



Effective Loan Pricing

Interactive Webinar Series

February 7, 14, 21, 28, 2012

2:00 pm – 3:40 pm Central

Overview

Does your institution effectively price the risk in your loan portfolio? In the wake of the financial crisis, many institutions would have to admit the answer is “No”. Does it make sense to originate and portfolio fixed-rate mortgages at this point in the rate cycle? Conventional wisdom says, “No.” Yet when the alternative is to place the funds in your investment portfolio, the relative yield on mortgages can look attractive.

We believe in the not too distant future, examiners will ask for documentation to support your loan pricing decisions. If you agree that is the case, then why not get started on making better decisions now.

This is a four part applied Webinar series. After each of the sessions, attendees will be given a short assignment that applies the material taught in class to a case study institution. While attendees are not required to do the assignments and turn them in, the assignments will be reviewed in the following session. **To complete the assignment you will log onto the web version of the Farin & Associates iPrice loan pricing model and run the scenarios and loans called for in the assignment.** The typical homework assignment will involve about 1 hour of work. Of course, while you are logged onto the model, you will be welcome to run any other loans you wish to model. It is our experience after delivering over 25 years of adult education that financial institution executives learn and retain material better when they are asked to apply it in a case setting.

Learning Objectives / Agenda

Session 1 - Inputs Needed for Effective Loan Pricing

This session is designed to familiarize you with what you need to know about a loan to price it effectively. Because when we price a loan, we are pricing a bundle of cash flows, we need to know how a loan throws off its principal and interest cash flows. Issues such as amortization, prepayments, balloons, and variable rates are explored and discussed. In addition methods for assigning credit risk, option risk, and servicing cost are also explored. Options for assignment of investment benchmarks and funding costs will also be explored including duration, and coterminous matching. Finally, investment benchmark analysis, the first of four ways to measure whether loans are well or poorly priced, will be introduced and discussed.

In the assignment you will be given a number of loans to model. You will examine how a loan's profitability is affected by varying the a number of the factors discussed in class.

Session 2 – Loan Pricing Decision Models

In this session, three additional measures of a loan's profitability will be introduced; market value, ROE (RAROC), and ROA. In the ROE and ROA discussion, the use of funds transfer pricing will be introduced. In the discussion of ROE, options in assigning capital to loans will also be discussed. Because the four methods introduced in Sessions 1 and 2 are designed to be used interactively, the circumstances under which each should be applied will be discussed.

In the assignment, you will be provided with a number of mini-case studies involving a loan pricing decision. You will model the loans, review the results from the four profitability methods then make a recommendation to management based on the analysis. The primary purpose of the assignment is to develop comfort with the four decision making tools which will be applied extensively in the remaining two sessions.

Session 3 – Pricing Commodity Loans

This session will focus on pricing loans that typically appear on an institution's loan rate sheet. That will include most consumer loans and consumer mortgage loans. A variety of issues will be explored including conforming vs. non-conforming mortgages, direct versus indirect loans. In addition, the effect of term, servicing cost adjustments, fees, collateral types, will be discussed.

In the homework assignment you will model a variety of consumer loan products using tools introduced in session 2 to make recommendations to management. The primary purpose of the assignment is to familiarize you with the role structure, operating expenses, fees, and credit risk adjustments play in consumer loan pricing.

Session 4 – Pricing Commercial Deals and Relationships

Unlike commodity loans, commercial loans are priced individually – there is no rate sheet. Aside from modeling a variety of commercial loans, this session will focus on the role other components of a relationship may play in making pricing decisions, especially deposit relationships. Loan types modeled will include commercial real estate loans, equipment loans, and commercial lines of credit.

In your homework you will model a variety of commercial deals, with and without other elements of the relationship. This assignment will underscore how to structure a commercial relationship that is a win/win for you and your customer.

CPE Credit Hours



Earn up to 8 hours of CPE credit.

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- Level: Intermediate
- Prerequisites: None
- Advance preparation: None
- Field of Study: Finance
- Instructional Method: Group Internet Based

For more information regarding administrative policies such as complaints or refunds, call 800-236-3724.

Who Should Attend

- CEOs
- Senior Loan Management
- Credit Review Staff
- Loan Officers
- Chief Financial Officer

Faculty

Tom Farin

President & CEO, Farin & Associates

Tom Farin is a widely known banking industry lecturer and consultant. He has delivered national educational programs for the American Bankers Association and the Credit Union National Association. He has served on the faculty of five major national banking schools including the Graduate School of Banking at Wisconsin, Graduate School of Banking at Louisiana State University, Graduate School of Banking at Boulder, Colorado, Stonier Graduate School of Banking and the CUNA Management School. Tom has also been a featured speaker at a number of regional programs sponsored by state and regional trade associations. Tom is faculty coordinator of a new Financial Management School offered jointly by the Graduate School of Banking at Wisconsin and the Financial Managers Society. His firm is a leader in delivering A/L distance education through partners like GSB-Wisconsin, FMS, and the FHLBs.

Fees:

\$950.00 which includes:

- One phone and one internet connection for the live presentation.
- Handouts and other resource material for attendees.
- Unlimited access for your organization to the recording of the seminar presentation for 90 days after the conclusion of the program.
- Access to the ***web version of the Farin & Associates iPrice loan pricing model and run the scenarios and loans called for in the assignment.***

Register

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