

HOW TO USE THE MANUAL

This manual was written for exactly one person: the bank's senior loan officer. My goal is for you to keep this manual at your fingertips and to refer to it several times a week.

Why did I establish this goal? Because I once occupied your chair; I have walked in your shoes, and while walking in your shoes I often needed a reference guide, but at that time no such guide existed. This is what motivated me to write this manual.

In other words, I am trying to make your job easier. As you peruse the manual and the CD, this objective will show in how the chapters are written and in how the manual is organized. Each chapter is an independent entity that stands alone. Rather than refer you back and forth from one chapter to another, thereby destroying your train of thought, I repeat the material. This approach results in your being able to copy a chapter and give it to a staff member without leaving out critical material or creating a need for that person to refer to your manual.

Each chapter contains two things. First, each chapter contains an executive senior view of the subject — a view that gives you specific guidance on the subject. Then, each chapter contains specific, detailed material that can be used as a constant reference that answers the thousands of detailed questions that arise at a senior loan officer's desk. Below is my rationale regarding how I put the manual together.

PART I: SENIOR LOAN OFFICER'S EXECUTIVE FUNCTION

I begin the manual by recognizing that you are a senior executive of the bank and that specific duties come with being a senior executive. Below is a listing of the senior executive topics addressed in the manual.

- How to establish effective and practical loan policies and procedures
- How loans should be structured and priced
- A proven and practical loan approval (and denial) process
- A proven and practical loan review system
- A practical system for grading all the loans on the books as well as those being made today
- How to manage bank examinations
- How to avoid lender liability suits and environmental risks associated with real estate loans
- How to establish an effective commercial loan marketing system

PART II: MANAGING THE LOAN DOCUMENTATION PROCESS

In this part of the manual, the desk reference aspects of the manual come to the fore. If there is one thing a senior loan officer needs at his or her fingertips, it is a ready reference guide for how deals should be documented. This way, before talking to a customer, or before discussing a specific loan situation with one of your loan officers, you can refer to the guide and determine what documents will be needed if the

loan is structured in a certain way and what other documents will be needed if it is structured in another way. Here are the specific loan documentation topics addressed in this manual:

- We begin with legal guidelines for the loan documentation process. Why? Because loan documents are legal, contractual documents, and there are minimum requirements that must be met; otherwise, the documents are not legally enforceable. You need to know what these legal requirements are, and you need to be able to communicate this knowledge to your staff.
- We discuss when to use loan agreements, and just as important, when not to use them, what they accomplish, and just as important, what they do not accomplish.
- We also explain how to document 30 different loan situations.
- In addition, there is a chapter on credit files and another on credit information exchange system.

PART III: MANAGING REAL ESTATE LENDING

Very few senior loan officers have sufficient knowledge to manage the commercial, real estate, and consumer lending functions based only on that knowledge. And the place where a lack of knowledge can get you in trouble the fastest is in the real estate arena. In this part of your desk reference, you will find as much detailed guidance as I can give you without making the manual so voluminous that it can no longer function as a desk reference. Here are real estate topics addressed in your desk reference:

- Model real estate policies and procedures
- Model real estate appraisal policies and procedures
- How to establish effective construction lending practices
- Details on how to manage and control construction lending
- How to use (and how to avoid misusing) loan agreements and loan commitments

PART IV: MANAGING PROBLEM LOANS

Problem loans are as much a part of lending as good loans. Some banks have very few problem loans (suggesting that their lending practices may be too conservative). Other banks have too many problem loans (suggesting a need to tighten loan approval processes). But all banks have problem loans, and all senior loan officers need a desk reference guide that tells them how problem loans should be managed and controlled. Here is a list of topics covered in this part of your desk reference:

- How to detect and classify emerging problem commercial, real estate, and consumer loans
- How problem commercial loans should be administered
- How to collect problem commercial, real estate and agriculture loans
- How problem consumer loans should be administered
- How to account for impaired and restructured commercial and real estate loans

- How to establish the proper amount of loan loss reserves
- How other real estate owned (OREO) property should be managed

Problem Loan Papers on the CD

Your manual has as much problem loan material as there is room for in hard copy format. But there is not a space limitation of the CD. Therefore I have put detailed problem loan reference material on the CD. Here is a listing of the problem loan topics on the CD:

- Problem Loan Administration
- ALLL Reserves Management
- Collecting Problem Loans
- Using Deeds in Lieu of Foreclosure
- Detecting and Classifying Emerging Problem Loans
- A Model Problem Loan Workout Agreement
- How to Negotiate a Problem Loan Workout Agreement
- OREO Management Policies and Procedures
- Problem Agricultural Loans
- Problem Consumer Loans
- Legal Alternatives for Solving Problem Loans
- Sell Your Problem Loans

PART V: MANAGING COMPLIANCE

Papers in the Compliance folder on the CD often include the following topics:

- Adjustable Mortgages
- Advertising Compliance
- Americans with Disabilities Act
- Avian Flu Pandemic Preparation Guidance
- Bank Lending Limits
- Bank Secrecy Act
- Branch Closings
- Collection of Checks
- Community Reinvestment Act Compliance
- Compliance In-House or Outsourced
- Customer ID Procedures
- Customer Confidentiality
- Disclosure Financial Information
- Dividend Payment Rules
- Electronic Funds Transfers
- Equal Credit Opportunity

- FACT Act
- Fair Credit Reporting Act
- Fair Debt Collections
- Fair Housing
- Fair Lending
- Family Medical Leave Act
- Federal Nontraditional Mortgage Guidance
- Flood Disaster Control
- Funds Availability
- HMDA
- Home Owner Counsel
- Insider Activities
- Interbank Risk Controls
- Interest on Deposits
- IRS Compliance
- Medical Requirements of the FCRA
- PMI Insurance
- Providing Basic Services
- Real Estate Appraisal Standards
- Regulation O
- Regulation U
- RESPA
- Reverse Mortgages
- Right to Financial Privacy Act
- Safeguard Customer Information
- Safety and Soundness
- Sarbanes-Oxley Act
- Securities Compliance
- Servicemember
- Subprime Lending Guidance
- Suspicious Activity Reporting
- Truth-in-Savings
- Truth-in-Lending
- Tying Restrictions
- Uniform Services Employment and Reemployment Act
- Unfair Deceptive Lending Practices
- USA PATRIOT Act and OFAC Compliance

PART VI: FINANCIAL STATEMENT ANALYSIS

Your CD also contains training papers (see your FSA Papers folder) on how to spread and analyze financial statements. Also on the CD are supporting Excel files that can be used in support of the training. These Excel files could become the basis of a standardized system of placing financial statements spread sheets in your loan approval packages and credit files. If you need more information on how to do this, contact the author.