Interview Prep Guide

Get Your Dream Job in Commercial Banking

Interview Prep Guide

Introduction

This guide has been designed to help you start and grow your career in commercial banking!

In order to prepare for the recruiting process and to ace your interview, you'll need to focus on being well-rounded, which includes demonstrating both an understanding of, and a fit with respect to:

1. Technical elements of the role. These include accounting, finance, and credit acumen, but also a demonstrated understanding of any sales or relationship management responsibilities required in the position.
2. Social skills and cultural fit within the organization. This includes behavioural-type, critical thinking, and problem-solving questions, as well as being able to demonstrate an understanding of the firm's vision, values, and corporate culture.

The second point will require you to conduct your own primary research on the financial institution that you're applying to. We encourage you to spend time on their websites, read annual reports and any other information you can for these firms, but more importantly, consider leveraging your network for opportunities to meet with other professionals that already work there; these people can give you first-hand information about the financial institution, and they may also be willing to make other introductions within the firm if you leave a good impression.

At a minimum, you should be prepared to answer the question: *Why are you applying to our firm?* It's a great chance to talk about the research you've done and the people you've met. Consider highlighting things that stand out about this firm relative to some of their competitors. Another strategy to demonstrate your preparation is to cite a recent article about the financial institution and to give your thoughts on it.

Become a ***Commercial Banking & Credit Analyst (CBCA)™***. Click **here** to learn more!

CFI's website has lots of general interview preparation material that we encourage you to review – like HERE. This guide focuses on preparing for the technical parts of a commercial banking interview. Even within the technical preparation, there may be a mix of quantitative and qualitative elements. Consider, for instance, the nature of the role you're applying for – in commercial banking, they tend to fall across a spectrum, as illustrated in figure #1:

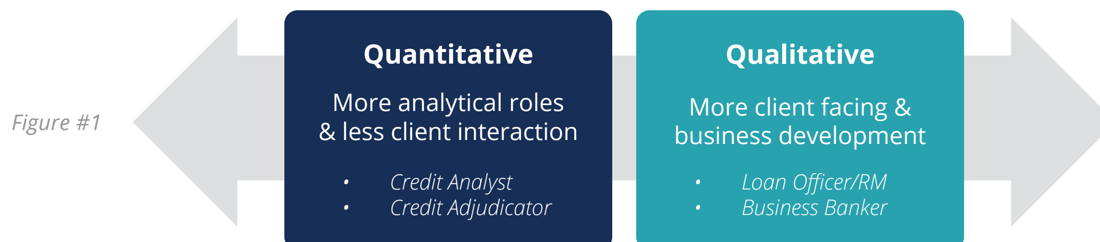


Figure #1

If you're interviewing for an analyst role, or for a position on the bank's risk management team, there's very little external interaction in these positions, so the technical parts of the interview will focus more on *quantitative* skills like financial analysis, credit structuring, and modeling.

If you're interviewing for a role on the relationship team (also known as the front office) – like a loan officer or relationship manager (RM), then a sizeable part of the interview will be more *qualitative* in nature. Questions may revolve around strategies for managing difficult clients, or techniques for developing new business and growing your loan book, for instance.

Understanding what the various roles do, and how they work together to ensure a smooth client experience, is an important part of your interview prep. We highly encourage you to enroll in CFI's *Careers in Commercial Banking* course – a free CBCA™ prep course – for a deep dive into the nature of the key roles on the relationship team, as well as those in the middle and back offices.

Become a ***Commercial Banking & Credit Analyst (CBCA)™***. Click **here** to learn more!

What Recruiters & Interviewers Look for:

Recruiters and senior leaders in commercial banking look for well-rounded individuals, regardless of the specific role. Some key traits they'll want to see include, but are not limited to:

- **Professional appearance and general demeanour** – like it or not, you only get one first impression. If you can't make a good one with the recruiter or interviewers, you'll have a very difficult time convincing them that you can do it with clients, prospects, or partners.
- **Good verbal communication** – like professional appearance, being able to communicate effectively leaves the right kind of impression on your interviewers. A big part of any role in commercial banking, particularly on the relationship team, is dealing directly with clients and prospects, as well as serving as a brand ambassador in the business community. Clear, articulate, and effective communication are must-haves.
- **Strong attention to detail** – the end-to-end credit underwriting process requires enormous precision, so demonstrating your ability to prepare for the interview, and to pay specific attention to small details, will be noted. Do some homework on the people interviewing you; try to know something about them and what they do. Show them that you're willing to come prepared and that you pay attention to what they're saying. Consider politely asking if you're permitted to take a few notes during the interview, then do so.
- **Coachability** – being open to feedback is an incredibly important part of being a successful commercial banker, or finance professional in general. Over the course of your career, you will lose competitive bids on new deals, have transactions reworked or declined by the adjudication team, and lose existing clients to competitors. These experiences don't feel good but being able to learn from them is absolutely paramount. Demonstrating an ability and a willingness to be coached will be a very important consideration during your interview and recruiting cycle.

Become a ***Commercial Banking & Credit Analyst (CBCA)™***. Click **here** to learn more!

General Preparation

Before getting into specific example questions, let's review some general themes and concepts as they pertain to commercial credit. The first is the foundational accounting equation, which is: *assets = liabilities (debt) + equity.*

An overview of some of the types of debt and equity that a commercial banking professional will encounter is as follows:

Figure #2

In general, revolving (or operating) credit is used to finance current assets. Term financing like loans and commercial mortgages are used to finance non-current assets like property, plant, and equipment (PP&E). Equity financing is provided by shareholders. The way that financing is structured may tell you a little about their objectives. Understanding how debt and equity work together to support a client in growing their asset base is critical to becoming a successful banking professional.

Another important backdrop for your interview preparation is understanding the relationship between risk and the cost of funding. While this chart is oversimplified for the purpose of our interview guide, it serves as a directionally appropriate illustration:

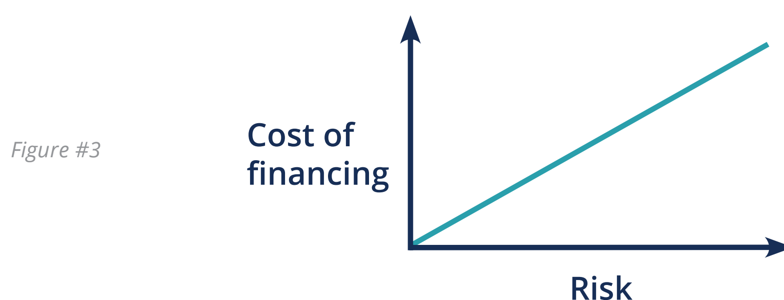


Figure #3

Understanding the role, as well as what type of lender you're interviewing with, is paramount. If you're looking to work at a traditional financial institution that provides senior, secured debt, you're operating closer to the bottom left of figure #3; if you're interviewing with a subordinated debt lender or a venture-debt fund, you're looking at different types of deals and increasingly, you would be working your way up and to the right on this risk spectrum, which in turn results in a higher cost of financing.

Become a ***Commercial Banking & Credit Analyst (CBCA)™***. Click **here** to learn more!

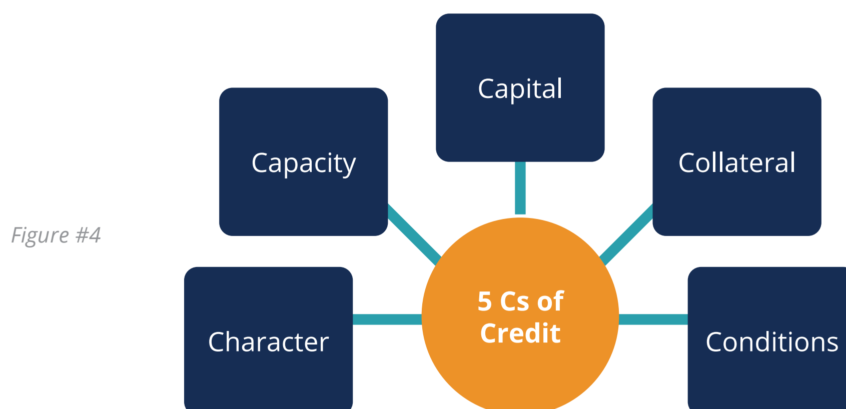
Example Quantitative Questions

The following are some example technical questions that are relevant to both middle office roles, as well as positions on the relationship team. The responses provided should serve as building blocks, but CFI encourages you to add personal touches that connect your actual responses to your academic and professional experiences, to help demonstrate a strong understanding and role fit.

Q) What are the 5 Cs of Credit, and why are they important?

A) The 5 Cs of credit are, in no particular order: character, capacity, capital, collateral, and conditions. They're an essential part of the credit analysis process. Strength in one 'C' can help to offset weakness in another – for instance, very high capacity (represented by consistent cash flow and high DSC) may help offset a weaker collateral security position. There's no perfect formula though; each 'C' is an important element of assessing and structuring a credit transaction.

Figure #4



Q) What is CAPEX?

A) CAPEX is short for capital expenditure – meaning that companies must buy (and maintain) capital assets to conduct their business and generate revenue and cash flows. CAPEX can be split into two categories: growth and maintenance. Growth CAPEX relates to new equipment, new intellectual property (IP), investments in new divisions or business lines, and also includes the outright purchase of other companies. Maintenance CAPEX relates to money spent to maintain or repair existing assets. CAPEX is highly relevant in commercial lending since many management teams borrow to support this spending. It's common to see management teams try to align the cash outflows associated with a physical asset more closely with the revenue that it's expected to generate – this is why many lenders try to align amortization periods with the anticipated useful life of the underlying asset(s) being financed.

Become a ***Commercial Banking & Credit Analyst (CBCA)™***. Click **here** to learn more!

Q) Can you explain vertical and horizontal analysis? Why are they important in credit?

A) Vertical analysis relates to financial statement analysis where they are analyzed from top to bottom, in order to express line items as a percentage of some base figure; this is how you arrive at key metrics like gross and net margin for profitability, current assets to current liabilities for liquidity, and debt to equity for leverage. Vertical analysis also uses cross-financial statement figures like inventory, accounts receivable and accounts payable against sales/cost of sales to calculate efficiency metrics. These metrics can then be measured against industry comparable benchmarks to assess how well a company is performing (in relative terms). Alternatively, these metrics could also be used to measure the company's performance against itself, period over period – this is horizontal analysis, also called trend analysis. Understanding how a company is performing relative to its peer group, as well as how it's trending year-over-year, are both important parts of the credit analysis process. Material deviations from their peer group would inform a commercial banker's line of questioning to management.

Q) What are some of the ratios you would calculate to assess a commercial borrower's creditworthiness?

A) The important ratios can be split into two main categories – performance and financial. Performance ratios include profitability metrics (like gross and net margin) as well as efficiency measures (like A/R, inventory, and payable days). Credit-specific financial ratios include ***coverage*** (typically debt service coverage (DSC) or EBITDA over interest), ***leverage*** (either using a debt to cash-flow metric or a capital structure measure like debt to equity), and ***liquidity*** (perhaps the current ratio or the quick ratio). To accurately assess a commercial borrower within the context of a specific borrowing request, you must incorporate the proposed new debt into these ratio calculations for a more complete picture.

Q) What is EBITDA?

A) EBITDA stands for *earnings before interest, taxes, depreciation, and amortization.* It's commonly used as a proxy for operating cash flow, and there are a few reasons for that. First, while there are adjustments that can (and should) be made, it's relatively standardized and well known across different industries and geographies, so it permits good comparability when conducting vertical and horizontal analysis on a borrower. Second, earnings are not the same as cash flow, but EBITDA has all the necessary add-backs to capture a reasonable approximation of cash flow, regardless of capital structure. For instance, adding back interest and taxes helps to normalize between high and low leverage companies, and including non-cash expenses like depreciation and amortization help to more appropriately reflect actual cash generated from operating activities.

Become a ***Commercial Banking & Credit Analyst (CBCA)™***. Click **here** to learn more!

Q) What type of adjustments might you make to EBITDA for a private small business or mid-market commercial borrower?

A) It's common to adjust EBITDA to eliminate items that aren't core to business operations, like a gain or loss on sale of an asset, for instance. Specifically for private companies though, adjustments around management or ownership compensation are common, as well as related party transactions. Dividends are probably the biggest issue – trying to understand where cash outflows are going, and for what purpose. If cash drawings are personal, are they discretionary or for consumption? If they're going into related companies, do we have security charges against these companies, or can we look to secure these? Is the cash outflow to service other debt obligations, or is it sitting in marketable securities somewhere outside of the borrowing entity? If using EBITDA to test debt service, for instance, should the figure be pre (or net of) dividends? A conservative approach is usually best when it comes to analyzing creditworthiness.

Q) How do you calculate debt service coverage? What, in your opinion, is an appropriate debt service coverage ratio for a commercial borrower?

A) Debt service coverage is generally calculated by taking EBITDA and dividing it by interest plus the current portion of interest-bearing debt. Adjustments for CAPEX and leases may also be made depending on the industry the company operates in. What's considered an appropriate ratio tends to vary, based on the nature of credit and the industry. Professional services businesses like legal and accounting firms, for instance, tend to have lower CAPEX requirements since they're service-oriented businesses. Manufacturers or transportation and logistics companies, on the other hand, have much higher CAPEX requirements and will tend to borrow more heavily, meaning that on average they may have lower DSC ratios because of the higher obligations. Also, companies with a much higher proportion of operating credit vs. term financing will tend to have much higher DSC ratios, since they don't have annual principal obligations. As a general rule of thumb though, a DSCR of 1.25x or higher is often considered a "good" or "appropriate" minimum threshold for a commercial borrower.

$$\text{Debt Service Coverage Ratio} = \frac{\text{EBITDA}}{\text{Interest + Principal}}$$

Figure #5

Become a ***Commercial Banking & Credit Analyst (CBCA)™***. Click **here** to learn more!

Corporate Finance Institute®

Q) What is a covenant? Why are they important in commercial lending?

A) Think of a covenant as a required behaviour that's been formally included in the loan agreement between a lender and a borrower. While many people think that covenants are designed to be "restrictive", a better way to think about them is that they align incentives between the lender and the borrower. For instance, it's in the lender's best interest that a borrower maintains a certain DSC threshold so there's a cash flow cushion; perhaps *not-less-than* 1.25x. It's also in the borrower's best interest since a low DSC will affect risk rating or pricing and may require the lender to seek greater oversight (like more frequent reporting or tighter margining). A DSC covenant, therefore, aligns incentives and will help ensure that a borrower either doesn't overleverage themselves or strip too much cash out of the company by way of dividends or management drawings.

Two Major Loan Covenant Types

Figure #6

Example Qualitative Questions

Below are some of the types of questions that a more experienced banking professional may see when transitioning into a relationship manager or loan officer role with the firm's front office. The example responses provide a framework to build upon; we encourage you to integrate some of your own academic and/or professional experiences into these responses, where relevant, to help illustrate a deeper understanding and a more complete picture of your client-facing experience in other roles.

Q) In your opinion, what are the main responsibilities of the commercial banking relationship team at a financial institution?

A) The main functions of the relationship team are basically two-fold – take care of existing clients and add new ones. New clients and transactions are the *fastest* way to achieve loan volume and revenue growth targets since you're growing from a base of zero. But effectively managing existing relationships, particularly those that are growing can be an easier way. Referrals from existing clients that are happy with your service, or from their accountant or corporate counsel (who like working with you), are a terrific source of new business, too – so taking care of your existing clients is really important. Keeping credit expiries under control is also a big part of taking care of the firm's existing business.

Q) What does business development mean to you?

A) People often confuse the term business development with sales. Sales, or generating new business is a big part of business development – but relationship management is too. The relationship team at a commercial bank needs to be constantly developing business, which comes from existing client relationships as well as being out in the business community serving as brand ambassadors for their firm. Good business developers are always "on", trying to connect people to other people. They're willing to step outside their comfort zone, and they're resilient. People with a business development mandate at a commercial bank will frequently be told "no", so understanding and overcoming this is an essential part of being successful on the relationship team.

Q) Should RM's or loan officers work collaboratively with other divisions of the bank? If so, in what capacity?

A) Absolutely they should, where permitted and practical. For instance, many business owners and C-level executives are prime wealth management and private banking prospects, if they aren't already clients of the bank. Conversely, many existing wealth management and private banking clients may be business owners or C-level executives that have their commercial borrowing relationship with a competitor financial institution – it makes good business sense to leverage these existing relationships to try and gain greater share of wallet. Joint prospecting and networking events are a great way to collaborate with representatives from other divisions of the bank.

Become a ***Commercial Banking & Credit Analyst (CBCA)™***. Click **here** to learn more!

Q) What types of strategies might you employ with a client that is extremely focused on their loan pricing/interest rate?

A) While some commercial clients are always going to be rate shoppers, pricing is *usually* a bigger issue in the absence of perceived value. It's important as an RM to understand the other levers at your disposal – things like closing fees, amortization period, interest term, or personal guarantees – and identifying which of these levers are *most* important to the client. If you're attentive to their specific requests and you're supporting a credit structure that's tailored to their needs, the discussion tends to organically move away from pricing, because they feel they're being heard and getting value. If the client is absolutely laser focused on rate though, then as a loan officer or RM, you have to understand the financial institution's RAROC model as well as your pricing authority, and ultimately know how much you're willing to concede on pricing and where you're going to draw the line.

Q) In your opinion, what are the advantages and disadvantages of a specialist vs. a diversified (or generalist) desk?

A) Specialist desks have some advantages, particularly around generating new business. If an RM or loan officer can effectively become an "expert" in a specific industry niche, then they may be able to position themselves for inbound financing requests from other entrepreneurs in that space (or accountants and lawyers that work with those companies). Assessing a company's relative performance is also easier when you work with a variety of companies that are already industry comparables. The downside is that your portfolio can take a major hit if some regulatory or macro-economic event occurred that adversely affected the industry – for instance, a hospitality specialist desk would have been significantly impacted when the Covid pandemic hit in early 2020. A generalist portfolio, on the other hand, is better-diversified and protected from industry-specific shocks like this. It also gives you a wider base of potential commercial clients to target.

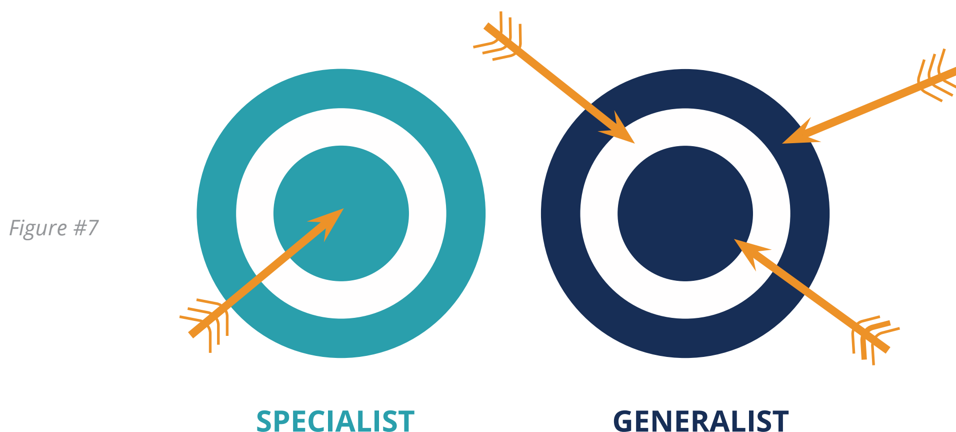


Figure #7

Become a ***Commercial Banking & Credit Analyst (CBCA)™***. Click **here** to learn more!

Q) What type of response would you give to a client or prospect that's asking your advice about whether interest rates are going up or down in the near and mid-term?

A) This is such a challenging question to address with clients. You want to be sure you're providing some insight and not just deflecting the question, but at the same time you shouldn't be offering advice or recommendations (even if just implied or perceived). After all, if you suggest (even casually) that rates are going to move up and your client locks into a long-term fixed-rate loan, but then rates *drop* – regardless of your intentions, in your client's mind you may be the one to blame. Being totally objective and factual about what factors are at play in the broader economy and offering solutions to help your client hedge based on their belief about rate movement, are the only things you can credibly do as a member of the relationship team; after all, we aren't macroeconomists. This could include strategies like splitting a large credit facility in two and taking one portion as fixed and one as variable, for instance. Perhaps presenting them with the option to set up an interest rate swap could be a useful alternative that ensures you're providing value without making a firm recommendation about rate movement.

Become a ***Commercial Banking & Credit Analyst (CBCA)™***. Click **here** to learn more!

Closing Thoughts:

While there will be professional and cultural norms based on where in the world you're located, in general, there are some best practices you may consider when wrapping up the interview process. These include, but are not limited to, the following:

Remember to prepare with questions of your own. It's very rare to approach the end of an interview without being asked if you have any questions for the firm and its representatives. Have several questions prepared – it's better to have them and run out of time than to run out of questions before the Q&A is over. Make sure you have well-researched and nuanced questions, too – examples may include questions around specific process differences between the firm and their competitors, or perhaps some questions about what they think makes a successful candidate or a good role fit. Your research on the financial institution's website or MD&A should help form the basis of some firm-specific questions.

Don't forget your manners! Be sure to thank everyone individually and say their name – this demonstrates that you were paying attention.

Consider asking politely to keep in touch – for example, suggest that you'd like to connect on LinkedIn, for instance. Even if this position doesn't work out, commercial banks are regularly taking in recruits – for both junior and more senior roles. Staying connected with the interviewers may be your opportunity for the next available opening if you leave a good impression.

Follow up! Send a polite follow-up email with another thank you. Doing this shortly after the interview is ideal, but certainly inside of 24 hours (pending cultural norms, of course). Remember, the behaviour you exhibit through this interview and recruiting process serves as a proxy for how you're going to present in the market as a representative of their financial institution – there are very few people that don't appreciate a polite thank-you note after a professional interaction.

Politely set a timeline for the next steps. Consider offering something like: "*Would it be okay to follow up if I don't hear from you within a week?*" – this sets a realistic timeline, and it also allows for you to reach back out if they don't do so first. It's a polite way of keeping some element of control over the next steps in the process.

Become a ***Commercial Banking & Credit Analyst (CBCA)™***. Click **here** to learn more!

Be patient – if you send a follow-up thank you, or even a one- or two-week check-in email, you may still not hear back right away. Remember, the people that interviewed you have a lot of responsibilities with their firm, especially if any of the panel members were VPs or senior members of the Learning & Development team. They'll respond as quickly as is appropriate based on their role duties. In general, you should not follow up repeatedly expecting a quick response – pestering your prospective future employer typically won't help speed up a hiring decision, but it may promptly eliminate you from contention. Patience is very important, even though the process is exciting and sometimes nerve-wracking for candidates.

We at CFI™ want to wish you much career success, through this recruiting and interview process, and any additional ones you may have as you progress your career.

If you're serious about a career in banking and haven't already done so, we encourage you to enrol in the Commercial Banking & Credit Analyst (CBCA™) certification program – the global standard in commercial credit training!

Become a ***Commercial Banking & Credit Analyst (CBCA)™***. Click **here** to learn more!