

Module 1

The Credit Analysis

Learning Objectives:

After the completion of this Module you will be able to:

1. Determine the most important aspects of the credit report
2. Complete a business analysis
3. Learn how to write the credit analysis narrative

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Introduction:

- After the....
- 1. Assessment of risk in a loan situation,
- 2. Completed the analysis of the financial statements and
- 3. Through projections assess the Borrower's need the ability to repay the loan
- The next step is to complete the credit analysis and write an analytical summary to communicate the conclusions on the Company's financial performance and ability to meet its debt obligations
- In most financial institutions the credit analysis report is a summary comprising between 2-3 pages of key conclusions on the Borrower

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- One of the major criticism in writing a credit analysis narrative from decision makers is that the writers provide facts without arriving at any conclusions about the implications of risk for the bank.
- In writing a credit analysis narrative please concentrate on providing conclusions, support them with cause and effect relationships and present only the most critical issues about the Borrower.
- Financial institutions usually have their own format for the credit analysis.

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- In the first section of the credit analysis background information on the Borrower is included
- The first section also includes information on the loan request term, interest rate and type of credit facility
- The narrative portion of the report usually begins with a summary and recommendation section where the loan decision is communicated.
- This section outlines risk assessment on the Company's operating and financial performance including strengths and weaknesses.

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- The narrative will support the conclusion in the loan decision with an analysis of the industry, the business, the financial statements and the debt repayment strategy.
- Detailed financial statements in spread format, ratios and financial indicators and cash flow projections (if applicable) are usually attached to the credit analysis as supporting documentation

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Business Analysis Summary: This section of the credit analysis report will discuss the following essential issues on the Borrower:

1. Ability to manage business risk
2. The Company's position in the industry and with respect to its competitors
3. Analysis of the operations and management capabilities run the operations and mitigate risks
4. Review of financial statements
5. Risks associated with the company's products
6. Background/history of the company and its owners

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Writing the Credit Analysis Report:

In preparation to writing the report you will need the following information:

1. Company's business description and year of foundation
2. Industry review including major trends, historical and future trends
3. Analysis of key changes in financial statements and the potential implications to cash flow and debt service abilities.
4. Assessment of the Company's capital structure
5. Detailed description of key figures in the company's management structure, including expertise, past performance, depth and an expected changes in responsibilities.

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Writing the Credit Analysis Report:

- Once the review of all the aspects of the Company's operation have been evaluated they need to be presented in a clear, orderly efficient manner.
- During this phase it is recommended that an Analysis Outline is completed. The outline will be a resource to organize data and conclusions.
- When ready write your report in a concise way including most important details.