



Credit Risk Analysis

Students learn the principal concepts of credit risk analysis techniques using a structured approach and explore the management of credit risks under competitive and realistic conditions.

Available Session(s):

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|--------------------------------------|-----------------|---------------------|
| 09-Feb-2009 -- 13-Feb-2009 | New York | USD \$4875 |
| NY Institute of Finance - Midtown | 9:00am - 4:30pm | Mon Tue Wed Thu Fri |
| Instructor(s):[Henry Pullman;] | | |

Targeted Audience

Credit and financial analysts, portfolio managers, credit officers, commercial bankers, risk managers and analysts.

Special Offer

Clients who register for this course will receive a complimentary 6 month subscription to the Financial Times and FT.com. The Financial Times is the world's most respected financial newspaper providing a broad assessment on finance, business and the industrial sector. Subscriptions will start within 6-8 weeks of the application process, and are limited to one per client. For questions about your subscriptions call 800-628-8088 or email uscirculation@ft.com. US and Canada enrollees only.

Advance Preparation

No advance preparation required.

Prerequisites

Financial Statement Analysis or equivalent knowledge. Working knowledge of Excel.

Learning Objectives

Students will be able to:

- Appreciate the importance of the credit cycle

- Have a better understanding of the current state of the credit markets
- Discuss the various factors that drive credit quality
- Gauge company performance using ratio analysis and complete a trend analysis
- Analyze the ratios in context with the business and industry analysis and draw conclusions from the historical data
- Understand the rating agency approach and the inherent differences with lender/investor analysis
- Recognize the effects of accounting irregularities
- Appreciate the analytical benefits and pitfalls of EBITDA
- Understand the relationship between qualitative and quantitative aspects of a credit analysis
- Compare peer performance
- Recognize off-balance sheet risks and quantify them

Level: Basic

CPE Credits: 36

Instructional Method: Group-Live

Detailed Outline

Day 1

Session 1

- "What is Credit?"
 - Who uses it and why
 - Review of recent high profile defaults - some common themes
 - Review of credit market:
 - Where we are in the credit cycle?
 - Overview of default and recovery rates
- Class Discussion: What will be the likely impact of increased default volumes and increased credit market volatility? How will this affect your business?*

Session 2

- Examine how companies fund themselves
- The risk return profile
- Short, medium and long term debt products from the banking and capital markets
- Which products are appropriate for

Day 2

Session 1

- Define and examine industry and corporate strategy
 - The importance of using a Risk Evaluation Framework
 - Using established industry and business analysis techniques from the credit perspective
 - SWOT, Porter
 - Company overview: History, organizational structure, product lines, customer base, suppliers, market position, management and overall strategy
 - Management is key
 - Characteristics of effective management
- Exercise: Compare and contrast three telecoms: France Telecom, British Telecom, AT&T - which appear to have the strongest industry fundamentals?*

which purposes and why?

- Asset based, seasonal and cash flow lending

Exercise: For each borrowing need, identify the appropriate product or products

Session 3

- Examine preliminary loan screening
- What is the request? Identify the proposed loan terms
- Is the request within bank policy?
- Quick and dirty - purpose and payback
- Who is the borrower? What is the reason for the loan?

Exercise: Participants review loan requests and identify sources of repayment

Session 4

- The Rating Agencies
- The rating agency approach - Rate through the cycle
- Why rating agencies lag the debt and equity markets
- The rating outlooks
- The vicious circle - How rating downgrades can trigger liquidity crises

Exercise: The Credit Cliff Homework - Case Studies: Participants are introduced to the case studies credit cliff

Session 2

- Review accounting and historical financial statement analysis
- Income statement - revenues, cost of sales and profitability
- Balance sheet - capital expenditures and working investment, asset efficiency, liquidity and leverage

Exercises: The mixed up balance sheet - Consolidation

Session 3

- Ratio analysis
- Exercise: Company identification using ratios*
- What can ratios measure?
 - Profitability, performance, liquidity, solvency, leverage, efficiency, cash flow
- Exercise: Interpreting the telecom ratios*

Session 4

- Review and apply cash flow analysis
 - Creating and interpreting cash flows
 - Differences between company produced and derived cash flows
- Exercise: Calculating profit versus cash flow*

Session 5

- Analysis of cash drivers
 - Operating cash flow, net operating cash flow, EBITDA: when
 - Pitfalls of EBITDA
 - Working capital analysis
 - Capex analysis (maintenance vs. growth)
 - Complications of analyzing cash flows
- Exercise: Calculate a simple cash flow statement*

Day 3

Session 1

Day 4

Session 1

- Early Warning Signs and Creative Accounting
- Non-financial signs
- Financial signs - income statement, balance sheet and cash flows
- Bank internal warning signs
- Creative Accounting

Exercise: Searching for early warning signs in Amerco's annual report

Session 2

- Industry and company forecasting
- Projection analysis
- Introduction to the model
- Key factors driving forecast statements
- Overview of model forecast inputs

Case company: Participants are introduced to the case company model and create a base and downside case

Session 3

- Define and examine debt capacity
- Calculating debt capacity from projected cash flows
- Compare debt capacity to credit request
- Alternative sources of repayment

Case Company: Participants use the model to assess debt capacity

- Loan structuring
- Who is the borrower?
- Facility structure
- Corporate structure
- Seniority
- Structural subordination

Exercise: Loan structuring

Session 2

- The challenge of covenants
- Financial covenants
- Non-financial covenants
- Setting covenants - at what level
- Covenant tracking - when to see the client

Exercise: Setting covenants for Xerox

Session 3

- Examine different types of risk
- Credit
- Market
- Operational
- Liquidity
- Country
- Macroeconomic

Exercise: Review several banks annual report discussions on risk

Session 4

- Discuss finalizing the loan - A structured approach
- The written credit proposal
- Key risks and mitigants
- Relationship strategy
- The economics of credit, profitability/RAROC

Exercise: Participants comment and critique a written credit proposal

Homework: Structuring the loan and setting covenants for the case studies

Session 1

- Examine and review syndicated loans
- Role of the players and the local market
- Key benefits of syndicated loans
- Loan syndication procedures
- Documentation benefits and traps

Exercise: Calculating profitability pre and post syndication

Session 2

- Structured credits
- LBO's, MBO's
- Why use leverage?
- Optimal level of debt?
- Structuring Differences

Exercise: Leverage finance case study

Session 3

- Complete group case studies - Mock Credit Committee
- Presentation of Borrower and Key Risks
- Presentation of past and likely future performance
- Proposed Facility Structure
- Proposed Covenants
- Instructor critique of presentations for clarity and analytic focus

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