Fundamentals of Credit

Course Instructor

Kyle Peterdy

VP, Commercial Banking
& Credit

About Kyle...

Kyle's background is in commercial lending, where he was responsible for originating and underwriting middle market credit transactions. He has extensive experience conducting financial analysis and assessing business and industry risks.

Kyle has a BEd from McGill University (Montreal, QC) and an MBA from the Sauder School of Business at the University of British Columbia (Vancouver, BC).

Kyle is passionate about teaching and corporate training.

Learning Objectives

Define what credit is and how it's created.

Identify some of the different career opportunities available to credit professionals.

Compare different types of interest payments and loan characteristics to help inform an appropriate credit structure.

Explain what capital expenditure (or CAPEX) is and how debt financing can support it.

Explain the 5 Cs of credit framework and how it informs risk assessments.

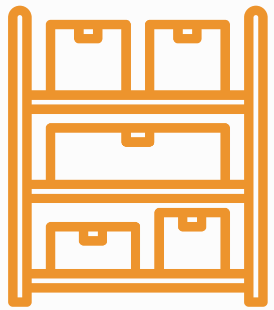
Identify the important qualitative and quantitative techniques, including key financial ratios, used in the risk assessment process.

Introduction to Credit

CFI

What is Credit

Credit is created when one party **receives resources from another party without immediate payment.**



Lender
(Credit Provider/Creditor)

Credit Receiver
(Borrower/Debtor)

Vendor of Product, Services, etc.
(Credit Provider/Creditor)

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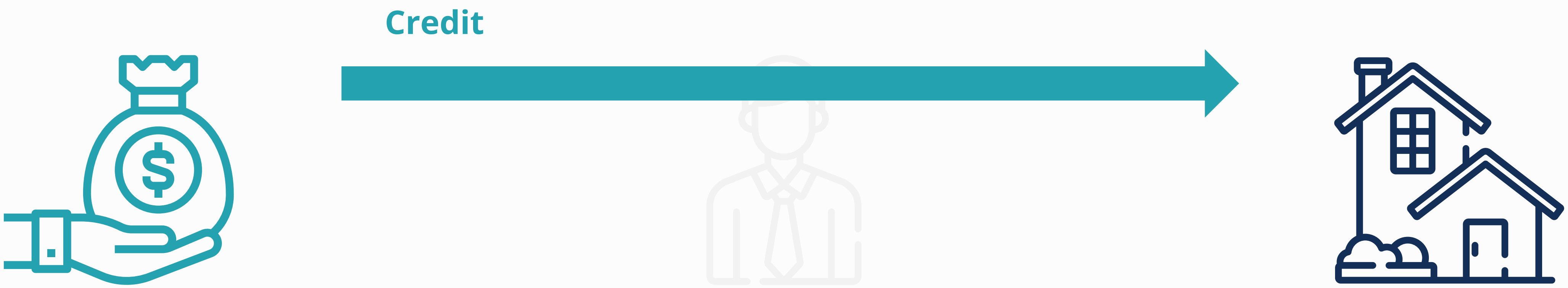

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Lender Facilitates the Transaction

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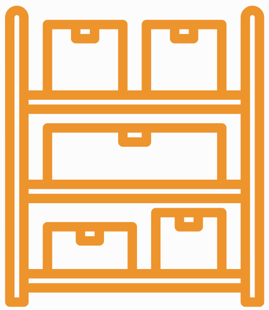
Trade Credit



Account Payable
(Amount Owing)

Account Receivable
(Amount Owed)

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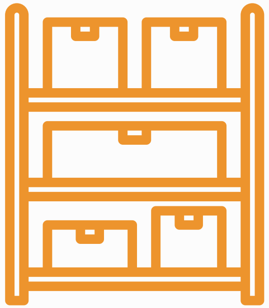

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Companies vs. Individuals

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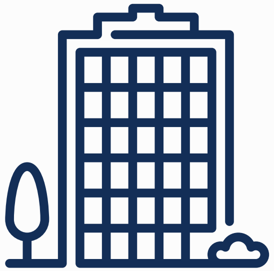

Companies

May use credit to help grow and operate their business. It may be short-term or long-term.

Individuals

May seek credit for things like credit cards or longer-term loans such as vehicles or mortgages.

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How & Why is Credit Used?

We often think of individuals borrowing money when they do **not have enough cash on hand to make a purchase.**

An individual may borrow a large sum of money for a mortgage and pay it back over 25 or 30 years.

How & Why is Credit Used?

When it comes to commercial credit, however, **there is a little more nuance.**

A commercial borrower has both **strategic reasons** to use debt in its capital structure and some **practical reasons.**

Practically speaking, companies borrow money to make investments that will **generate future revenue** and, presumably, **future cash flow**.

Investments in the business are **assets.**

How & Why is Credit Used?

Assets					
Cash	9,667	8,552	7,643	10,785	13,567
Trade and Other Receivables	16,220	17,193	18,225	19,318	20,477
Inventories	9,124	9,671	10,251	10,866	11,518
Current Assets	35,011	35,416	36,119	40,969	45,562
Property Plant and Equipment	23,217	24,610	26,086	27,651	29,311
Total Assets	**58,227**	**60,026**	**62,206**	**68,621**	**74,873**
Liabilities & Shareholders' Equity					
Operating Line of Credit	-	-	-	-	-
Trade and Other Payables	12,165	12,895	13,669	14,489	15,358
Income Taxes Payable	959	1,034	1,119	1,194	1,262
Current Liabilities	13,124	13,928	14,787	15,683	16,620
Long-Term Debt	19,647	17,382	15,176	16,931	18,268
Non-Current Liabilities	19,647	17,382	15,176	16,931	18,268
Total Liabilities	**32,771**	**31,310**	**29,963**	**32,614**	**34,888**
Common Stock and Additional Paid-In Capital	7,627	7,627	7,627	7,627	7,627
Retained Earnings	17,830	21,088	24,616	28,380	32,358
Total Shareholders' Equity	**25,457**	**28,715**	**32,243**	**36,007**	**39,985**
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CAPEX

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Sources of Funding

Cash

Equity

Credit/Debt

Sources of Funding – Cash

Cash

Pros

- Always accepted
- Very liquid and can be used during emergencies
- No cost (other than opportunity cost)

Cons

- Most companies don't keep a large cash balance; may not have enough cash to cover large scale or longer-term projects
- Balance between keeping cash on hand and funding new CAPEX

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Sources of Funding – Equity

Equity

Pros

- Companies can issue stock to raise cash
- Good for start-ups with no ability to borrow
- Good for higher risk, expensive, long-term projects
- No ongoing requirement to pay interest or principal

Cons

- Usually, more expensive than debt because it is higher risk
- Gives away ownership and control of the company and rights to some of the firm's future profits
- Accountable to stockholders – provide ongoing financial information and decision making

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Sources of Funding – Credit/Debt

Credit/Debt

Pros

- Also good for funding longer-term projects
- Interest payments are tax-deductible
- Will not dilute existing shareholders or change ownership percentage
- Cheaper than equity; lower risk source of funding

Cons

- Requires greater attention around liquidity
- Higher risk may mean higher interest rates
- Excessive debt and/or insufficient liquidity can cause insolvency
- May have covenants which are “rules” – things that a borrower cannot do (or must do)

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Why is Debt a Lower Risk Source of Funding Than Equity?

Debt

Equity

The Capital Stack

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Debt

Equity

Subordinated Debt

Mezzanine Financing

Preferred Shares

Why is Debt a Lower Risk Source of Funding Than Equity?

Debt	Senior Debt
Equity	Common Shares

Why is Debt a Lower Risk Source of Funding Than Equity?

Earnings (and proceeds) are paid out to creditors ahead of stockholders – both in good times and in bad.

Revenue	98,671	104,591	110,867	117,519	124,570
Cost of Goods Sold	44,402	47,066	49,890	52,883	56,056
Gross Profit	**54,269**	**57,525**	**60,977**	**64,635**	**68,513**
Distribution Expenses	7,400	7,844	8,315	8,814	9,343
Marketing and Administration	31,575	33,469	35,477	37,606	39,862
Research and Development	2,269	2,406	2,550	2,703	2,865
Depreciation	3,157	3,347	3,548	3,761	3,986
EBIT (Operating Profit)	**9,867**	**10,459**	**11,087**	**11,752**	**12,457**
Interest	1,229	1,148	1,009	995	1,091
Income Before Taxes	8,638	9,311	10,077	10,757	11,366
Taxes	2,591	2,793	3,023	3,227	3,410
Net Income	**6,047**	**6,518**	**7,054**	**7,530**	**7,956**
Common Dividends	3,023	3,259	3,527	3,765	3,978

Why is Debt a Lower Risk Source of Funding Than Equity?

Debt

Equity

A creditor registers a charge (or a lien) against its borrowers' assets, making them collateral.

In the event of a default and liquidation, claims against company assets would be made **from top to bottom of the capital stack.**

Why is Debt a Lower Risk Source of Funding Than Equity?

Debt

Equity

1

Why is Debt a Lower Risk Source of Funding Than Equity?

Debt

1

Equity

2

Why is Debt a Lower Risk Source of Funding Than Equity?

Why is Debt a Lower Risk Source of Funding Than Equity?

This is why debt is considered a **lower risk source of funding than equity!**

Types & Features of Credit

CFI

Types of Credit

1 Revolving

Often a line of credit or a credit card that has a capped credit limit.

May be drawn, paid back, and re-drawn (up to its limit).

2 Installment

A type of loan with pre-determined payments.

Often called “reducing” (or amortizing) as the principal amount reduces with each payment made.

3 Open Credit

Amount is typically due in full at the end of some period.

Examples include cell phone bills or utility services at month-end.

Principal & Interest

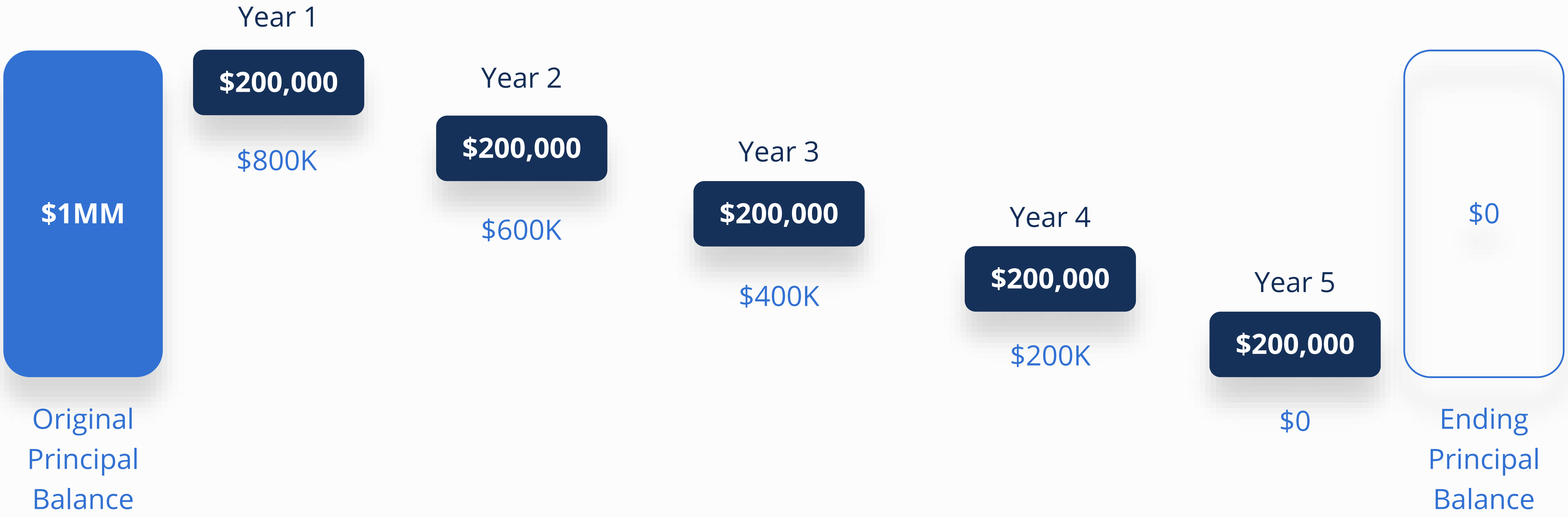
Principal

- Face value of the credit that is being extended.
- Must be repaid in full at some point in the future.

Interest

- Additional charge on top of the principal payment.
- Paid as compensation to the lender for providing capital.

Principal



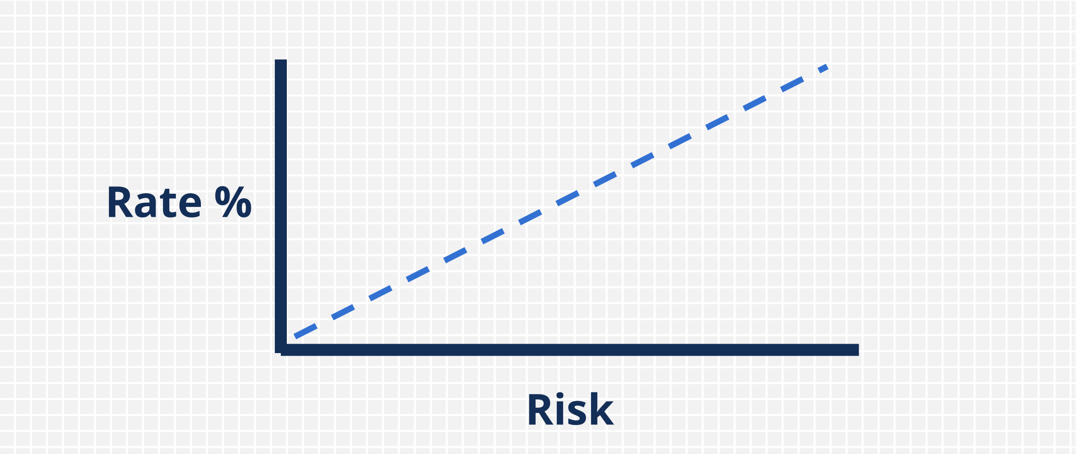
Year 1
$200,000
$800K
Year 2
$200,000
$600K
Year 3
$200,000
$400K
Year 4
$200,000
$200K
Year 5
$200,000
$0
$1MM
Original Principal Balance
$0
Ending Principal Balance

Interest

Interest

Cost of obtaining credit (for the borrower); compensation for the lender.

Expressed as a percentage of the outstanding principal, like 2%, 5%, etc.



Interest

Interest

Cost of obtaining credit (for the borrower); compensation for the lender.

Expressed as a percentage of the outstanding principal, like 2%, 5%, etc.

Regular or Accrued

Simple or Compounding

Interest

Let's work with an example million-dollar loan, **on a 3-year term, at 5% with interest charged annually.**

Regular Interest = 5% (or 0.05) * $1MM = <u>$50,000</u>

This is also an example of simple interest. **It is the interest calculated on the original principal amount of the loan.**

Year 2 of Loan Period = 5% (or 0.05) * $1MM = <u>$50,000</u>

Total Interest over 3 Years = $50k + $50k + $50k = $150,000

Interest

Accrued interest is the opposite of regular interest; interest instead accumulates. It's often referred to as a pay-in-kind structure (or PIK).

Compound Interest = $P\,[(1 + i)^{n} - 1]$

P = Original principal amount

i = Nominal annual interest rate

n = Number of periods

Previous Loan Example = $\$1MM\,[(1 + 0.05)^{3} - 1]$

Total Interest over 3 Years = $157,625

Interest

Accrued interest is the opposite of regular interest; interest instead accumulates. It's often referred to as a pay-in-kind structure (or PIK).

Year 1 Calculation = $1,000,000 * (0.05) = $50,000 → $1,050,000

Year 2 Calculation = $1,050,000 * (0.05) = $52,500 → $1,102,500

Year 3 Calculation = $1,102,500 * (1 + 0.05)

Interest

Accrued interest is the opposite of regular interest; interest instead accumulates. It's often referred to as a pay-in-kind structure (or PIK).

Year 1 Calculation = **$1,000,000 * (0.05) = $50,000** → **$1,050,000**

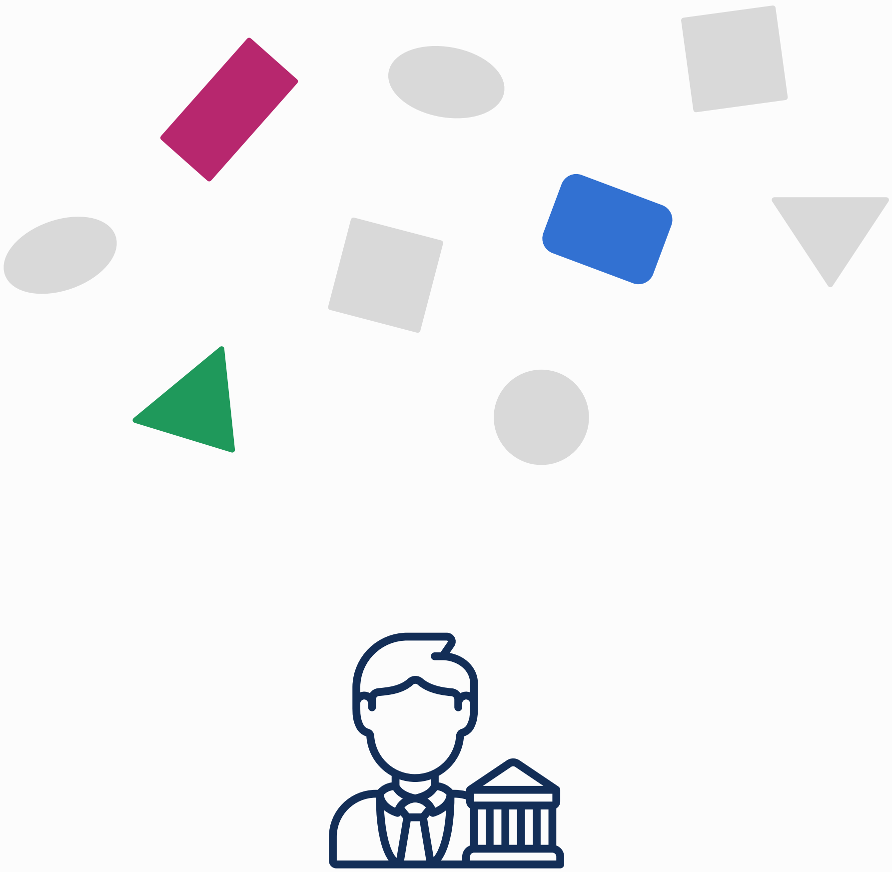
Year 2 Calculation = **$1,050,000 * (0.05) = $52,500** → **$1,102,500**

Year 3 Calculation = **$1,102,500 * (1 + 0.05)** → **$1,157,625**

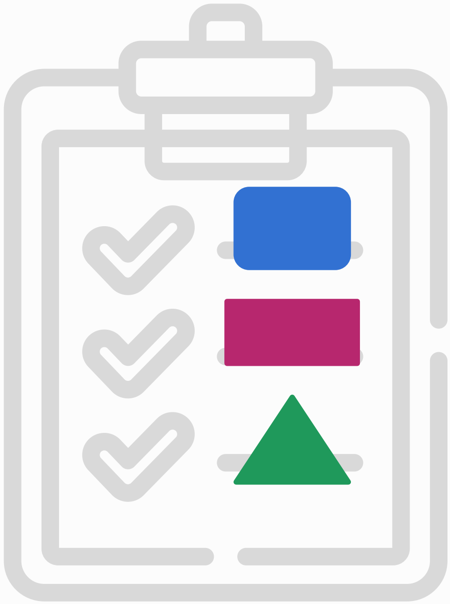
Interest

1. Accrued interest structures are **virtually always compound interest.**
2. Regular interest structures may have **simple *or* compound interest.**

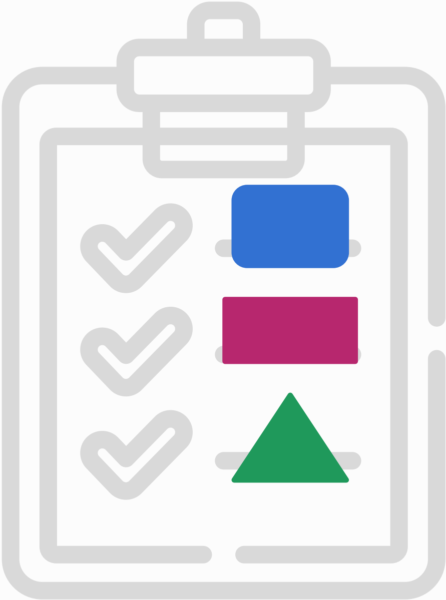
Loan Characteristics



Loan Characteristics



Loan Characteristics



Loan Structure

Loan Characteristics

Fixed-Rate

Variable-Rate

Operating Credit

Term Financing

Amortizing

Non - Amortizing

Secured

Unsecured

Fixed vs. Variable

Fixed Rate

- The interest rate **remains the same** over the loan term.

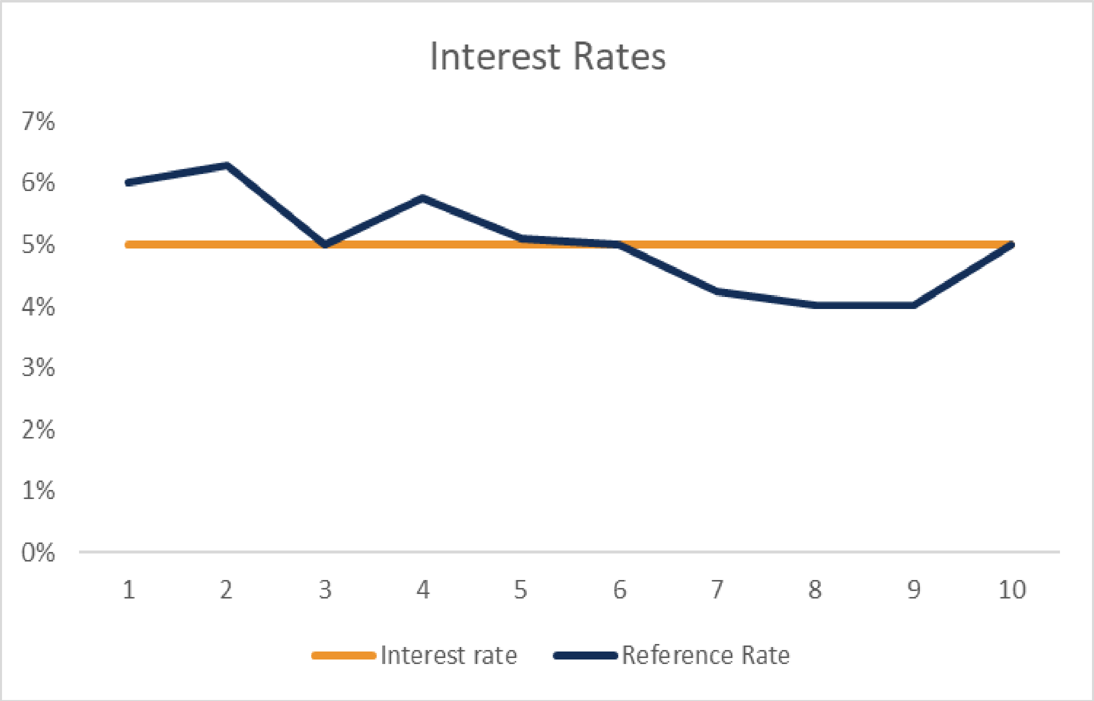
Variable Rate

- The interest rates are set relative to a reference rate, often known as “Bank Prime,” which **changes over time**.

Fixed vs. Variable

Fixed Rate

Interest rate on loan does not follow changing rates in the market.



Fixed vs. Variable

Fixed Rate

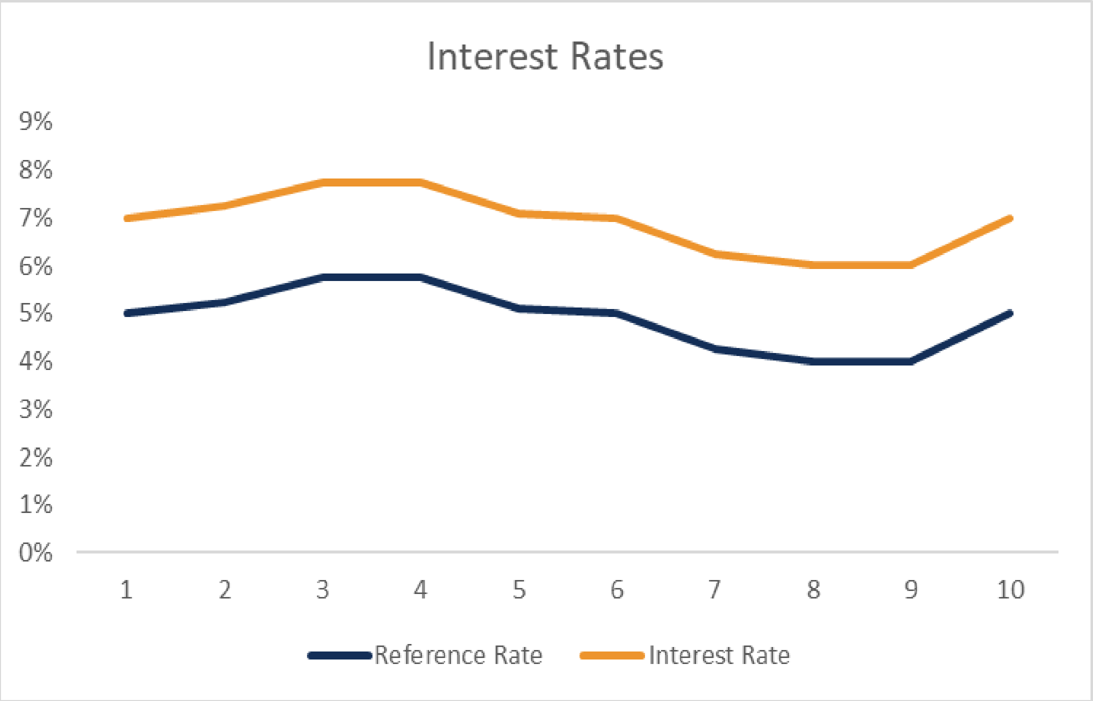
Interest rate remains the same for the full term of loan.

Year	Reference Rate	Interest rate
1	6.00%	5%
2	6.30%	5%
3	5.00%	5%
4	5.75%	5%
5	5.10%	5%
6	5.00%	5%
7	4.25%	5%
8	4.00%	5%
9	4.00%	5%
10	5.00%	5%

Fixed vs. Variable

Variable Rate

Interest rate on loans follows the reference rate.



Fixed vs. Variable

Variable Rate

The spread is set at 2%, and the interest rate on loan will always be 2% above reference rate.

Year	Reference Rate	Spread	Interest Rate
1	5.00%	2.0%	7.00%
2	5.25%	2.0%	7.25%
3	5.75%	2.0%	7.75%
4	5.75%	2.0%	7.75%
5	5.10%	2.0%	7.10%
6	5.00%	2.0%	7.00%
7	4.25%	2.0%	6.25%
8	4.00%	2.0%	6.00%
9	4.00%	2.0%	6.00%
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Fixed vs. Variable

Fixed Rate

Pros

- Protection from rising interest rates in the future.
- Financial forecasting/modeling is more predictable.

Cons

- If interest rates fall in the future, a fixed-rate loan is locked in at a specific rate.
- Breakage costs may be substantial.

Variable Rate

Pros

- There is the ability to capitalize on a reference rate decrease over time.
- Early payouts are generally permitted for maximum flexibility.

Cons

- This type of loan is worse for a borrower if the reference rate rises over time.

Operating Credit vs. Term Financing

Assets				
Cash	9,667	8,552	7,643	10,785
Trade and Other Receivables	16,220	17,193	18,225	19,318
Inventories	9,124	9,671	10,251	10,866
Current Assets	35,011	35,416	36,119	40,969
Property Plant and Equipment	23,217	24,610	26,086	27,651
Total Assets	**58,227**	**60,026**	**62,206**	**68,621**
Liabilities & Shareholders' Equity				
Operating Line of Credit	-	-	-	-
Trade and Other Payables	12,165	12,895	13,669	14,489
Income Taxes Payable	959	1,034	1,119	1,194
Current Liabilities	13,124	13,928	14,787	15,683
Long-Term Debt	19,647	17,382	15,176	16,931
Non-Current Liabilities	19,647	17,382	15,176	16,931
Total Liabilities	**32,771**	**31,310**	**29,963**	**32,614**
Common Stock and Additional Paid-In Capital	7,627	7,627	7,627	7,627
Retained Earnings	17,830	21,088	24,616	28,380
Total Shareholders' Equity	**25,457**	**28,715**	**32,243**	**36,007**
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LOC supports the day-to-day operations

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Repayment of term debt depends on the underlying asset

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Amortizing vs. Non-Amortizing

Amortizing

- The principal payments are **spread out over the life of the loan;** balance decreases over time.
- It is designed to be **fully repaid upon maturity.**
- Principal payments may be either **equal amortizing or equal payment.**

Non – Amortizing

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- If accrued interest, **total interest is also due at maturity.**
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Amortizing vs. Non-Amortizing

Amortizing

- **Borrower:** the loan principal is reduced during the loan term, so there is less total interest to pay over the life of the loan.
- **Lender:** less risky, as a part of the principal is received with each payment, reducing the overall repayment risk as the loan term progresses.

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Non – Amortizing

- **Borrower:** the payments made during the loan term are much smaller as no principal is being paid back.
- **Lender:** repayment risk is higher, but the potential return is greater since the total interest paid is higher.

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Non – Amortizing

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Secured vs. Unsecured

A lender (like a commercial bank or a credit union) will **register charges against the assets of its borrowers using public security registries. These are often called *liens*.**

These assets are called **collateral security**, **and the lender can use this collateral to sell and recover loan proceeds** if a borrower ever defaults.

It is common to use something like a **"General Security Agreement,"** which is a floating charge over all the borrower's assets.

Secured vs. Unsecured

Secured

Some credit is backstopped by a specific charge over a specific asset.

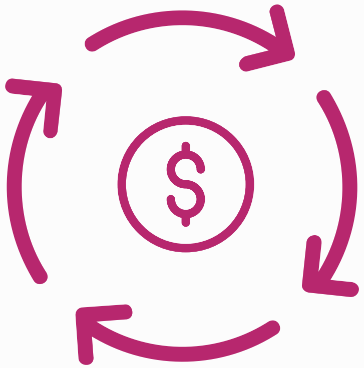
Collateral mortgage agreement

A lender may register a charge over machinery

Secured vs. Unsecured

Personal credit card

Student line of credit



Unsecured

Not secured by a specific asset but by the borrower's creditworthiness and general asset base.

Tends to have a higher interest rate as there is no specific collateral securing the loan.

Secured vs. Unsecured

Secured	Unsecured
Some credit is backstopped by a specific charge over a specific asset.	Not secured by a specific asset but by the borrower's creditworthiness and general asset base.
Tends to have a lower interest rate as the collateral reduces the risk of loan loss.	**Tends to have a higher interest rate as there is no specific collateral securing the loan.**

The Credit Process & Analysis Fundamentals

Career Opportunities for Credit Professionals

Pursuing a Career as a Credit Professional?

Where do credit professionals work?

What are some specific roles that might be a good fit for me?

Career Opportunities for Credit Professionals

Financial Institutions

- Include relationship management, analyst, and adjudication roles.
- Usually classified as either business, commercial, or corporate banking.

Private Lenders

- Firms include real estate lenders, equipment finance companies, and asset-based lenders.
- Service a similar market as banks but may also serve higher-risk borrowers.

Corporations

- Employ teams of analysts to assess trade credit risk in their own customer portfolios.
- These analysts use many of the same skills as those at a commercial bank.

Career Opportunities for Credit Professionals

Rating Agencies

- Assess the credit risk of publicly-traded companies in order to help price fixed-income securities.
- Analysts play a very important role in the smooth functioning of the Capital Markets.

Institutional Investors

- Hire experienced credit analysts to manage risks in investment portfolios.
- These analysts may analyze bonds and other debt instruments.

The Credit Process

Origination

- A bank representative will reach out to prospective new clients through cold-calling, a referral, or other strategies used to source deals.

Client Discovery/ Credit Structure

- The lender will work to understand the borrower's business, its financial results, and its borrowing need(s).
- Negotiations will begin at this stage around credit structure as well as pricing and fees.

Analysis/ Underwriting

- Secured client commitment to move forward
- This stage includes the credit application and formal approval from the lender's risk management group.

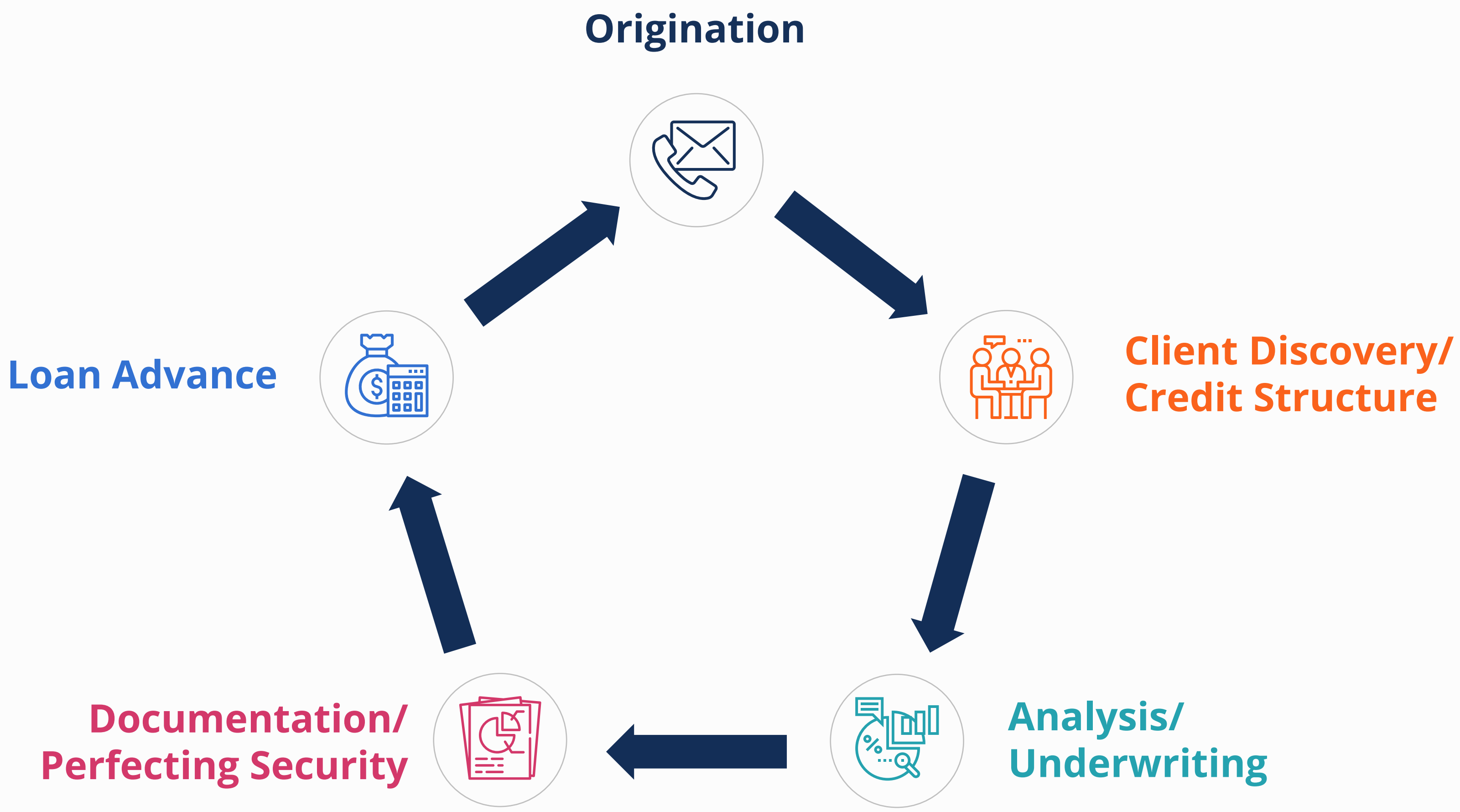
Documentation/ Perfecting Security

- Once approval is secured, the loan and collateral agreements are produced, reviewed, and executed by both parties' legal counsels.

Loan Advance

- Proceeds of the loan are advanced to the borrower.
- The loan hits the books of the financial institution.

The Lending Process



The 5 Cs of Credit

The 5 Cs of credit is a framework used by lenders when **analyzing the creditworthiness of a prospective borrower.**

- **Character**
- **Capacity**
- **Capital**
- **Collateral**
- **Conditions**

The 5 Cs of Credit

Character

Capacity

Capital

Collateral

Conditions

- What is the business all about?
- What is the character of the company?
- What is the business, its management team, and ownership's reputation?

The 5 Cs of Credit

Character

Capacity

Capital

Collateral

Conditions

- The actual ability of the borrower to service debt obligations.
- Includes considerations around profit margins, liquidity, and cash flows to support future payments.

The 5 Cs of Credit

Character

Capacity

Capital

Collateral

Conditions

- Evaluate the financial structure of a company.
- Gain an understanding of the proportion of debt vs. equity financing.
- Includes an analysis of access to other sources of capital.

The 5 Cs of Credit

Character

Capacity

Capital

Collateral

Conditions

- What types of underlying assets are being financed?
- Are there other assets available?
- Where are the assets physically located?
- How easily can these assets be converted to cash?

The 5 Cs of Credit

Character

Capacity

Capital

Collateral

Conditions

- Evaluate the credit request within the context of the industry and the macroeconomic environment.
- Understand factors like inflation, consumer spending, interest rates, and foreign exchange rates.

The 5 Cs & Credit Risk

Character	Capacity	Capital	Collateral	Conditions
✓	✓		✗	
Strong industry experience and reputation	Good margins and cash flow		Weak collateral position	

Strengths in two categories may outweigh the weakness in collateral, making this business still a good loan candidate.

The 5 Cs & Credit Risk

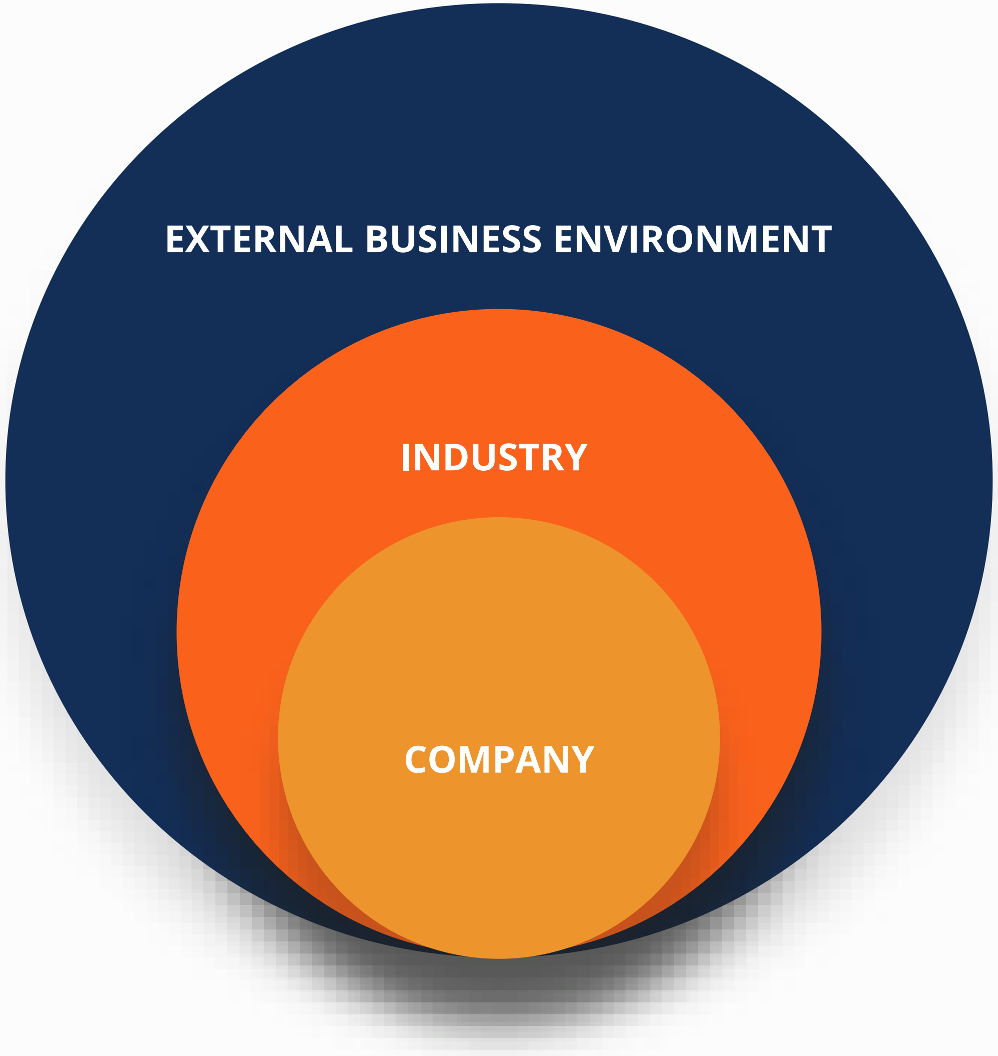
Character	Capacity	Capital	Collateral	Conditions
		✓ Other business interests and cash available	✓ Strong collateral security	✗ Declining industry

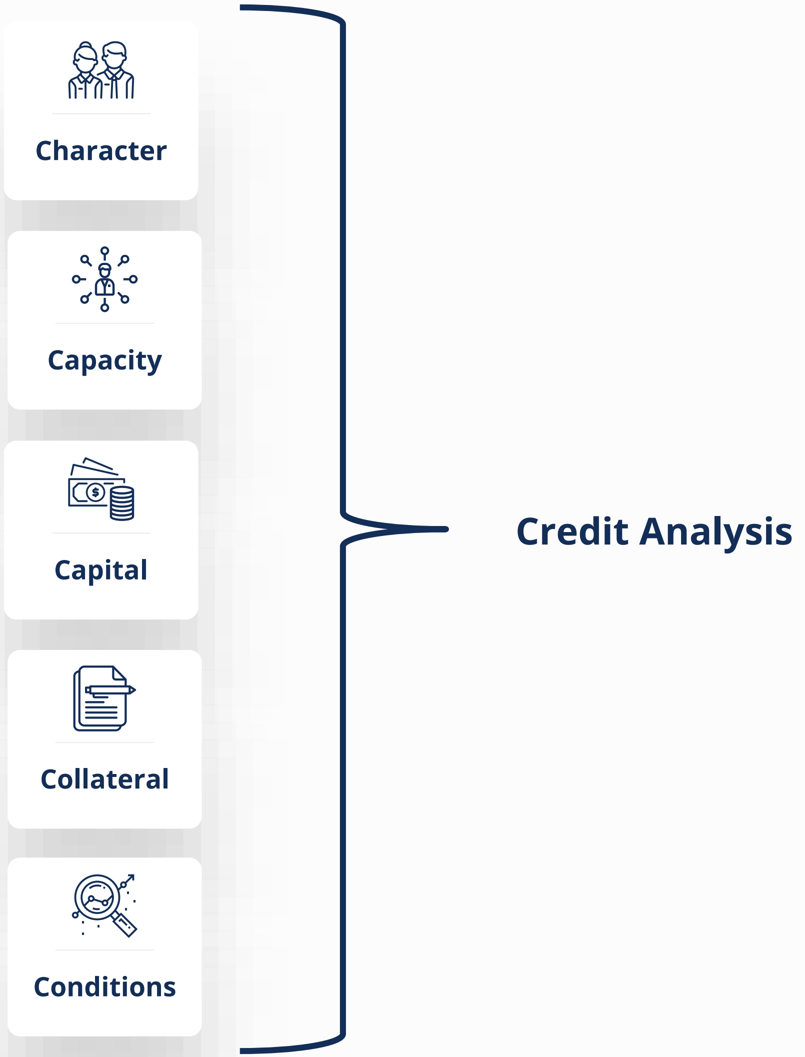
In this example, strengths in collateral and capital might be sufficient to offset weakness in conditions.

Big Picture Context

Credit Request

Big Picture Context





Industry, Business & Management Analysis

These categories would be classified as being the more **qualitative parts of a credit assessment.**

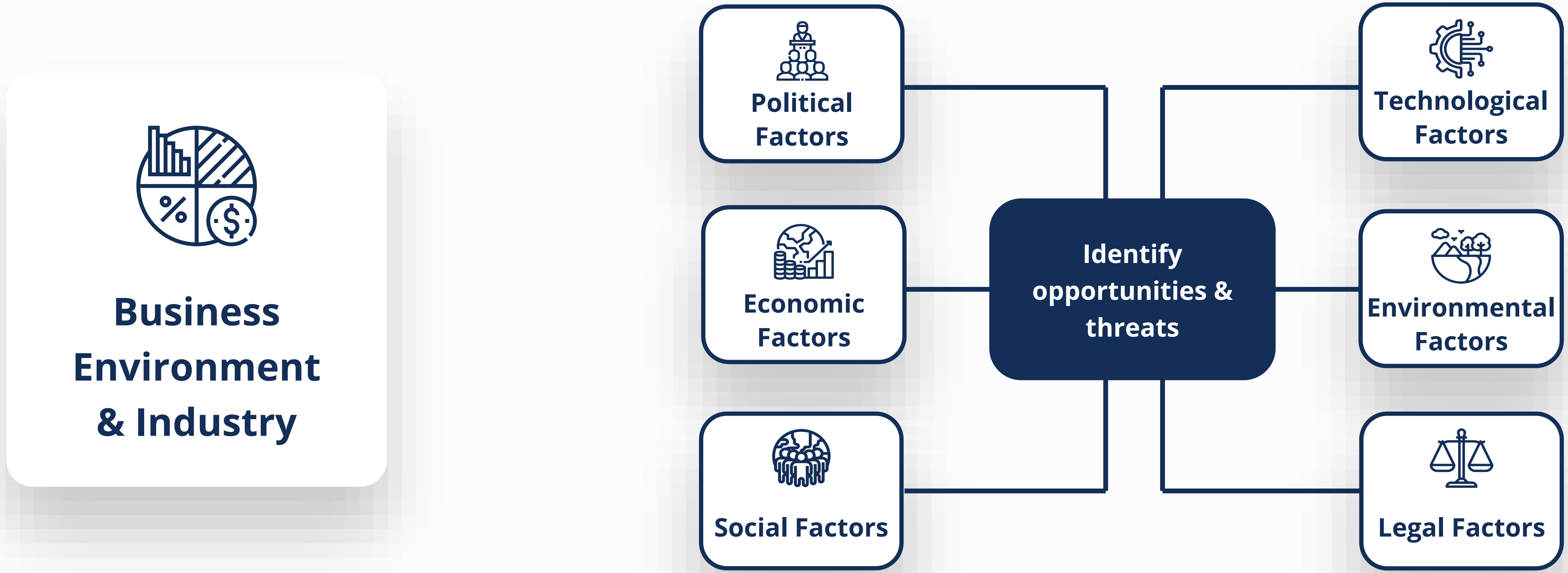
Industry Analysis

Business Analysis

Management Analysis

Industry, Business & Management Analysis

At the business environment and the industry levels, there are tools available to support our analysis.



PESTEL highlights factors that may create both **risks and opportunities for a borrower.**

Industry, Business & Management Analysis

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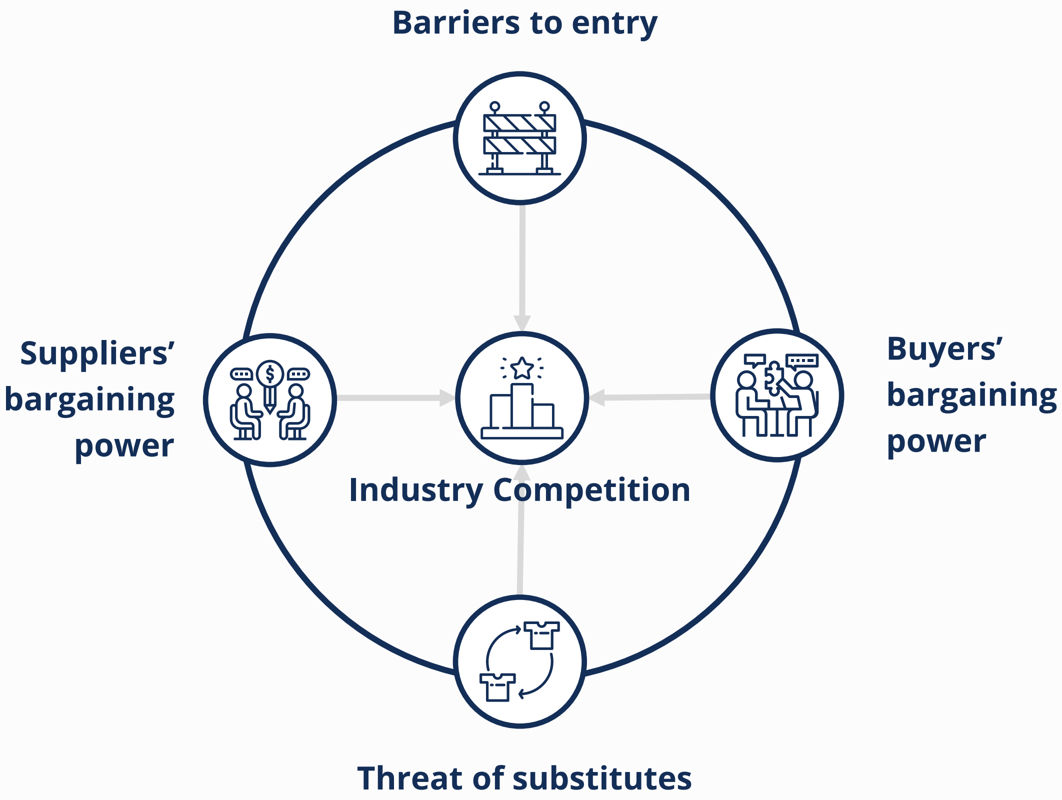
Business Environment & Industry

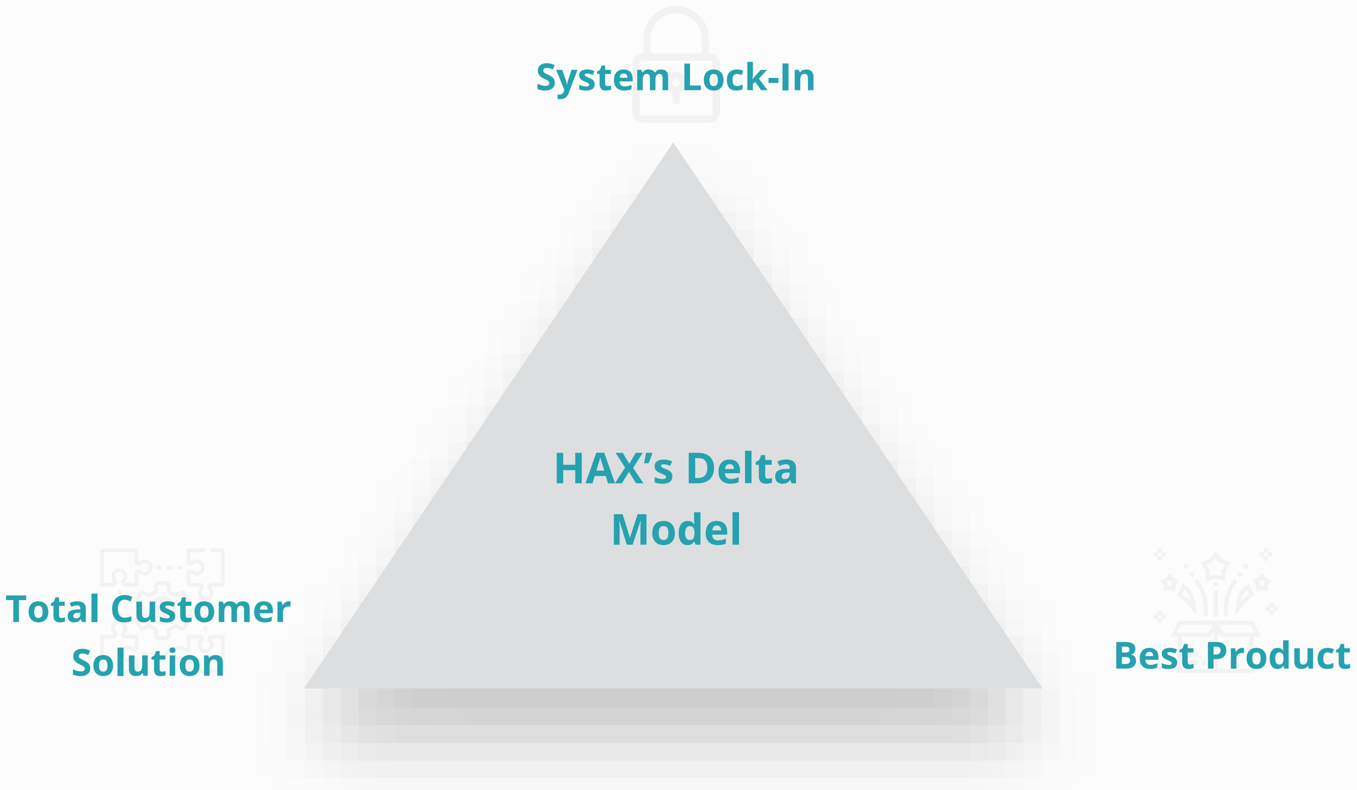


Porter's 5 Forces is used to understand **how competitive forces in an industry might influence its participants.**

Industry, Business & Management Analysis

Assessing the business itself involves **analyzing its competitive position.**

Business Analysis



Industry, Business & Management Analysis

Assessing the business itself involves **analyzing its competitive position.**

Business Analysis

		PRODUCTS: EXISTING	PRODUCTS: NEW
MARKETS	EXISTING	MARKET PENETRATION	PRODUCT DEVELOPMENT
MARKETS	NEW	MARKET DEVELOPMENT	DIVERSIFICATION

Industry, Business & Management Analysis

Assessing the business itself involves **analyzing its competitive position.**

Business Analysis

S	W	O	T
Strengths	Weaknesses	Opportunities	Threats

Industry, Business & Management Analysis

When it comes to management analysis, **many lenders have proprietary questionnaires and evaluation scorecards to assess key management traits.**

Management Analysis

Business and financial acumen

Approach to risk

Planning

Industry, Business & Management Analysis

Character

Capacity

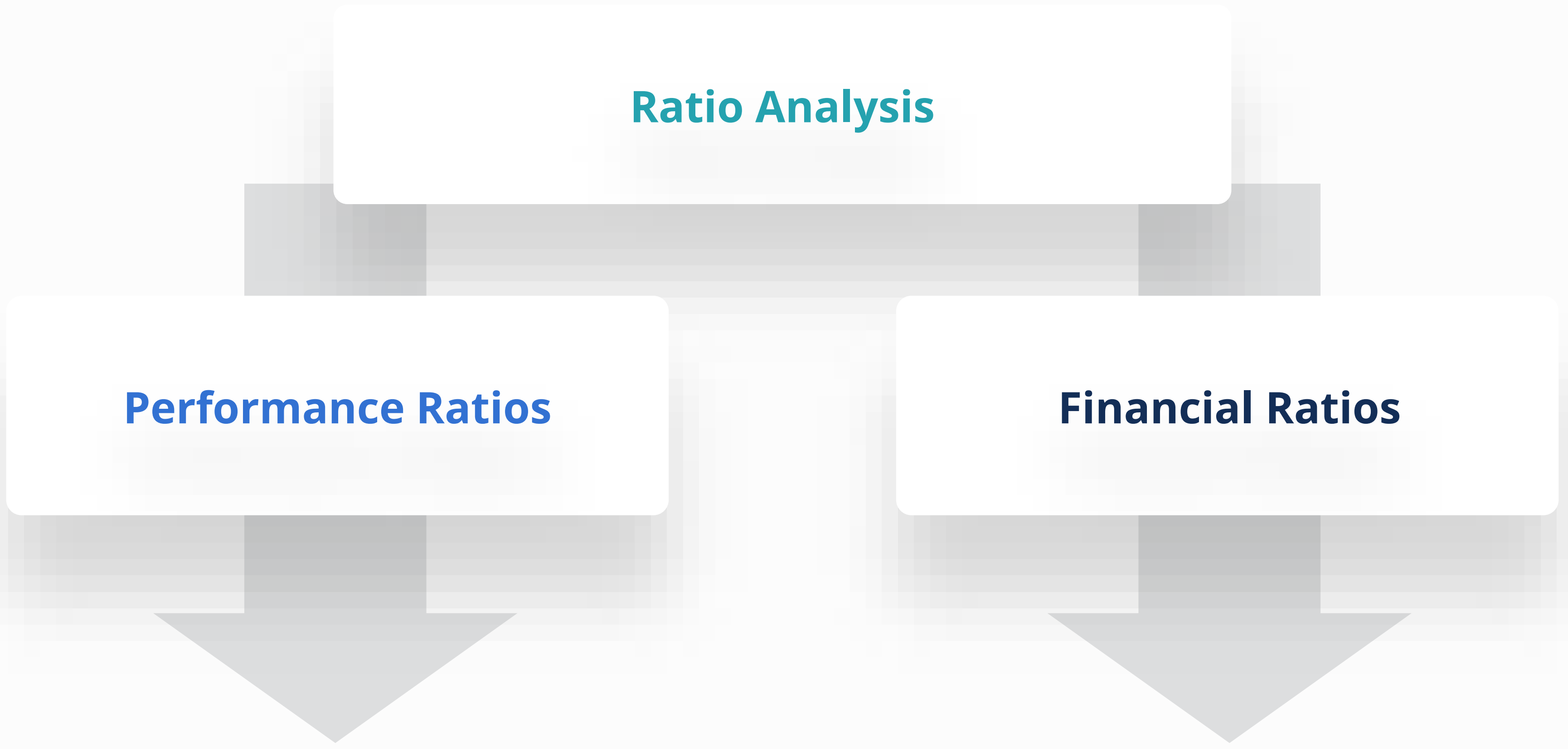
Capital

Collateral

Conditions

Assessing the business environment, the industry, the business itself, and the management team **helps to satisfy the Conditions and the Character Cs of the 5 Cs framework.**

Financial Analysis

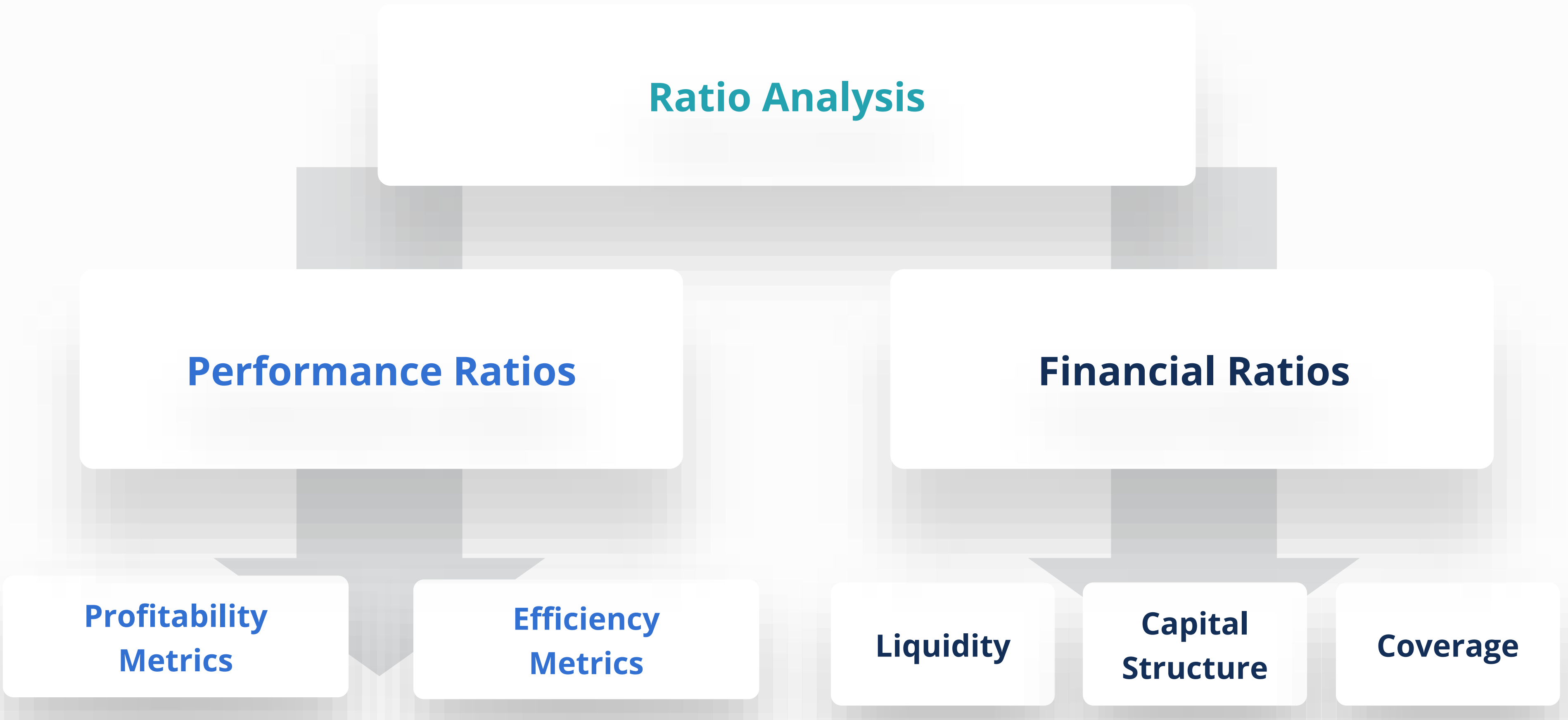


Financial Analysis

Ratio Analysis

- **How profitable is a company,** and how efficiently is it being run?
  - Profitability Metrics
  - Efficiency Metrics
- **Financial condition of the company**; liquidity, capital structure, and its ability to service annual debt obligations
  - Liquidity
  - Capital Structure
  - Coverage

Financial Analysis



Performance Ratios – Profitability Metrics

Gross Profit Margin

$$\frac{\text{Gross Profit}}{\text{Revenue}}$$

Net Profit Margin

$$\frac{\text{Net Income}}{\text{Sales}}$$

EBITDA Margin

$$\frac{\text{EBITDA}}{\text{Revenue}}$$

**Ratios are for illustration purposes. Many financial institutions adjust based on internal underwriting policies.*

Performance Ratios – Efficiency Metrics

Days A/R $= \dfrac{\text{Accounts Receivable}}{\text{Total Revenue}} \times$ # of Days in Period

Days Inventory $= \dfrac{\text{Inventory}}{\text{Cost of Goods Sold}} \times$ # of Days in Period

Days A/P $= \dfrac{\text{Accounts Payable}}{\text{Cost of Goods Sold}} \times$ # of Days in Period

- Cash conversion cycle
- Working capital cycle

Performance Ratios – Trend Analysis

	Year 1	Year 2	Year 3	Year 4	Year 5
Profitability Metrics					
Revenue					
Gross Profit					
Gross Profit Margin					
EBITDA	12,146	14,021	14,425	13,025	14,268
EBITDA Margin					
Net Income					
Net Income Margin					
Efficiency Metrics					
Receivable Days (Sales Basis)					
Inventory Days (COGS Basis)					
Payable Days (COGS Basis)					

Review metrics year-over-year to see changes (trends) in a borrower's performance.

Benchmark the company's performance against its industry peer group.

Unusual trends or gaps will inform an analyst's line of questioning when conducting due diligence interviews.

Performance Ratios – Industry Specific

Airline

Revenue per available seat mile

Food Service

Same store sales growth (SSG)

Retail

Sales per square foot

Financial Ratios – Liquidity

Liquidity measures a company's ability to cover its **current liabilities using only its current assets.**

Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

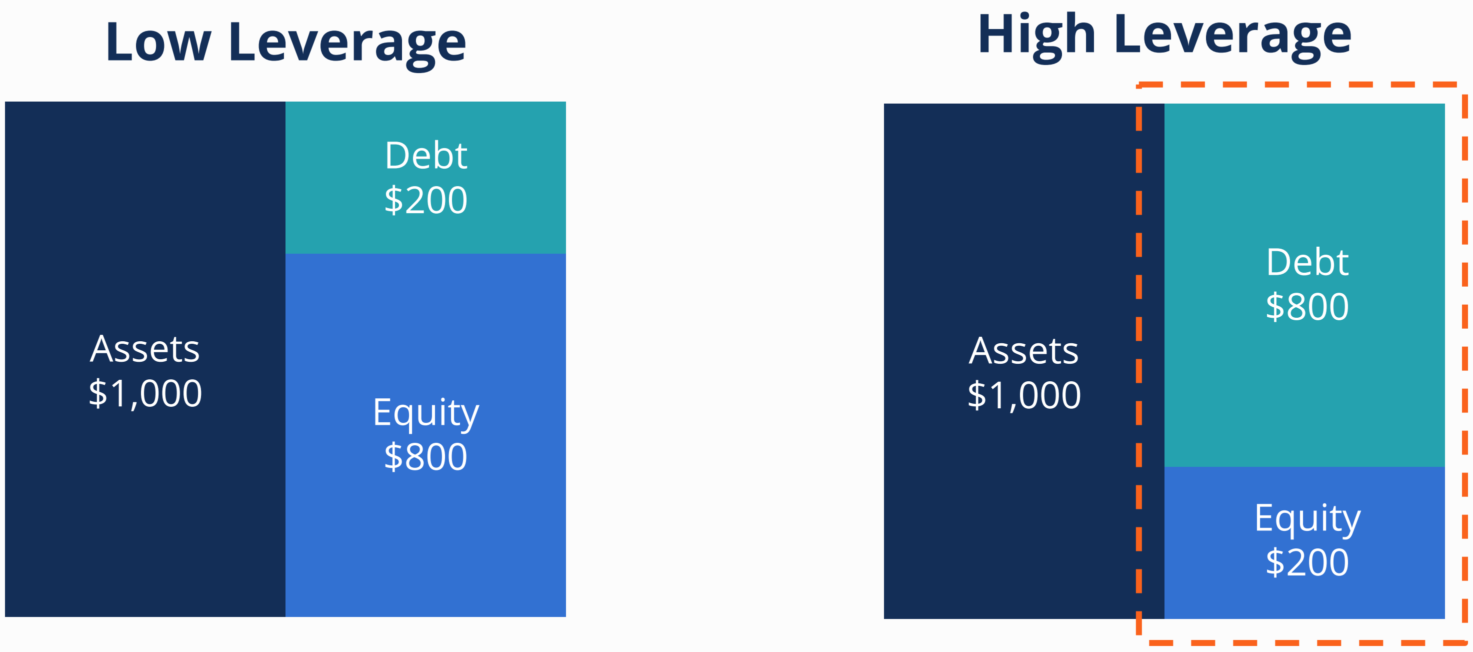
Quick Ratio

$$\frac{[\text{Current Assets} - \text{Inventory}]}{\text{Current Liabilities}}$$

**Ratios are for illustration purposes. Many financial institutions adjust based on internal underwriting policies.*

Financial Ratios – Leverage (Gearing)

Capital structure refers to the **makeup of a company's funding sources.**



Financial Ratios – Leverage (Gearing)

Capital structure refers to the **makeup of a company's funding sources.**

Debt to Equity

Liabilities *(or Funded Debt)*

Shareholder's Equity

Debt to Tangible Net Worth

Liabilities *(or Funded Debt)*

[Equity – Intangible Assets]

**Ratios are for illustration purposes. Many financial institutions adjust based on internal underwriting policies.*

Financial Ratios – Coverage

Coverage metrics assess how easily a business can **cover its annual interest obligations using its annual operating cash flow.**

Times Interest Earned

EBIT

Interest

Debt Service Coverage

EBITDA

[Annual Principal + Interest Payments]

Fixed Charge Coverage

[EBITDA + Fixed Charges]

[Fixed Charges + Principal + Interest Payments]

**Ratios are for illustration purposes. Many financial institutions adjust based on internal underwriting policies.*

Financial Ratios

Higher liquidity ratios

Higher coverage ratios

Lower Leverage Ratios

Financial Ratios – Trend Analysis

Financial Ratios	Year 1	Year 2	Year 3	Year 4	Year 5
EBITDA					[illegible]
CPLTD					[illegible]
Total Interest					[illegible]
Total Obligations	4,986	4,762	4,717	3,581	4,871
Debt Service Coverage Ratio					*2.9*
Current Assets					[illegible]
Current Liabilities					[illegible]
Current Ratio	*2.3*	*2.4*	*2.8*	*2.7*	*2.5*
Total Debt					[illegible]
Total Equity					[illegible]
Debt to Equity	*1.7*	*1.3*	*1.3*	*1.1*	*1.1*

Review metrics year-over-year to see changes (trends) in a borrower's performance.

Benchmark the company's performance against its industry peer group.

Paint a more complete picture of a borrower's financial health.

Financial Ratios

Character

Capacity

Capital

Collateral

Conditions

Understanding a borrower's performance and financial ratios **helps to satisfy the Capacity and the Capital Cs of our 5 Cs framework.**

Collateral Security

Character

Capacity

Capital

Collateral

Conditions

Collateral Security

Generally, any collateral is usually better than no collateral; **however, not all security is created equally.**

A

If a borrower pledges **cash as collateral**, they may get 100% LTV.

B

If a borrower pledges **used equipment**, they might only get 50% LTV.

Collateral Security

Marketable	Implies that there is an active secondary market.
Ascertainable	Many parties can agree upon an asset's value – often by using a 3rd party appraisal.
Stable	The asset's value is unlikely to experience volatility.
Transferrable	How easy is it to transfer title of the asset?

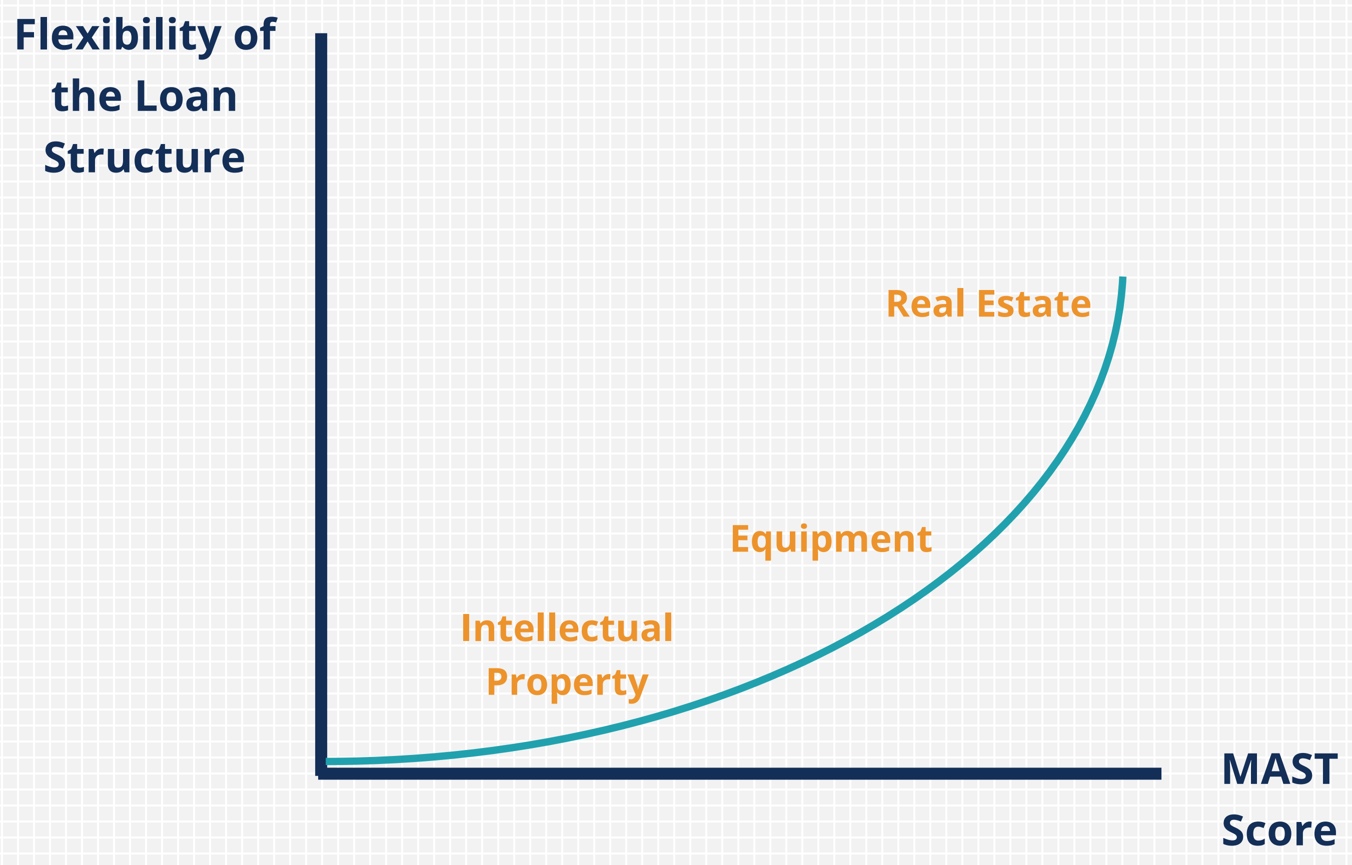
Collateral Security

Marketable

Ascertainable

Stable

Transferrable



Fundamentals of Credit
Course Summary

Learning Objectives

Define what credit is and how it's created.

Identify some of the different career opportunities available to credit professionals.

Compare different types of interest payments and loan characteristics to help inform an appropriate credit structure.

Explain what capital expenditure (or CAPEX) is and how debt financing can support it.

Explain the 5 Cs of credit framework and how it informs risk assessments.

Identify the important qualitative and quantitative techniques, including key financial ratios, used in the risk assessment process.