**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***

1. 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.***

1. 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***

1. 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.***

1. 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.***

1. 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***

1. 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***

1. 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***

1. Term loans and revolving credit agreements usually require loan agreements.

**Answer: True**

1. 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***