

## THE HALL OF FAME TERM SHEET

by [Steve Brown](#)

Like Jordan's high tops, Ali's gloves or Ruth's bat, Frank Herrera's loan term sheet will be retired to the Hall of Fame. It does not really matter who Frank Herrera is or that there is no Banking Hall of Fame (yet), what matters is that Frank is a banker that used his term sheet as accurately as Gretzky used his stick.

Like the afore-mentioned gods of motion, Herrera snapped a term sheet out with blinding speed. Producing 3 a day was not uncommon. More important than speed, Herrera closed a reported 87% of loans. When used effectively, the term sheet is not a commitment, but a marketing tool with disclaimers on every page. It states that these are preliminary terms and conditions, are for discussion purposes only and that a formal commitment will be issued only after approval.

Unlike many banks that treat their term sheet as a commitment, Frank's was a description of conditions under which the loan would be considered. Next to the disclaimer, the 2nd most important section is the language that asks for the application fee. Here, most banks ask for a refundable fee equal to 25% of the origination charge. This gave Frank the opportunity to know if the client was serious and if not, what else as to be done to close the sale. Different than most others, Frank's term sheet contained options. Fixed or floating, varying terms, guarantees, prepayment penalties and covenants were all on the table and available. When Frank sat down with the borrower, it was not a question of if the borrower would take the terms, but what terms would best fit the borrower. Cost of capital, seasonality, variability of revenue streams, future business prospects and goals were all discussed. Borrowers repeatedly felt that Frank understood their business and took the time to act as a partner.

Above all else, Herrera produced, presented and worked a term sheet with a style most bankers could only dream about. Frank was an ally to the client and aggressively supported them in credit committee. Demonstrating his client service, Frank often put in long hours, closely verified loan terms and prepared detailed financial spreads/deal summaries. By the time Herrera delivered the term sheet to the client for sign-off (never later than 3 days after the last meeting and always presented in person), the deal and Frank's efforts were difficult for clients to ignore. These well-served clients were so elated they could not wait to sign the term sheet. With equal flourish, Herrera worked bank management and the credit committee whenever a deal was on the cusp, resulting in a higher-than-average approval rate. Over a 2-year period of time, Frank had a 1% "back-out rate" and less than a 5% decline rate.

Contrast Frank's approach with banks that produce a term sheet only after loan approval or don't utilize preliminary terms at all. Frank's method allowed him an average of 3 opportunities to go over details with the client, eliminate any misunderstanding and better sell the bank. Used properly, the term sheet promotes the bank and the loan officer, while weeding out false sales opportunities that suck up valuable resources. When a Banking Hall of Fame is finally built, be sure to look for Frank's term sheet. This Hall may not be a big draw with the public, but we are certain bankers will appreciate what a well crafted and presented term sheet can add to the bottom line.

### BANK NEWS

## **IMF Report**

The Int'l Monetary Fund released its outlook and forecasts U.S. growth for 2008 at 1.9%, or the weakest since 2002. Weakness will be fueled by a global slowdown and continued problems in U.S. housing. As a result, the Fund recommends another 50bp in rate cuts for the Fed.

## **Banking Trade**

The ACB formally approved a merger with the ABA. The merger will now become effective Dec. 1.

## **GAO Take**

A report by the Gov't Accountability Office shows that a fall in housing prices and looser underwriting standards on behalf of the securization markets are two of the major contributors to higher foreclosure rates.

## **More Cuts Likely**

PIMCO's Bill Gross believes the FOMC will cut the Fed Funds Target Rate to 3.75% over the next 9 months.

## **Consolidation**

Mercantile Bancorp Inc (\$1.5B, IL) will merge its Farmers State Bank of Northern Missouri into its primary bank, Mercantile Trust , by the end of Q2 '08.

## **Opposition to Rate Cuts**

5 of 12 regional Federal Reserve boards opposed the 50bp cut in the discount rate last month.

## **Mobile Banking**

BB&T Corp. (\$123B, NC) will unveil a new mobile banking service that is touted as the most comprehensive in the industry. The service, which will be introduced in 3 phases, will include 2-way mobile messaging, real-time alerts, Web access, and mobile banking applications.

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