

CBE Competency 3
FS.CO3.LMO2 Module 2 and 3
Formative Assessment

Instructions: True or False: Please read the sentences carefully and select the answer that best addresses the topic in question

1. The operating cycle in a company usually dictates the purpose of the loan, amount and repayment terms.
Answer: True
2. In a commercial lending situation the loan proceeds and purpose may be diverted to other needs including using the funds to purchase other companies.
Answer: False: Loan proceeds and purpose may be diverted to other needs including personal financing needs of the Borrower's principals.
3. In small business lending the Borrower will be active in the negotiation of interest rate on the loans, terms, collateral, guaranties and loan agreement stipulations.
Answer: True
4. Commercial loans are usually divided into two (2) main categories: loans to finance current/trading assets and term loans to finance fixed assets.
Answer: False: Commercial loans are usually divided into three (3) main categories: 1) loans to finance current/trading assets 2) permanent working capital loans and 3) term loans to finance fixed assets.
5. Loans to finance fixed assets are considered short term debt on the balance sheet.
Answer: False: Loans to finance fixed assets are considered long term debt on the balance sheet.
6. The main purpose of loan documentation is to have a written, legally enforceable understanding of the obligations of both parties: bank and the borrower.
Answer: True
7. Proper corporate documentation in file must attest the individuals who are authorized to act on behalf of the company. As a result the Bank will need written proof of authority to borrow.
Answer: True
8. In a credit transaction there are two (2) basic forms of agreement between a bank and a customer: The loan agreement and the security agreement
Answer: False: In a credit transaction there are two (2) basic forms of agreement between a bank and a customer: The loan agreement and the offering letter
9. Term loans and revolving credit agreements usually require loan agreements.
Answer: True
10. A loan agreement usually is comprised of five (5) major sections.
Answer: A loan agreement is usually comprised of seven (7) major sections: 1. Loan :Includes amount, interest rate, repayment schedule and security, 2. Representations and Warranties, 3. Negative covenants, 4. Affirmative Covenants, 5. Loan conditions, 6. Events of default and 7. Remedies