

Credit College Overview

The *Credit College* contains two courses that address and explore credit analysis in the fields of commercial business and commercial real estate.

The *Commercial Business* and *Commercial Real Estate* courses are delivered via eight 90 minute live webcast sessions over an eight week period.

8.0 Connections for Members
\$2,000 for non Members

Credit College participants follow these simple steps:

- Register for a Credit College course at least one day before it begins.
- For each session, download and review the webcast presentation slides, background reading materials, exercise, and case materials.
- Follow each webcast presentation at its appointed time via desk top and teleconference.
- Submit questions to be addressed by the webcast presenter in the question and answer period at the end of each session.
- Review the written solutions for the exercise available at the close of the session.
- Take the optional online five-question multiple choice review quiz for the session.
- Submit the optional final 50 multiple choice question exam at the end of the course.

Credit Decision Series (CDS) – Commercial Business

This *Credit Decision Series* is delivered via eight 90 minute live webcast sessions once a week over eight weeks. Each session includes a multi-step exercise, background reading materials, financial statements, and business or personal income tax returns as appropriate.

The sessions are directed toward inexperienced analysts and lenders, although any analyst or lender may benefit from individual sessions if a 90 minute refresher would be helpful.

Each Session is 1.0 Connections for Members or \$250 for non Members.

Session 1: Analytical Decision Tree and the Credit Write-Up

- Identifies the four essential issues that must be addressed in every credit write-up, reviews the sequential analytical steps in the credit decision process, reviews the financial statements for a prospective borrower, reviews interview comments by a second prospective borrower, explores the personal characteristics necessary for business success, and examines the generic sources of competitive advantage for a business.

Session 2: Financial Statement Review and Ratio Analysis

- Reviews the fundamental difference between description and analysis in management assessment and interpretation, reviews the financial statements for the flooring company to identify obvious risk issues, reviews and examines the five primary business organizations and identifies key differences and similarities, reviews the computation and assessment of key financial ratios, examines the importance of the Business Drivers in establishing a borrower's risk profile, and explores the necessary adjustments to reported EBITDA and net profit to accommodate distributions, withdrawals, and loans to owners in establishing a borrower's ability to meet the first necessary condition for business success.

Session 3: Cash Flow Analysis and Borrowing Causes

- Reviews the fundamental differences between description and analysis in ratio assessment and interpretation, reviews the construction of the Uniform Credit Analysis (UCA) cash flow statement, compares the messages and information provided by traditional "cash flow" and the UCA cash flow statement, explores the use of the UCA cash flow statement in identifying borrowing causes, repayment sources, and likely risks to repayment sources, as well as examines the role of the UCA cash flow statement in establishing a borrower's ability to meet the second necessary condition for business success.

Session 4: Management Assessment, Projected Cash Flow, and the First Way Out

- Reviews the fundamental differences between description and analysis in cash flow assessment and interpretation, examines the management capabilities essential for business success, explores the competitive forces that will likely impact key Business Drivers, examines the methodology for shaping Business Driver values for "most likely" and "worst case" scenarios in the projection period, and reviews the use of the resulting projections and UCA cash flow statement in identifying borrowing causes, repayment sources, likely risks to repayment sources, and whether the borrower will meet both the first and second necessary conditions for business success.

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Session 5: Guarantor Analysis and the Second Way Out

- Reviews the fundamental differences between description and analysis in projected profitability and cash flow assessment and interpretation, reviews and explores the process for constructing a personal cash flow statement from personal financial statement and personal income tax return information, estimates the amount of personal cash flow available to support business debt service in good times and in a cash flow crisis, estimates the amount of ready cash support from the guarantor in a business cash flow crisis, and explores the benefits and limitations of applying global “cash flow” techniques in reaching a credit decision.

Session 6: Non Financial Red Flags and Performance Implications

- Reviews the fundamental differences between description and analysis in guarantor assessment and interpretation, explores the distinction between financial and non-financial red flags, reviews the significance of numerous non-financial red flags that are frequently encountered, examines specific financial statement information, borrower background information, and borrower comments to identify non-financial red flags and trace their existing and potential impact on borrowing causes, cash sources of repayment, and risks to cash repayment sources, and explores possible mitigants that may be put in place to limit the risks from non-financial red flags.

Session 7: Identifying and Mitigating Repayment Risks

- Reviews the fundamental differences between description and analysis in non-financial red flag assessment and interpretation, reviews and examines a series of loan covenant and loan structure considerations; explores the construction and application of a critical profitability loan covenant, explores the construction and use of a critical cash flow loan covenant; reviews and identifies all relevant risks to cash sources of repayment for two borrowers; and explores possible loan covenants that may be imposed to effectively mitigate some or all of the risks.

Session 8: The Credit Write-Up Again

- Reviews the fundamental differences between description and analysis in stating the purpose of loan covenants, reviews and examines the projected borrowing causes, likely cash sources of repayment, risks to the cash repayment sources, and practical mitigants to repayment risks for two borrowers, explores the most persuasive arguments in support of the respective loan requests and the most persuasive arguments opposed to the loan requests; reviews the analytical decision process, and reviews the four essential analytical issues that must be addressed in every credit write-up in bringing closure to this Online Classroom.

Credit Decision Series (CDS) – Commercial Real Estate

This *Credit Decision Series* is delivered via eight 90 minute live webcast sessions once a week over eight weeks. Each session includes a multi-step exercise, background reading materials, excerpts from an appraisal report, borrower and related party financial statements, and business or personal income tax returns as appropriate.

The sessions are directed toward inexperienced analysts and lenders, although any analyst or lender may benefit from individual sessions if a 90 minute refresher would be helpful.

Each Session is 1.0 Connections for Members or \$250 for non Members.

Session 1: The Credit Write-Up and the CRE Analytical Process

- Examines the four essential issues that must be addressed in every credit write-up, reviews a recent regulatory policy statement about the sequence of analysis for a commercial real estate loan request, reviews the sequential analytical steps in the credit decision process, reviews the financial statements for a prospective borrower to identify obvious risk issues, examines the relevant similarities and differences between and among the common types of business organizations, and examines the purpose and key elements of a single purpose entity (SPE).

Session 2: Ratios, Borrower Cash Flow, and the First Way Out

- Reviews the fundamental difference between description and analysis in financial statement review, reviews the computation and assessment of key financial ratios in suggesting borrowing causes and likely repayment sources, reviews the computation process and assessment of two popular cash flow measures – net income + depreciation and the Uniform Credit Analysis (UCA) cash flow statement – in identifying and verifying borrowing causes and cash repayment sources, and explores the necessary adjustments to reported net profit to accommodate distributions, withdrawals, and loans to owners in establishing a borrower's ability to meet the two necessary conditions for business success.

Session 3: Guarantor Analysis, Global Cash Flow, and the Second Way Out

- Reviews the fundamental differences between description and analysis in profitability and cash flow assessment and interpretation, reviews and explores the process for constructing a personal cash flow statement from personal financial statement and personal income tax return information, estimates the amount of personal cash flow available to support business debt service in good times and in a cash flow crisis, estimates the amount of ready cash support from the guarantor in a business cash flow crisis, and explores the process, benefits, and limitations of applying global cash flow in reaching a credit decision.

Session 4: The Appraisal Report and Approaches to Market Value

- Reviews the fundamental differences between description and analysis in guarantor and global cash flow assessment, examines the information necessary to estimate property market value, cash flow, asset quality, access to the property and its stream of income in case of default, focuses on the sole purpose of the appraisal report, reviews the three standard approaches to establishing market value with specific emphasis on the sales comparison approach, the validity of information for comparable properties, the role of appraiser adjustments, and the implications under the sales comparison approach for the cap rate.

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Session 5: The Income Capitalization Approach and the Cap Rate

- Reviews the fundamental differences between description and analysis in assessing the sales comparison approach, reviews the concepts underlying the income capitalization approach to value, examines the components and considerations that shape and determine a capitalization rate, reviews the rationale and limitations in using stabilized values for the key valuation assumptions under the income capitalization approach and the resulting implications for market value, property cash flow, financing, and debt service capability, and explores the benefits and limitations of using the income capitalization approach in estimating market value for an income producing property.

Session 6: Underwriting Standards, Actual vs. Stabilized NOI, and Breakeven Analysis

- Reviews the fundamental differences between description and analysis in assessing the income capitalization approach to value, explores the application of a lender's underwriting guidelines to a proposed financing under both stabilized assumptions for net operating income and actual net operating income, reviews break-even computations and use in estimating an income producing property's prospects for withstanding market disruptions, particularly a disruption in the form of an increase in its vacancy rate, and explores the considerations that determine an investor's decision to purchase an income producing property, given alternative investment opportunities.

Session 7: Management Assessment, Competitive Forces, and Projected Performance

- Reviews the fundamental differences between description and analysis in the application of underwriting standards, examines the management capabilities essential for business success, explores the competitive forces that will likely impact key Business Drivers, examines the methodology for shaping Business Driver values for a "most likely" projection scenario, which includes the income producing property's revenues and expenses, reviews the use of the resulting projections and UCA cash flow statement in identifying borrowing causes and likely repayment sources, and explores a range of common non-financial red flags that may emerge and impact the borrower's operating performance in the coming period.

Session 8: Repayment Risks, Covenants, and the Credit Write-Up Revisited

- Reviews the fundamental differences between description and analysis in assessing projections, examines documentation relevant to the subject property, reviews and examines the projected borrowing causes, likely cash sources of repayment, risks to the cash repayment sources, and practical mitigants to repayment risks for the borrower, explores the most persuasive arguments in support of – and opposed to – the loan request, examines the impact on the credit decision if the owners were to create a special purpose entity (SPE) to house the proposed acquisition, and emphasizes the four essential analytical issues that must be addressed in every credit write-up in bringing closure to this Online Classroom.