



## Syllabus

### *Overview:*

The C&I based Credit Training Program I have developed has come from years of training analysts over my 20 year career as a C&I Analyst, Portfolio Manager and Commercial Banker at a number of Large Banking institutions in Boston. Over the last 15+ years, many banks have hired analysts without any credit training. This has left a significant hole in the Commercial and Corporate Banking world. In response, I have developed a way of teaching Credit to these analysts that have been struggling. In 2014, I started formally teaching a Credit Training course yielding exceptional results.

I have found that as much as the materials are important, the person teaching is even more important. This three-month course covers all the essential aspects of Credit Analysis needed to be successful while providing a system of repetitive learning, which I call circular learning, allowing the student to more easily understand and retain the significant amount of information being presented.

The result and goal for the class is that students that pass are equipped to enter a commercial and corporate analyst position at any bank ready to be productive day one and sets students up with early career advancement potential. In order to be a valuable financial analyst, one must have a sound understanding of financial accounting. My program is heavily weighted in financial accounting principles, understanding financial statements and how the financial statements are connected. The class provides a solid base knowledge so as students enter the Commercial Banking world, the vast amount of new information that is required to be learned and understood at a fast pace is much more easily understood.

My teaching methods have yielded significant success in the Commercial Banking world with students that pass consistently stating that their level of confidence is very high allowing them to immediately run with new financing opportunities and confidence in portfolio management.

### *Target Audience for the Commercial Credit Training Program*

This program is aimed at professionals both directly and indirectly involved in Commercial Banking. In particular:

- Financial Analysts
- Portfolio Managers
- Relationship Managers
- Commercial Lending Officers
- Credit Officers
- Leasing Specialists
- Loan Syndication Officers

### *Banking Terminology*

In order to be able to efficiently analyze financials and structure deals properly and efficiently, students will start the class learning 75 core Commercial Banking Terms and Accounting principles which is the foundation for the course. I refer to these terms as the pieces of the puzzle that we use to put together throughout the course. It is imperative that the students start using the right terms and language in both verbal and written analysis.

### *Over 25 case studies*

- Starting the first class and throughout the course, students will provide analysis for over 25 companies in various industries.
- Using a theory called "Thin Slicing" (Malcolm Gladwell's "Blink: The Power of Thinking without Thinking"), students will be able to efficiently and accurately analyze financials within 5 minutes. This powerful skill allows the Analyst to set the direction of any deal within 5 minutes.
- Culminating in the final project, students will provide overview and full financial analysis demonstrating the ability to understand primary key financial points, risks and strengths and an ability to provide fluid analytics.

## ***Business Risk Analysis***

This program is designed to give candidates an overview of the key considerations which drive the operating performance of any business, with a particular emphasis on the risks which undermine the creditworthiness of the business.

- Review of different types of businesses: manufacturers, wholesalers and distributors, and service businesses
- Identification of key business drivers
- Evaluation of business risks: cyclical, seasonal and different cost structures
- Analysis of market and competitive influences, and in particular a business's own competitive advantage
- Analysis of customer and supplier drivers in a business's own overall industry
- Assessment of management's competence in managing for risk, and the shareholder's support in an economic downturn.

## ***Financial Statement Analysis***

This program reviews the key variables comprising a company's income statement, balance sheet and cash flow statement and how those variables measure the company's financial performance and its ability to service and repay debt. This course is heavily weighted in understanding how the three financial statements are connected and how changes and additions to one statement impacts the other statements. Students will be exposed to accounting practices which can distort/manage both Balance Sheet and Income Statement results.

### **Income statement:**

- Full operating performance understanding and analysis.
- Revenues/sales and the pitfalls of revenue recognition
- Key profitability measurements such as Gross Profit Margin, EBITDA, Operating, and Net Margin
- Debt servicing measurement: Debt Service Coverage

### **Balance Sheet:**

- Full understanding of financial condition strength and weaknesses.
- Liquidity measurements such as current and quick ratios and working capital
- Asset utilization tests particularly accounts receivable, inventory and accounts payable and days
- Leverage measurements

### **Cash Flow Statement:**

- Full understanding of how the cash flow statement is derived from the balance sheet and income statement.
- Essential non-cash event analysis.
- Understanding and using operating, investing and financing activities as sources and uses of cash.
- Review of how the cash flow statement identifies the key operating, investing, and financing decisions taken by the borrower.
- As well as understanding, students will be required to construct cash flow statements demonstrating their ability to understand the components of the cash flow statement.

## ***Understanding Working Capital Cycle Analysis***

The module is designed to provide candidates with an outline of the importance of working capital and a bank's role in financing such needs. Strong emphasis will be placed on the potential for breakdown in Understanding Working Capital Cycle Analysis and how such risks can be proactively identified ahead of time.

- Liquidity with a particular emphasis on current ratio, quick ratio and working capital analysis.
- Working capital and its use as an efficiency measurement.
- Understanding Working Capital Cycle Analysis and the Bank's role in financing this cycle.
- Permanent vs. short-term working capital and the resulting changes in financing required.

## ***Source of Repayment Analysis: Debt Service Coverage***

Debt service coverage analysis and forecasting skills with a focus on the following:

- Students will have a full understating of cash flow, cash flow calculations with the focus on recurring cash flow in order to determine expected future cash flow ultimately calculating accurate pro-forma debt service coverage.
- Students will be able to layer proposed debt into existing companies using excel based analytical tools to efficiently determine debt capacity and coverage.

## ***Advanced Cash Flow and Debt Capacity***

An introduction to the role of advanced cash flow analysis:

- Drivers of capital structure: revenues, asset levels, return measurements and financing needs
- How capital is deployed: the purpose of loans and the alternative sources of repayment
- Identification of key cash flow value drivers
- The role of cash flow analysis in deal structure

## ***Projections***

Students will be required to understand the skill of spreading financials which will set up for the essential Projection Section of the Credit Training Program.

In this section of the program, students will learn how to create both operating performance and Day 1 balance sheet projections layering in new debt and equity using historical financials and assumptions based on key variables including projected revenue growth, margin expectations, management of operating expenses, AR and inventory turns, plug estimates, LOC financing and cash positions.

## ***Structuring***

This section of the program will involve in depth financial and risk analysis using financial and business analysis skills to provide essential covenant, collateral, pricing and legal structuring of various types of lending opportunities.

- Different types of covenant structures for different types of business
- Collateral analysis for Commercial Real Estate, Equipment Notes and Lines of Credit (AR and Inv).
- Risk based pricing. Pricing Options – Libor, Prime, FHLB, Swap's, other

## ***Covenants and Definitions***

This section of the program involves fully understanding the purpose and value of covenants and its vital role in structuring deals. Students will be expected to provide covenants to a multiple companies and provide reasons for each covenant structure. The final project will require a full understanding of covenants.

In this class students will be required to memorize and explain the components of numerous formulas including full debt service coverage and leverage covenants.

## ***Secondary Source of Repayment Analysis: Collateral***

### ***Borrowing Base Certificate/Field Exam***

This section of the training will include an understanding of the secondary form of repayment being collateral. Students will learn about the numerous types of collateral positions and understanding the related advance rates for each with the understanding of how to calculate discounted eligible collateral of which a company can borrow against. Excel based tools will be used to derive collateral coverage as well as AR aging, line usage and loan conformity charts. Students will learn how and when to use BBC's and field exams.

## ***Early Warning Sign Analysis***

Throughout the Credit Training, students will be tested on and expected to verbally express the warning signs of troubled credits. Candidates will be required to provide comprehensive overviews of numerous early warning signs, together with proactive steps to be taken by a bank in limiting downside risk when a credit begins to deteriorate.

In addition, the rights of the bank in managing deteriorating credits will be closely examined together with effective strategies for managing such situations.

- Warning sign identification
- Financial statement analysis to pinpoint management's weakness
- Proactive risk management of early warning signs
- Definition of key factors in a deteriorating credit

### *Leverage Lending*

Students will learn about when leverage lending is used and the associated risks and risk mitigating loan structures.

### *Valuation Methods*

Numerous valuation methods are used on at different times. This class will focus on “Enterprise Value” based valuations.

### *In Depth Interest Rate Risk Analysis*

- Study of the history of the differing interest rate types and options.
- Analyzing the historical volatility of rates for the last 50 years.
- Understanding the meaning as rates relate to structuring deals.

### *Final Project / Written Exam*

Successful completion of the Credit Training Program will require candidates to complete a Final Project satisfactory to the instructor. This includes significant direction and modeling of:

- What a writeup should look like,
- The flow of information and how it should be written with the focus on a readers ability to easily understand key drivers of each section in order for senior executives to be able to focus on decisions and not having to do or correct analysis.

In addition to the final project students will be required to pass a written exam, which will encompass each lending section detailed above. Minimum requirement to pass is a 75%.