



# Analyzing Cash Flow from Income-Producing or Rental Real Estate, Including Global Cash Flow

## Appraisal Guidelines and Reviewing/Interpreting CRE Appraisals

### Managing Your Bank's Commercial Real Estate Portfolio (Including Dealing with Problem Credits and Stress-Testing)



**February 22-24, 2012  
Springfield**

# Analyzing Cash Flow from Income-Producing or Rental Real Estate

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(Including Global Cash Flow)

## INTRODUCTION

Community banks continue to deal with commercial real estate (CRE) loans as a major portion of the loan portfolio, both performing and non-performing loans. Also, many borrowers continue to hold significant amounts of income-producing or rental real estate on their balance sheets. Whether directly financing these assets or including the income stream(s) in your overall credit analysis, it is important to understand key analytical concepts in evaluating real estate cash flow. And with real estate markets remaining weak, it is important to use the updated cash flow analysis as a part of ongoing loan monitoring and updating of collateral values – not in lieu of appraisals, but as interim and supplemental steps.

This program demonstrates (from case studies) the key variables and concepts for determining CRE cash flow, plus primary analytical techniques such as transaction-level stress-testing. It also explores where to find information from existing sources, such as tax returns, and what additional information may be needed, such as customer rent rolls. Another important element is a global analysis of a borrower's or guarantor's multiple real estate holdings. This course provides a framework for compiling a global cash flow as part of up-front analysis and ongoing monitoring efforts.

## *Specific subjects covered during the seminar:*

- Net operating income (NOI) concepts
- Understanding key variables: vacancy, management fees, and replacement reserves
- Capitalizing the NOI to estimate value (direct capitalization and cap rates)
- Using tax returns and customer rent rolls
- Unique characteristics of the major types of commercial real estate
- Stress-testing of debt service coverage (DSC) and determining break-even vacancy and interest rate
- How to use a simple worksheet to explore the major issues
- Recognizing other underwriting risks such as construction risk and lease overhang
- Global cash flow (GCF) concepts and issues when analyzing multiple real estate properties
- Brief overview of cash flow and valuation issues for residential properties

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## Appraisal Guidelines and Reviewing/Interpreting CRE Appraisals

### INTRODUCTION

An important part of the commercial real estate (CRE) lending process is the review and interpretation of the property appraisal. This program briefly reviews the major issues of the entire appraisal process, including selecting and engaging a qualified appraiser, but focuses on reviewing the report for integration into the overall credit analysis. Fundamental principles and features of commercial appraisals are covered, as well as the primary analytical techniques such as net operating income (NOI) for basic, income-producing properties.

This class will also provide an overview of the newest (December 2, 2010) Interagency Appraisal and Evaluation Guidelines and tips for integrating them into your existing policies.

# Appraisal Guidelines and Reviewing/Interpreting CRE Appraisals (cont'd)

## Specific subjects covered during the seminar:

- Why review appraisals?
- Types of reviews
  - Administrative/compliance
    - 14 review points from FDIC and FIRREA
    - What is FIRREA? (and other current regulatory guidelines, including the new/ revised appraisal guidelines issued in December 2010)
    - Partial exemptions, full exemptions and minimum standards for the report
    - A sample compliance review checklist
  - Technical/internal (typical commercial appraisal format)
    - Letter of transmittal
      - Appraiser qualifications
      - Types of appraisals by scope
      - Types of appraisals by format
    - Property identification and ownership interest
      - Unique characteristics of the major types of real estate, and how these affect the appraisal
    - Approaches to value
      - How the cost approach works
  - Net operating income (NOI) concepts and understanding key variables
  - Capitalization (cap) rates explained from two approaches
  - Using discounted cash flow from sale of lots in A&D situations
    - Direct sales comparison
  - Reconciliation of values and value conclusion
  - A sample technical review checklist
  - Outside/third party
    - How appraisers self-regulate via the Uniform Standards of Professional Appraisal Practice (USPAP) and state licensing
    - Getting another appraiser to do the review under USPAP 3 guidelines
    - Sample review comments
  - Appraisal review outcomes: When to request revisions
  - Using your analysis to validate existing or older appraisals, with a suggested format for documenting your conclusions
  - Overview of guidelines for evaluations when an appraisal is not required

# Managing Your Bank's Commercial Real-Estate Portfolio

(Including Dealing with Problem Credits and Stress-Testing)

## INTRODUCTION

The commercial real estate (CRE) loan portfolios of community banks continue to present challenges, particularly with continued weaknesses in residential and CRE markets (a lone bright spot being farm land). This program covers the major issues involved in managing a community bank's CRE portfolio, from the types of reports made to the board and senior management, to activities at the lender level to monitor individual loans. Included is a discussion of CRE problem loans and workouts (October of 2009 Policy Statement on Prudent CRE Loan Workouts) and portfolio-level stress-testing. We also cover supervisory loan-to-value limits, and appraisal and environment risk policies.

## Specific subjects covered during the seminar:

- Overview of six keys to CRE lending
  - CRE portfolio management at three levels
- 1. The lender level**
    - Organizing your customers by size and complexity
    - Developing a practical credit servicing strategy to avoid surprises
    - Special issues with construction loans
    - Tips on collecting periodic financial information – more than just getting tax returns
    - Early warning signals of problems, and situations to avoid
  - 2. The department manager or senior lender level**
    - Coordination of credit servicing by lenders and effective use of support staff
    - Overview of appraisal engagement and review process
    - Joint calls – maximizing the business development and marketing strategy
    - Timeline for monthly reporting and oversight plus suggested reports
    - Quarterly attention items
    - Regulatory guidance on dealing with problem CRE credits
  - 3. The top of the bank**
    - CRE portfolio reports for board and senior management
    - Key areas for targeting and maintaining CRE portfolio diversity
    - General CRE lending policy issues
    - Underwriting guidelines for specific types of CRE loans
    - Supervisory LTV issues
    - Appraisal policy and the new appraisal guidelines
    - Environmental risk policy
    - Stress-testing at the portfolio level
    - Roundtable discussions of best practices at all three levels

# About the Presenter

**Richard Hamm** provides consulting and training to banks and businesses as owner of Advantage Consulting & Training in Huntsville, AL. He specializes in lending and credit training for banks, plus consulting and CFO-type services to businesses on such issues as strategic planning, optimization of capital structure and financing, and treasury management. Hamm is a Certified Treasury Professional.

Previously, Hamm was with Superior Bank, Birmingham, as executive vice president and senior credit officer. He functioned as the deputy chief credit officer and directly supported the residential construction and commercial lending teams in Birmingham. Prior to this position, Hamm was a regional chief credit officer for an 11-county, 32-branch, 60-lender group with approximately \$1 billion in assets for Colonial Bank. For both banks he successfully developed and conducted comprehensive credit and underwriting training around existing policies, approval forms, and analytical tools, and he created and introduced new tools, all tailored to the bank's community-bank profiles.

He has served on the faculty of the Barret School of Banking, Memphis, TN, and the Graduate School of Banking, Madison, WI. He is also a frequent speaker for the Community Bankers Association of Georgia.

## What Others Have Said:

*"Richard Hamm was a wonderful speaker. He is very knowledgeable and able to relay the information clearly."*

Megan Hopwood,  
Management Interdepartmental Asst.  
First National Bank & Trust Company  
of Rochelle

*"The presenter had many real-life scenarios which made concepts easier to grasp."*

Phil Dray, Loan Officer  
The Heights Bank, Peoria Heights

*"The speaker was very knowledgeable. He made it well worth my time."*

Jacob Fleming, Analyst  
National Bank, Hillsboro

## Registration Fees

Fees include hand-out materials, refreshment breaks, and lunch. An income-tax deduction may be allowed for educational expenses undertaken to maintain or improve professional skills.

### Cancellation Policy

Registrants cancelling two days prior to each seminar receive 100% refund; one day prior, 50%; the day of the seminar, no refund. **All cancellations must be made in writing prior to the seminar day. Invoices and training materials will be sent to all "no shows."**

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Please note that CBAI does not issue confirmations, with the exception of on-line registrations, but feel free to call the Association headquarters to confirm your registration.

# Registration Form

Analyzing Cash Flow from Income-Producing or Rental Real Estate  
FEBRUARY 22, 2012  
Appraisal Guidelines and Reviewing and Interpreting CRE Appraisals  
FEBRUARY 23, 2012  
Managing Your Bank's Commercial Real Estate Portfolio  
FEBRUARY 24, 2012

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Call it in:  
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[www.cbai.com](http://www.cbai.com)

## Dates and Location

February 22-24, 2012

CBAI Headquarters, Education Center  
901 Community Drive, Springfield, IL  
217/529-2265

## Agenda

Registration begins at 8:30 a.m. The seminar runs from 9 a.m. to approximately 4 p.m. Continental breakfast and lunch provided.

## Continuing Education

CBAI is a registered Public Accounting Continuing Professional Education (CPE) provider by the Illinois Department of Financial and Professional Regulation.

## For More Information

Tracy McQuinn, Senior Vice President  
Valerie Johnston, Vice President  
Melinda McClelland, Vice President  
Rebecca Ridgeway,  
Administrative Assistant  
Jennifer Nika,  
Administrative Assistant  
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