

Credit and Financial Analysis

What is Credit Analysis?

Institutions that lend money or invest in debt issues (creditors) will ask fundamental questions?

- Will the borrower (the company or the project) achieve sustained, stable financial performance to be able to meet all debt obligations (interest and principal payments)?
- What is the likelihood of **default** by the borrower?
- What will the **loss** be if default occurs?
- How do creditors address and resolve these questions?
- What can lenders and creditors do to reduce the **risks** of not being paid (interest and principal)?
- How should loans, bonds or other forms of debt financing be **structured** appropriately for borrowers and/or projects?

Credit and Financial Analysis

Assess creditworthiness: The ability of the borrower (obligor) to make future interest payments and principal repayments

Credit analysis will also be used to assess and manage risks arising from many other activities, as well: counterparty trading, financial processing, cash-management activity, etc.

Establish the lender's (or creditor or debt investor's) position for repayment *vis a vis* other lenders (senior, junior, subordinated positions; secured, unsecured positions; short-term, long-term exposures)

Determine secondary sources of repayment or other forms of **recourse**

Credit and Financial Analysis

Corporate Balance Sheet

| | |
|-------------------------|-------------------------|
| Operating Assets | Accrued Expenses |
| Fixed Assets | Short-term debt |
| Intangibles | Long-term debt |
| | Capital |

- What is the purpose of debt?
- What are the forms of debt?
- What are the risks of debt?
- How will the debt be serviced?

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- **Credit analysis examines the purpose, use, and risks of debt, based on financial analysis and debt structures.**
- **The analysis also examines primary and secondary sources of payback.**