

# RMA UNIVERSITY RESOURCES

## CREDIT ESSENTIALS COURSE

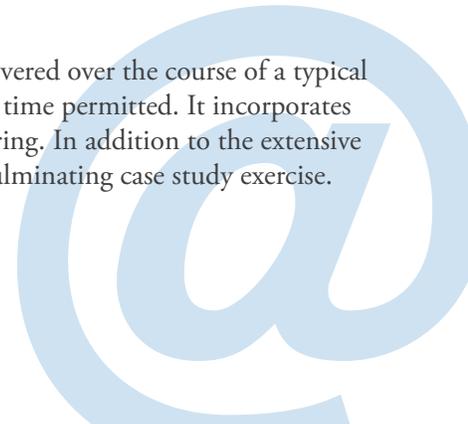


**RMA is helping universities by providing access to its commercial credit risk analysis content. Faculty members who wish to supplement their business or banking curriculum have two options:**

- Access course materials on specific subjects like financial statement analysis, structuring commercial loans, cash flow analysis, and industry analysis. Faculty can elect to teach the course using the RMA material right off the shelf; or, they can use a portion in conjunction with material that they may already have on hand.

A listing containing descriptions of each specific course can be found on our website. Simply go to [www.RMAHQ.org](http://www.RMAHQ.org) in order to lookup or search for a specific course that you may be interested in.

- Access a complete commercial credit risk analysis course. This course is designed to be delivered over the course of a typical semester, 1x per week for example, or could be offered as a “seminar” between semesters if time permitted. It incorporates a myriad of essential underwriting topics from financial statement analysis to loan structuring. In addition to the extensive use of case studies, there are also homework assignments, exams including a final, and a culminating case study exercise. This is positioned as a turn-key offering permitting ease of delivery.



The classes (15 in total) are as follows:

### 1. Getting To Know the Customer

This class introduces an analytical framework. In addition, the student will understand how to identify a client's needs and the role of relationship management. Students will use a case study as the basis to create a call plan.

Learning objectives:

- Identify the process to analyze both the qualitative and quantitative factors in evaluating a loan request.
- Identify client needs through the application of a relationship building approach.
- Determine appropriate strategies to support a company's business and competitive objectives.
- Match client needs with financial products and services.
- Connect the results of credit risk analysis to a company's financial needs.
- Use industry characteristics and life cycle stages to identify needs.
- Connect the results of credit risk analysis to a company's financial needs.
- Identify and use cross selling techniques to expand a company's financial opportunities.
- Prepare an effective call plan.
- Conduct a strategic discussion to identify a company's operating and financial strategies.
- Demonstrate how to use cross selling skills including asking for referrals.

### 2. Analyzing Nonfinancial Techniques

In this class students will cover the influence of industry, product, and company life cycles as well as competition in analyzing a client's needs. Several case study scenarios will be used to address these subjects.

Learning objectives:

- Describe an industry's sensitivity to macroeconomic factors.
- Identify the life cycles stages of example industries and explain their possible impact on a customer's business.
- Explain the implication of company and product life cycle stages on a customer's likely financial requirements and its repayment risks.
- Describe a customer's susceptibility to seasonal risks.
- Identify and interpret a customer's ability to mitigate macroeconomic, lifecycle, and seasonal risks.
- Identify the customer's form and type of business, its industry, and related cyclical influences.
- Identify the customer's customer profile, including segments, customer mix, and key customer needs that influence demand.

- Identify the market size, segments, and shares, as well as the customer's competition, including nature and number of competitors and their competitive advantages and disadvantages.
- Identify the company's products and or services, including nature, ease of delivery, life cycle, and perceived competitive advantages and disadvantages.
- Identify the influence that a company's suppliers and its distribution method have on the company's ability to compete in its market.
- Apply the Porter model to identify and interpret the extent of competitive forces in a customer's industry.

### 3. Understanding the Numbers: Analyzing Financial Statements

This class illustrates the quantitative aspects of credit risk analysis with regard to the income statement and balance sheet. Several job aids are provided as a template for working through the various exercises.

Learning objectives:

- Determine the source and sustainability of revenues.
- Analyze the nature and scope of expenses.
- Evaluate the level and trend of profitability in the context of the company's overall strategy.
- Analyze the appropriateness and sufficiency of assets to implement the company's business strategy.
- Evaluate the liquidity and leverage of the company's financial structure.
- Determine the appropriate levels of debt and equity in the company's capital structure.
- Determine the sustainability and predictability of cash flow to implement the company's business strategy.
- Evaluate the appropriateness of the sources and funds to support the company's financial needs.
- Identify borrowing causes and repayment sources disclosed by each section of the cash flow.
- Calculate the cash effect of given changes in the company's fundamentals and swing factors, using the "what if" method.
- Assess appropriateness of financing sources used to meet borrowing needs identified in the cash flow. Applying generally accepted loan structuring standards.
- Assess appropriateness of financing sources used to meet borrowing needs identified in the cash flow.

#### 4. Understanding the Numbers: Analyzing Cash Flow

This class is the first of two on this rather in-depth subject. The use of projections is also included.

Learning objectives:

- Determine the sustainability and predictability of cash flow to implement the company's business strategy.
- Evaluate the appropriateness of the sources and funds to support the company's financial needs.
- Identify borrowing causes and repayment sources disclosed by each section of the cash flow.
- Calculate the cash effect of given changes in the company's fundamentals and swing factors, using the "what if" method.
- Assess appropriateness of financing sources used to meet borrowing needs identified in the cash flow. Apply generally accepted loan structuring standards.
- Assess appropriateness of financing sources used to meet borrowing needs identified in the cash flow.

#### 5. Understanding the Numbers: Analyzing Cash Flow (continued)

Learning objectives:

- Determine cash flow drivers based on the industry, business, and management considerations.
- Identify the process to create forecasted financial statements using sensitivity analysis.
- Identify historical financial performance and condition measures that are most susceptible to deterioration in the near-term, citing evidence of external influences and/or management responses that are likely to change.
- Formulate a range of plausible future values for the susceptible measures, describing specific circumstances that could reasonably lead to these values.
- Select base-case projection variables that describe the company's most likely near-term financial outcome.
- Perform a sensitivity analysis, using alternate projection variable values that test the company's financial resilience, measuring the consequent changes to the balance sheet, income statement, cash flow, and related ratio measures.
- Formulate an opinion of the sustainability of the company's repayment sources, citing evidence from the base-case and sensitivity projections.

#### 6. Understanding the Numbers: Analyzing Management and Strategy

This class illustrates the linkage between management's actions on the financial statement and operations of a company. Small group exercises are part of the class.

Learning objectives:

- Evaluate and describe the company's present and anticipated competitive position and business environment issues.

- Analyze historical and forecasted financial statements through ratio and cash flow analysis and evaluate the long term viability of the company.
- Identify and analyze the key cash flow drivers for a company.
- Integrate the analytical conclusions of financial analysis, management assessment, and business environment issues into a loan recommendation.

#### 7. Loan Structuring

This class serves several objectives: an introduction to basic loan types, covenants, conditions, and collateral; i.e., matching the bank's goals and the client's needs by choosing the appropriate structure.

Learning objectives:

- Identify the four keys to loan structure.
- Identify the four major loan types.
- Recognize the basic characteristics and features that make each loan type unique.
- Identify the information and credit analysis used to determine the right loan structure.
- Explain why capital structure is important to both the bank and the client.
- Identify sources of capital available to the client to meet borrowing needs.
- Explain the purpose and objectives of loan covenants.
- Identify loan covenants commonly used for each major loan type.
- Understand the importance of a bank's course of conduct in administration of the loan agreement and protecting its rights under the agreement.

#### 8. Collateral and Third Party Support

The role of collateral and guarantees are explored in this session.

Learning objectives:

- Identify the collateral, if needed, supporting each type of commercial loan.
- Identify the key elements influencing the determination of eligible collateral.
- Identify the key elements that impact the advance rate applied to the eligible collateral.
- Identify the use of and the support provided by guarantees and other support.

#### 9. Open

Learning objectives:

- You may use this class to introduce a topic selected by the university that is particularly relevant to the school or the market (e.g. retail) or can be used as a catch up session to re-address any material.

## 10. Personal Financial Statement and Tax Return

### Introduction

This class introduces a framework for evaluating an individual's financial wherewithal particularly in the context as a guarantor by looking at ways to evaluate the liquidity and quality of assets.

Learning objectives:

- Identify the basis for reporting personal financial statement data.
- Identify guidelines for adjusting net worth.
- Identify key content in tax forms relevant to credit and cash flow analysis.
- Recognize cash flow from personal tax returns and other data.
- Identify personal debt service coverage.

## 11. Business Tax Return Introduction

This session looks at the business tax returns of a client from the perspective of evaluating sources of information other than an accountant prepared statement in order to understand the cash flows and quality of earnings.

Learning objectives:

- Identify areas in which fraud/irregularities can be found.
- Identify characteristics, advantages and disadvantages of various entities—C corporations, S corporations, partnerships, and LLCs.
- Identify steps in the cash flow estimation process.
- Identify key content in tax forms relevant to credit and cash flow analysis.
- Identify fundamental tax principles.

## 12. Global Cash Flow

In many small businesses the owner and the business are one. Therefore it is important to look at a combined picture of the assets and cash flows to truly understand the business. Here a framework for doing so is offered.

Learning objectives:

- Identify the issues or risks in small business/self-employed, private client, and closely held company lending and ways to analyze and assess these risks.
- Define global cash flow.
- Identify and define forms of global cash flow analysis used by bankers.
- Identify situations where global cash flow analysis is appropriate.
- Identify the sources of information needed to compile a global cash flow.
- Distinguish between cash vs. noncash income and expenses.
- Determine whether cash inflows and outflows are recurring or nonrecurring.
- Based on the above, extract key cash flow data to compile a global cash flow.

- Identify the strength and weaknesses of the gross and net approaches to cash flow available for debt service when compiling a global cash flow.
- Construct a global cash flow statement and derive initial analytical conclusions.

## 13. Loan Documentation

An introduction to the basic types of documents that are required to legally evidence a borrowing are shared.

Learning Objectives:

- Identify the documentation needed and where to obtain it for sole proprietors, partnerships, corporations, limited liability companies, nonprofit associations, trusts, and guardianships.
- Determine documentation requirements for some type of loans not covered by the UCC.

## 14. Culminating Case Study Presentation

Several comprehensive cases are provided that are designed to be used in small groups and will pull together all aspects of what has been learned.

## 15. Wrap Up

Exams:

- Each exam including the final is offered on-line.
  - Exams are scheduled to take place between:
    - Class 3 and 4.
    - Class 8 and 9.
    - Class 13 and 14.
  - The final exam is scheduled to take place post Class 15.
  - Exams 1, 2, and 3 are approximately 20 questions each; the final is approximately 70 questions and is expected to take approximately 2 hours to complete.
  - A score of 80% or better is considered passing; however, each university may determine on its own what is an acceptable score and what weight the exams and or the final exam has in determining a student's overall grade for the course.
- RMA will grant a license to the university to use the materials.



For more information on how you can bring this course to your university, please contact us at [university@rmahq.org](mailto:university@rmahq.org).