



Higher National Unit specification

General information

Unit title: Bank Lending: Introduction

Unit code: H481 33

Superclass: AL

Publication date: May 2013

Source: Scottish Qualifications Authority

Version: 01

Unit purpose

This Unit is designed to enable learners to understand the basic principles of lending and the role that financial services organisations play in assisting personal and small business customers in this. It provides knowledge and develops skills that will enhance the learner's awareness of how banks assess lending propositions and the range of lending products offered to customers. The knowledge and skills could also assist learners in finding employment in clerical, administrative, or customer service positions within banks, insurance companies and other related financial institutions. It is also suited to those who wish to progress to undertaking business related courses at a more advanced level.

Outcomes

On successful completion of the Unit the learner will be able to:

- 1 Outline the features and uses of key lending products of banks.
- 2 Outline the factors banks consider when assessing a personal or business lending proposal.
- 3 Outline the content of financial statements used when analysing small business lending proposals.
- 4 Calculate and interpret basic accounting ratios to support the assessment of a lending proposal from a small business.

Credit points and level

1 Higher National Unit credit at SCQF level 6: (8 SCQF credit points at SCQF level 6)

Higher National Unit specification: General information (cont)

Unit title: Bank Lending: Introduction

Recommended entry to the Unit

Access to this Unit is at the discretion of the centre. However, it is recommended that learners have good written *Communication* and *Numeracy* Skills. These may be demonstrated by the achievement of the Core Skills of *Communication* and *Numeracy* at SCQF level 4 or equivalent.

Core Skills

Opportunities to develop aspects of Core Skills are highlighted in the Support Notes for this Unit specification.

There is no automatic certification of Core Skills or Core Skill components in this Unit.

Context for delivery

If this Unit is delivered as part of a Group Award, it is recommended that it should be taught and assessed within the subject area of the Group Award to which it contributes.

The Assessment Support Pack (ASP) for this Unit provides assessment and marking guidelines that exemplify the national standard for achievement. It is a valid, reliable and practicable assessment. Centres wishing to develop their own assessments should refer to the ASP to ensure a comparable standard. A list of existing ASPs is available to download from SQA's website (<http://www.sqa.org.uk/sqa/46233.2769.html>).

Equality and inclusion

This Unit specification has been designed to ensure that there are no unnecessary barriers to learning or assessment. The individual needs of learners should be taken into account when planning learning experiences, selecting assessment methods or considering alternative evidence.

Further advice can be found on our website www.sqa.org.uk/assessmentarrangements

Higher National Unit specification: Statement of standards

Unit title: Bank Lending: Introduction

Acceptable performance in this Unit will be the satisfactory achievement of the standards set out in this part of the Unit specification. All sections of the statement of standards are mandatory and cannot be altered without reference to SQA.

Where evidence for Outcomes is assessed on a sample basis, the whole of the content listed in the Knowledge and/or Skills section must be taught and available for assessment. Learners should not know in advance the items on which they will be assessed and different items should be sampled on each assessment occasion.

Outcome 1

Outline the features and uses of key lending products of banks.

Knowledge and/or Skills

- ◆ Overdrafts
- ◆ Structured loans
- ◆ Loans to purchase property
- ◆ Credit cards

Outcome 2

Outline the factors banks consider when assessing a personal or business lending proposal.

Knowledge and/or Skills

- ◆ Lending assessment criteria
- ◆ Security for lending

Outcome 3

Outline the content of financial statements used when analysing small business lending proposals.

Knowledge and/or Skills

- ◆ Profit and Loss Accounts
- ◆ Balance Sheets
- ◆ Cash Flow Analysis
- ◆ Financial Forecasts

Higher National Unit specification: Statement of standards (cont)

Unit title: Bank Lending: Introduction

Outcome 4

Calculate and interpret basic accounting ratios to support the assessment of a lending proposal from a small business.

Knowledge and/or Skills

- ◆ Basic accounting ratios
- ◆ The interpretation of basic accounting ratios
- ◆ The use of accounting ratios in the analysis of the viability of lending proposals from a small business

Evidence Requirements for this Unit

Learners will need to provide evidence to demonstrate their Knowledge and/or Skills across all Outcomes by showing that they can:

- ◆ Outline the features of overdrafts.
- ◆ Outline the circumstances in which overdrafts will be the most appropriate lending product for a customer.
- ◆ Outline the features of structured loans.
- ◆ Outline the circumstances in which structured loans will be the most appropriate lending product for a customer.
- ◆ Outline the features of property purchase loans.
- ◆ Outline the circumstances in which property purchase loans will be the most appropriate lending product for a customer.
- ◆ Outline the features of credit cards.
- ◆ Outline the circumstances in which credit cards will be the most appropriate lending product for a customer.
- ◆ Outline the criteria that financial institutions apply when assessing a personal or business lending proposal.
- ◆ Outline the criteria that are applied to determine if an asset is good security.
- ◆ Outline the circumstances in which a bank might ask for security in support of lending.
- ◆ Outline the content of a Profit and Loss Account.
- ◆ Outline the content of a Balance Sheet.
- ◆ Outline the content of a Cash Flow Analysis.
- ◆ Outline the content of Financial Forecasts.
- ◆ Calculate basic accounting ratios from a set of financial statements (ratio formulae will be provided).
- ◆ Basic ratios are defined as Debt: Equity Ratio, Gross Profit Margin, Net Profit Margin, Current Ratio, Quick/Liquidity/Acid test Ratio, Debtors/Trades receivables Collection Period, Creditors/Trades Payables Payment Period, Stock/Inventory Turnover.
- ◆ Interpret and analyse changes in an accounting ratio over two accounting periods for a small business.
- ◆ Outline how accounting ratios can contribute to the analysis of the viability of a lending proposition.

Evidence should be generated through assessment under closed-book controlled conditions.



Higher National Unit: Support Notes

Unit title: Bank Lending: Introduction

Unit Support Notes are offered as guidance and are not mandatory.

While the exact time allocated to this Unit is at the discretion of the centre, the notional design length is 40 hours.

Guidance on the content and context for this Unit

The following guidance was written in January 2013 based on current financial services institutions, their products and services. Centres should ensure that learners have used current information in their learning and that assessment content and assessment checklists reflect the current situation, which may, as a result, differ from the guidance below terms of the products and/or services listed.

Outcome 1 looks at the features and uses of the key lending products of banks.

It is expected that centres will cover the following topics:

- ◆ Sources of lending (where banks source funds to lend to customers — customer deposits, interbank loans) — scene setting only at an introductory outline level only, this content is assessed in *Financial Services: Introduction* Unit.
- ◆ Overdrafts (how the money is advanced to the customer by the use of limits on existing accounts; how interest is calculated, repayment methods, situations in which an overdraft is the most appropriate method of lending funds to the customer).
- ◆ Structured loans (how the money is advanced to the customer by the use of a separate account; how interest is calculated, repayments, situations in which a structured loan is the most appropriate method of lending funds to the customer).
- ◆ Loans to purchase property (how the money is advanced to the customer by the use of a separate account, how interest is calculated, methods of repayment — interest only and capital and interest mortgages).
- ◆ Credit cards (how interest is calculated, interest free periods, methods of repayment — whole balance or minimum monthly repayment, situations in which borrowing by credit card is most appropriate, risks of borrowing using a credit card).

Higher National Unit: Support Notes (cont)

Unit title: Bank Lending: Introduction

Outcome 2 looks at the ways in which banks assess personal or business lending proposals from prospective borrowers.

It is expected that centres will cover the following topics:

- ◆ The role of lending policy guidelines in the assessment of lending proposals.
- ◆ How a borrower's track record is assessed and the indicators a lender will look at — for example evidence of default or delayed payments in the past.
- ◆ The purpose of the borrowing — within the lender's policy guidelines, might the item being purchased lead to additional expenditure elsewhere.
- ◆ The borrower's ability to repay — how to review income and expenditure, circumstances which might impact on future income/expenditure.
- ◆ The role of security — understanding that lender is not aiming to realise the security but holds it as contingency.
- ◆ The features of good security — easy to take, secure title, easy to realise.
- ◆ The circumstances in which security is required — where borrowing is of a significant amount, where the lender assesses there is a higher risk attached to the proposal such as property purchase.

NOTE: Learners do not need to cover the detail of types of security (other than to illustrate what makes good security) or methods of taking security and should look at the assessment criteria for lending in outline only such that they can assess simple borrowing requests such as a personal loan to purchase a car, a small business overdraft request for a modest sum or a straight forward property purchase.

Outcome 3 looks at the key financial documents that a lender will use to assess whether to lend to a business customer or not.

It is expected that centres will cover the following topics:

- ◆ Profit and Loss Accounts
- ◆ Balance Sheets
- ◆ Cash Flow Analysis
- ◆ Financial Forecasts

For each of the financial documents, centres should cover what the purpose of each document is, what information can be found in the document and how a lender can use the information to support their lending decision making. The financial documents should be contextualised in small businesses which are operating. Whilst it will be appropriate to show learners how each document is drawn up, learners will not have to draw up any financial documents but should develop an understanding of the main components of each statement.

Higher National Unit: Support Notes (cont)

Unit title: Bank Lending: Introduction

Outcome 4 looks at the analysis of financial statements that a lender can undertake to inform their decision on whether to lend or not.

It is expected that centres will cover the following topics:

- ◆ The calculation of basic accounting ratios. The ratios that should be covered are Debt: Equity Ratio, Gross Profit Margin, Net Profit Margin, Current Ratio, Quick/Liquidity/Acid Test Ratio, Debtors Collection Period, Creditors Payment Period, Stock Turnover. Learners do not need to learn the ratio formulae as these will be provided in an assessment. They should however be aware of how to apply the ratio calculation within the financial statements presented.
- ◆ The interpretation of the basic ratios calculated. Centres should include within their coverage of interpretation, reviewing ratios over two periods of time so that learners can identify where ratio results indicate an improving or deteriorating trend.
- ◆ The use of accounting ratios to draw basic conclusions as to whether money should be lent to a business. Centres should cover how a lender can build a complete financial picture about a customer using the basic accounting ratios.

Learners should only cover very basic accounting analysis and be asked to assess situations where the results from ratios are clear and there is no element of debate as to whether a borrowing facility should be granted to a customer.

Guidance on approaches to delivery of this Unit

This Unit is likely to form part of a Group Award designed to provide learners with technical or professional knowledge and skills for employment within the Financial Services sector. It supports pre-employment learning for learners who have not yet entered the workplace and are studying in colleges and learning for employees who are new to the sector.

The Unit has been designed to enable learners to complete it, regardless of what country they are based in and regardless of the specific operations of financial services institutions in these countries. Centres should ensure that the learning covers this generic material. It would also be appropriate for centres to illustrate their teaching by contextualising it to the specifics of the lending activities of their country's financial services institutions.

Guidance on approaches to assessment of this Unit

Evidence can be generated using different types of instruments of assessment. The following are suggestions only. There may be other methods that would be more suitable to learners.

Centres are reminded that prior verification of centre devised assessments would help to ensure that the national standard is being met. Where learners experience a range of assessment methods, this helps them to develop different skills that should be transferable to work or further and higher education.

Higher National Unit: Support Notes (cont)

Unit title: Bank Lending: Introduction

This Unit could be assessed by a single instrument of assessment that requires learners to respond to a series of short case studies covering all four Outcomes that require learners to respond to short answer questions and complete calculations.

Assessment should be carried out under closed-book controlled conditions and, when taking place as a single event, this should last no more than two hours.

Centres should ensure that the assessment covers this generic material and that assessment instruments do not include additional content which relates to country specific considerations.

Assessment could be delivered as an e-assessment if desired.

Opportunities for e-assessment

E-assessment may be appropriate for some assessments in this Unit. By e-assessment we mean assessment which is supported by *Information and Communication Technology (ICT)*, such as e-testing or the use of e-portfolios or social software. Centres which wish to use e-assessment must ensure that the national standard is applied to all learner evidence and that conditions of assessment as specified in the Evidence Requirements are met, regardless of the mode of gathering evidence. The most up-to-date guidance on the use of e-assessment to support SQA's qualifications is available at www.sqa.org.uk/e-assessment

Opportunities for developing Core and other essential skills

There are no Core Skills embedded in this Unit. However, there are opportunities for developing the Using Number component of the Core Skill *Numeracy* at SCQF level 5.

***Numeracy* — Using Number at SCQF level 5**

In Outcome 4, learners will be undertaking ratio calculations and interpreting the scale of change between sets of calculations. They are, therefore, applying a wide range of numerical skills to solve work related problems.

History of changes to Unit

Version	Description of change	Date

© Scottish Qualifications Authority 2013

This publication may be reproduced in whole or in part for educational purposes provided that no profit is derived from reproduction and that, if reproduced in part, the source is acknowledged.

Additional copies of this Unit specification can be purchased from the Scottish Qualifications Authority. Please contact the Business Development and Customer Support team, telephone 0303 333 0330.

General information for learners

Unit title: Bank Lending: Introduction

This section will help you decide whether this is the Unit for you by explaining what the Unit is about, what you should know or be able to do before you start, what you will need to do during the Unit and opportunities for further learning and employment.

This Unit is designed to introduce you to the basic principles of bank lending and the products offered by financial institutions to lend to personal and small business customers. The Unit has been written to enable you to complete it, regardless of what country you are based in and regardless of the specific operations of financial services institutions in your own country.

The Unit provides knowledge and develops skills that will enhance your awareness of the financial services industry. The knowledge and skills could also assist you in finding employment in clerical, administrative, or support positions within banks, insurance companies and other related financial institutions. It is also suited to you if who wish to progress to undertaking business related courses at a more advanced level.

In Outcome 1 you will learn about the lending products that banks offer to personal and business customers and which product should be used in given circumstances.

In Outcome 2 you will learn about the criteria that banks use when deciding whether to lend money to a personal or business customer.

In Outcome 3 you will learn about the types of financial statements that are prepared by small businesses and can be analysed by banks before deciding whether or not to lend money to a business customer.

In Outcome 4 you will learn how to calculate and interpret accounting ratios and how to draw conclusions on whether a borrowing facility should or should not be granted.

This Unit may be assessed by one assessment covering all four Outcomes. This assessment could consist of a series of short case studies and you will be required to respond to short answer questions and complete calculations. The assessment will be conducted under closed-book conditions. It is recommended that the assessment be completed within a two hour working period.