

# Identifying Credit Risk

## Ask, Analyze and Articulate for Remarkable Results

### Syllabus

#### Course Length

IDENTIFYING CREDIT RISK is a two-day seminar. It includes a half-day practical application workshop the afternoon of the second day to cement the learning of the first day and a half.

#### Pework

Pre-work consists of a self-study module on widely-used business and credit ratios. It also includes a brief overview of the income statement and balance sheet. It generally takes less than an hour to complete.

#### Day One

##### Three Types of Risk Factors

Non-financial – risks that have an indirect impact on credit analysis and cannot be identified from the financials

Qualitative financial – risks that have a direct impact on credit analysis but cannot be easily identified from the financials

Quantitative financial – risks that can be identified from the financials

#### Initial Interview

The Initial Interview identifies non-financial and qualitative financial risks. Participants use a case study to conduct an initial interview with a business prospect. The instructor role plays the business owner to imitate a real-world interviewing session.

The case study helps participants assess their current interviewing skills. Informational gaps are then discussed and techniques taught on questions to ask to conduct more complete initial interviews. Participants receive a job aid to assist in future interviews.

#### Quick Financial Analysis

The Quick Financial Analysis identifies qualitative and quantitative financial risks. Participants use a case study to learn how to identify these risks through analysis and role play. They

- Learn what income and balance sheet accounts are the most important for observing trends
- Practice using key business and credit ratios to identify potential risks
- Use an accounts receivable aging to identify concentration and collection risks
- Identify non-recurring income and expense events
- Understand why a schedule of debt is necessary to accurately calculate the Debt Service Coverage ratio
- Understand the impact seasonality and year-end adjustments have on interim financials

Participants receive job aids to facilitate future quick financial analyses.

#### Day Two

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### Syllabus (continued)

#### Day Two

##### Evaluating Guarantor Risks

Participants use a case study to learn how to analyze the two aspects of guarantor finances that impact a small business' credit strength:

- Guarantor assets – Participants practice asset reviews using personal financial statements to identify secondary repayment sources
- Guarantor income – Participants use personal financial statements and tax returns to identify the activities of guarantors that may require additional income from the business and thereby reduce the business' ability to repay bank debt

##### Risk Factor Memo

Participants learn how to:

- Clarify and identify the most important risk factors that would not be apparent from the financials
- Write a concise, meaningful summary of the most important risk factors

##### Practical Application Workshop

The practical application workshop is a hands-on opportunity during the afternoon of the second day to apply the skills and tools provided during the course instruction. The workshop duplicates how things happen in the real world.

Participants practice interviewing the managing partner of a medical-services partnership. They then use their new analytical skills to quickly identify risk factors. After a follow-up interview to clarify potential risk factors, the participants prioritize the risks that would not be obvious to an underwriter from the credit package alone. They then write a memo to explain those critical risks.

The workshop cements the skills learned to quickly obtain all the information an underwriter needs to make an informed credit decision.



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