



HOW HAS THE USE,
CONTENT AND CONDUCT OF
FIELD EXAMINATIONS
CHANGED OVER THE
LAST 20 YEARS?

BY STEVEN M. ROSENBERG, CPA



The field examinations industry has changed for the better over the last 20 years. The process and the examiner have become more sophisticated. The vendors have flourished and the final reports are being used by a wider audience and carry considerably more impact.

I have been performing field examinations since 1992 and have been a partner in our firm since January 1996. From 1992 to the present, I have noticed a significant change in the field examinations, the field examiners, the vendors providing field-examination services and who is using field examinations. The examination content has expanded, the field examiner has become more sophisticated and a wider audience is using the field-examination report, with considerably more impact.

For a little historical perspective I asked Joseph Elias, a former field-examination manager for Fleet National Bank, for his thoughts on the history of field examinations. Elias indicated that when

he entered the industry in the 1950s, only the commercial finance companies performed field examinations. The primary focus was to determine that invoices were supported by shipping or proof-of-service documentation and that the borrower was sending customer payments to the lender rather than depositing them into its own bank account. Back then, he adds, the commercial finance companies maintained duplicate records of the borrower's accounts receivable. The field examiner brought the duplicate records with him/her and compared those records in detail to the borrower's.

The Field Examination

From my perspective, today's field examination is an on-site detailed analysis of a potential or current borrower's books and records for the lender. Field exams are generally performed on the records of borrowers that are using accounts receivable and inventory as security for a loan.

The ultimate goal of a field exam is to determine a timely, estimated value

of the assets in a liquidation scenario compared to the loan balance due to the lender. The result is either excess collateral (based on the borrower's A/R and inventory) or a collateral deficit, also known as an overadvance. The field exam also provides analysis in areas such as cash, accounts payable, payroll taxes, insurance, cash receipts and disbursements. All this information should help the loan officer manage his or her relationship with the borrower.

How has the field-examination process and its related procedures changed over the last 20 years? According to Michael W. Muller, director, manager of field analysis - New York & Boston, Wachovia Capital Finance, 20 years ago the typical field exam was usually at one location and included only one division. The books and records were fairly simple and the fieldwork usually took less than a week. Today's field exams may involve multiple divisions, multiple locations and database-driven accounting software.

Muller further indicated that the biggest changes that he's noticed in current field examinations have been in the enhanced analysis of inventory.

examiner. With so many goods coming from overseas, there are issues of title transfer, perfection of bills of lading, letter of credit issues and licenses/trademarks. Lenders require additional analysis to determine the inventory's ownership and eligibility. Other areas of inventory analysis include, for example, mark-to-market values on commodities.

Analyses of accounts receivable has increased as well. These new areas, which were not historically part of field exams, include foreign accounts receivable, credit insurance issues, confirmation of accounts receivable via customer Websites, and rebates.

Borrowers also have become more sophisticated with the computerization of their books and records. However, this has made it more difficult to extract required detailed information from the borrower, unless the examiner has the right computer tools. For example, the examiner can use data-mining software that is capable of breaking through the layers of information to retrieve the required data.

According to Frederic H. Lerner, vice president, senior collateral audit manager for Wells Fargo, field examinations

use and complexity varies from lender to lender. Smaller lending institutions usually rely on the report and workpapers used by the outside field examiners.

The Field Examiner

In the past, inside field examiners were generally long-term employees of the lenders. Their goal was to become account executives. Outside field examiners were generally one-man operations that included out-of-work bank officers or field examiners and retired bank officers. Also, accounting firms provided field-examination services, and the examiner could be a staff person who performed other services such as financial auditing and taxes.

How has the field examiner changed over the last 20 years? Twenty years ago examiners didn't need to have accounting or finance degrees, for one thing. Many are CPAs and have MBAs. The examiners from 20 years ago also were not treated or respected as well as they are today. Clients, and in some cases lenders, considered them the enemy. Examiners were often lifers.

According to Justino (Joe) Amarin, senior vice president/region manager field examination - Northeast Region of Chase Business Credit, compensation for examiners is significantly higher than 20 years ago, and not just by today's standards. However, Amarin indicated that the biggest differences in today's examiners are their communication skills and their computer knowledge.

For example, today's examiners are generally proficient in Word, Excel and Access. Most of the large borrowers are 100% electronic and a field examiner, therefore, needs to be proficient with pivot tables and various data-mining software to assist in the exam. In addition, the examiner must be able to use the Internet to his or her advantage during a field exam. For example, the examiner can confirm accounts receivable invoices using a vendor Website.

However, some of the most amazing tools field examiners create and use are Excel macro programs. They permit the examiner to process a report based on

20 YEARS AGO THE TYPICAL FIELD EXAM WAS USUALLY AT ONE LOCATION AND INCLUDED ONLY ONE DIVISION. THE BOOKS AND RECORDS WERE FAIRLY SIMPLE AND THE FIELDWORK USUALLY TOOK LESS THAN A WEEK. TODAY'S FIELD EXAMS MAY INVOLVE MULTIPLE DIVISIONS, MULTIPLE LOCATIONS AND DATABASE-DRIVEN ACCOUNTING SOFTWARE.

Historically, most field exam programs consisted of only test counts, cost tests and gross margin testing. These programs now include more in-depth analysis of inventory, such as category analysis, location concentration and tracking, SKU/product-line analysis, trends, turnover, enhanced slow-moving analysis methods and analytical comparison to appraisals.

Also, the testing of in-transit inventory, which historically was not a large issue, is now a hot topic for the field

have become much more in-depth and automated. The size of the reports and workpapers are significantly larger and, with current technology, the examiners are able to go places they never reached before in their analyses.

Field examination can take one-to-100 days and involve every industry. The longer examinations generally include very large borrowers with multiple divisions and locations. Most of the larger lending institutions have their own electronic reports and workpapers, but the level of

borrower data entered into the workpapers. If the examiner uses the program properly, he/she can save significant time writing a report compared to generating a separate report and workpapers.

The Field-Examination Vendors

Historically, small internal departments, accounting firms and one- or two-man firms provided field examinations. During the late 1980s and early 1990s, field-examination firms with more than ten examiners emerged and formed a whole new niche. Now, there are several highly professional, quality firms across the country that provide lenders exclusively with examination-related services.

How has the field-examination vendor changed over the last 20 years? According to Robert Cutshaw, senior vice president, region exam manager Northeast Region/Consumer Finance/BABC Europe, only a handful of outside people performed the exams 20 years ago. Generally, the mid-range CPA firms had a specialty group that performed field exams.

Many banks now outsource some portion of the field-exam function, particularly routine or less-sensitive recurring exams, in order to increase overall efficiencies of their internal staff, which typically conducts surveys or special types of internal exams. For example, Bank of America, JPMorgan Chase, Wachovia and Wells Fargo each indicated that, although they maintain internal field exam units, they outsource between 5% and 40% of their field examinations.

Banks today have many more options from these third-party examination vendors. The overall quality has increased as a result of stiff competition, because more outsourced groups are specifically trained in performing collateral examinations. The best field exam firms seem to be lean and are dedicated to providing only services to lenders.

Borrowers used to request that the banks only send internal examiners rather than subcontractors, because the perception was that subcontractors would be more expensive. Now, banks

rarely hear any objections to third-party examination firms, as it has become more of a standard business practice among most large asset-based and commercial lenders.

The number of firms providing field exams is significantly greater today than it was 20 years ago. According to Amarin,

DURING THE LATE 1980s AND EARLY 1990s FIELD-EXAMINATION FIRMS WITH MORE THAN TEN EXAMINERS EMERGED AND FORMED A WHOLE NEW NICHE. NOW, THERE ARE SEVERAL HIGHLY PROFESSIONAL, QUALITY FIRMS ACROSS THE COUNTRY THAT PROVIDE LENDERS EXCLUSIVELY WITH EXAMINATION-RELATED SERVICES.

people frowned upon using accounting firms, which really did not want to be bothered with field exams and knew very little about collateral exams. Accounting firms also had difficulty breaking away from looking at borrowers using a financial perspective, instead of viewing the transaction from a collateral prospective.

Who Is Using Field Examinations?

Over the last 10-to-15 years, the field-examination profession has gained importance in both the asset-based lending industry and the banking industry for several reasons. I believe that the most important reason is that lenders are hiring the examiners. The field examiner is, thus, more sophisticated and represents the lender, not the borrower (as independent accountants do when issuing financial statements).

Compared to 20 years ago, who is using the field examinations? According to Elias, historically, only finance companies and asset-based lending institutions used field examinations. Banks did not, because they mostly provided unsecured loans to their borrowers. If the loans were secured by accounts receivable or inventory, the banks still generally did not perform field examinations; they relied on the CPA-prepared financial statements as guides to the strength of the borrower.

According to Amarin, field examinations have become more mainstream. Amarin indicated that many lending institutions that didn't previously consider field exams necessary have recently adopted regular field exam programs. Companies that would never be considered ABL clients (Fortune 500 or investment

bank clients) are now part of the ABL world, and their lenders now routinely conduct field exams. Just count the number of outside field-examination firms now versus five-to-ten years ago.

Further, Amarin indicated that lenders now charge clients for the exams. Historically, field exams were meant to provide a comfort level for the lender and, for the most part, clients didn't mind the lengthy exams. Now that they are being charged, the concern always revolves around the number of days (cost) spent on the exam.

Muller indicated that, with the larger deals in today's ABL market, far more people than just loan officers or underwriters read the field examiners' reports. In general the exams have become a major part of the presentation to borrowers' credit committees, as well as part of the syndication packages that people from other financial institutions read.

According to Timothy M. Doheny, vice president, field-examination manager for People's United Bank, his bank has always conducted field exams of their mainstream commercial accounts, usually only once a year and sometimes twice a year. As the economy turns south and borrowers' cash flow may weaken, People's United now uses the exams to verify its fallback collateral situation.

According to Stephen Savage, director, manager of field exam, Wachovia Capital Finance, field exams for commer-

cial banking customers have increased over the last three-to-four years. Savage indicated that some banks have a group separate from ABL that monitors borrowing-base certificates and manages the field-exam process for these commercial bank customers. Savage also indicated that, in those banks that monitor commercial bank customers' borrowing-base certificates through the relationship manager, field exams are generally performed on initial fundings, line increases or material covenant changes. Savage further indicated that the field exam may be the one easy time that a commercial lender has the chance to see the books and records from its perspective.

Michael Lederman, vice president, Bridge Bank, Technology Banking Group, began his banking career in asset-based lending, where field exams have always been very common and are usually required as often as quarterly. Because he now concentrates on traditional banking products for venture-backed technology companies, Lederman may require field exams less frequently. However, as financial or collateral performance deteriorates, Bridge may require

of the borrower's collateral, systems and reporting. At one time the field-examination reports were handwritten or typed and the workpapers were calculated and maintained on accounting paper. Now, some of the field-examination programs are very sophisticated, detailed and extensive, including up to 50 worksheet tabs. Certain field-examination programs automatically incorporate workpaper tables into the report pages and all the examiner has to do is comment on the results.

Also, it seems unanimous that the field-examiner position has had a significant professional elevation. Virtually all professionals entering the field are either accounting or finance majors or have accounting or finance experience. Further, as evident in our firm, many examiners are either CPAs or have MBAs, and their compensation matches that of other professionals in the banking and accounting industry. Also, the experience that a field examiner gains is very valuable and portable to the banking, accounting and commercial industries.

Where the lenders historically relied on internal examiners, one- or two-man shops and/or accounting firms, there

which were once cash-flow borrowers, are moving to secured-financing facilities that require field examinations. **TSL**

Steven M. Rosenberg, CPA, is the managing partner of Rosenberg and Fecci Consulting LLC, which provides field examination and other consulting services. He has worked in the asset-based lending industry since 1993 and is a licensed CPA in New Jersey and New York. Mr. Rosenberg is a member of the AICPA, NYSSCPA, NJSCPA, Accountants Club of America and CFA Education Foundation. Steve was the former chairman of the "Cooperation with Bankers and Other Credit Grantors" committee of the NYSSCPA.

ALSO, IT SEEMS UNANIMOUS THAT THE FIELD-EXAMINER POSITION HAS HAD A SIGNIFICANT PROFESSIONAL ELEVATION. VIRTUALLY ALL PROFESSIONALS ENTERING THE FIELD ARE EITHER ACCOUNTING OR FINANCE MAJORS OR HAVE ACCOUNTING OR FINANCE EXPERIENCE.

field exams more frequently. Bridge has a high reliance on field exams done by experienced and trusted firms. The field exam is an integral part of Bridge's underwriting and is highly valued by its credit committee.

Based on my experience and the experience of several professionals in the field-examination industry, many aspects of the business have changed for the better. It seems that the field examination itself has gone from very limited procedures on accounts receivable to full-blown testing and analysis

are now many firms across the country whose goal is to provide quality field examinations to lenders. These have flourished as a result of the increased emphasis on the field examinations lenders now require. New firms are continually entering the industry.

Historically, only finance companies used field examinations. Currently small, medium and large factors, asset-based lenders, commercial banks, investment banks and hedge funds are using field examinations. In this economy, even large public (well-known) companies,