate structures
- Shorter term maturities
- More rapid amortization

DISADVANTAGES

- Requires more monitoring
- Different credit skill set than CRE
- Collateral is less tangible
- Collateral depreciates faster
- Collateral is more easily moved

PRACTICE SAFE C&I LENDING

- Credit officers who have had C&I credit training
- Put policies and concentration limits in place
- Consider specializing in certain industries
- Create a monitoring process
- Use covenants (and monitor them)

QUESTIONS ???

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