

FIN 242f (1)
Credit Risk Analysis I
Fall 2009

Thursdays, 9:10am – noon
Lemberg, Lee Hall

Edward Bayone
Earle W. Kazis Professor of the Practice of Finance and International Real Estate
Lemberg 256
(781) 736-4874
ebayone@brandeis.edu

OVERVIEW

In this course, we examine credit risk (i.e., the possibility that an obligor will fail to perform as agreed) from the perspective of the commercial banker. Based on a sound understanding of the firm and its business plan, the banker constructs the appropriate structure for the senior loan. Topics include asset-based, cash flow, and syndicated lending. All cases take place in the U.S.

The workload is high. If you are taking more than 16 credits, I recommend that you drop this course.

COURSE REQUIREMENTS

Required Reading

I have created a set of 9 cases and notes at the Harvard Business Education web site. To access the Harvard Business Education site, follow this link: <http://cb.hbsp.harvard.edu/cb/access/4410931>

If you have not registered with the Harvard Business Education site, it will be necessary to do so now. Once you have completed the brief registration process, you will be able to log in. Once logged in you will be able to access the material I have assigned for the course. Note that the format of classroom materials may differ. Most will be available in PDF and can be viewed with Adobe Acrobat Reader. A few materials may require that a hard copy be shipped to you. All PDFs and eLearning content are available to you through your Harvard Business Education library for 6 months from the date of purchase. For subsequent access, you will need to login at www.hbsp.harvard.edu and go to My Library->Courses. For technical assistance, please contact Harvard Business Publishing Customer Service at [1-800-810-8858](tel:1-800-810-8858) or [617-783-7700](tel:617-783-7700) from 8am-8pm EST. Customer Service can also be reached at techhelp@hbsp.harvard.edu.

In addition to the HBS cases and notes which you are expected to purchase, I will distribute reading material for class seven.

Prerequisite: FIN 212a or equivalent. My expectation is that you earned B+ or better in FIN 212a and that you have a good understanding of financial ratios.

Class Participation

Lively class participation is expected of everyone in this course, and **class attendance is required**. Each week, there will be a new case assigned and every student is expected to be prepared to discuss the case in detail, including a thorough analysis of the financial statements. To facilitate participation, I will ask all students to place a name card on their desks. Unexcused absences will adversely affect your participation grade.

Written Assignments

Team assignments must be done in groups of 4 students. My expectation is that you will have “language diversity” in your groups; this diversity helps ensure that English is the language spoken at team meetings. Grades on each assignment are assigned to all members of the team (although I reserve the right to alter individual grades in certain circumstances, e.g., when it is clear to me that an individual did not contribute to the assignment in a consistent and meaningful way). Students may form different teams at any point in the course, *so long as the affected students are given at least 5 days to find a new team*.

Grading (50% individual, 50% team)

<i>Class Participation*</i>	<i>INDIVIDUAL</i>	20%
<i>Short-form Analysis for Hampton</i>	<i>INDIVIDUAL</i>	10%
<i>Long-form Analysis + one-page memo** for Cartwright</i>	<i>TEAM</i>	10%
<i>Long-form Analysis+ one-page memo for AMT</i>	<i>TEAM</i>	15%
<i>Short-form Analysis + one-page memo for SureCut Shears</i>	<i>INDIVIDUAL</i>	10%
<i>Short-form Analysis + one-page memo for Dollar General</i>	<i>TEAM</i>	25%
<i>Special analysis for case study with guest speaker</i>	<i>INDIVIDUAL</i>	10%

* Perfect attendance but no participation receives a grade of “B-” towards the overall grade. Each unexcused absence results in a one-step reduction in this element (B+ to B, and so on).

** One-page memos represent a meaningful percent of the grade for each assignment: **25%** of the grade for Cartwright and AMT; **50%** for SureCut and Dollar General.

Office Hours

Students can meet with me individually during my office hours in Lemberg 256 or by appointment. To arrange a meeting, please call me at 6-4874 or email me at ebayone@brandeis.edu.

Academic Honesty

You are expected to be honest in all your academic work. The University policy on academic honesty is distributed annually as section 5 of the Rights and Responsibilities handbook. Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University. If you have any questions about my expectations, please ask.

Special Accommodation

If you are a student with a documented disability on record at Brandeis and wish to have a reasonable accommodation made for you in this class, please see me immediately. Please keep in mind that reasonable accommodations are not provided retroactively.

COURSE OUTLINE

CLASS ONE

Thursday, August 27

“Salesperson or analyst?” Today’s successful commercial bankers are both first-rate salespeople and excellent credit analysts. They must convince their prospect that they understand the company, can structure financings that meet its needs, and can “deliver” their bank. The marketing effort must be two-pronged: to the client and to bank management. Make a misstep along the way, and the deal is lost to another bank. What does the credit analysis involve? How is a loan structured?

CLASS TWO

Thursday, September 3

“Purpose of the loan”. Sometimes it’s clear, often it’s not. Let’s look at a successful owner-manager of an established company who realizes that he cannot repay his loan on time *and* needs more money.

**READING: Hampton Machine Tool Company (9-280-103)
Note on Bank Loans (9-291-026)**

Please submit at the beginning of class the short-form analysis of Hampton Machine Tool. Be sure to propose a loan structure. This is an individual assignment.

CLASS THREE

Thursday, September 10

“Financing Growth.” As companies grow, their working capital requirements can outpace their ability to generate cash from internal sources. Enter the banker.

READING: Cartwright Lumber Company (9-204-126)

M. Porter, “The Five Competitive Forces That Shape Strategy”, HBR (R0801E)

Please submit at the beginning of class the long-form analysis of Cartwright Lumber in which you propose a loan structure and, separately, a one-page memo in which you recommend to your manager that your bank not proceed. This is a team assignment.

CLASS FOUR

Thursday, September 17

“Dreaming the dream.” The US economy is powered by the creativity and drive of entrepreneurs. Those same visionaries can be a challenge for the commercial banker who prefers to operate in a more predictable environment.

READING: Advanced Medical Technology Corporation (9-287-028)

Please submit at the beginning of class the long-form analysis of AMT in which you propose a loan structure and, separately, a one-page memo in which you recommend to your manager that your bank not proceed. This is a team assignment.

CLASS FIVE

Thursday, September 24 (*Class will begin late due to an outside Board commitment; I will advise you of the start time*)

“It’s the economy, stupid.” The recession has hit our borrower. Timing may not be everything but it does matter.

READING: SureCut Shears, Inc. (9-297-013)

Please submit at the beginning of class the short-form analysis in which you propose a loan structure and, separately, a one-page memo in which you recommend to your manager that your bank not proceed. This is an individual assignment.

CLASS SIX

Thursday, October 1

“Everyone gets rich!” When the capital markets are liquid, you can bet that LBO (leveraged buy-out) activity is strong. Let’s look at the KKR (Kohlberg Kravis Roberts & Co.) buy-out of Dollar General in 2007. To understand where KKR saw value, you need to fully grasp the company’s operations, business strategy, and competitive position in a neglected segment of the retail industry.

READING: Dollar General (A) + (B) (9-607-140), (9-607-156)
Dollar General Going Private (9-108-015)

The cases are long and the exhibits are very important, so allow sufficient time to review them.

Please consult LATTE for the specifics on this team assignment. You are asked to submit at the beginning of class the short-form analysis in which you propose a \$50 million participation in the overall bank credit and, separately, a one-page memo in which you recommend to your manager that your bank not proceed on any basis.

CLASS SEVEN

Thursday, October 8

“Mean Business: How I Save Bad Companies and Make Good Companies Great.” That’s the title of a best-selling business book in the 1990s by Albert “Chainsaw Al” Dunlap, a ruthless CEO known for unlocking value in underperforming companies.

Let’s see what he did in the late 1990s at (and to) Sunbeam Corporation. And let’s see what happens to banks that underwrote the refinancing of \$1.7 billion in senior debt, and to investors who bought the stock, believing it could only go up, up, up. **Were there early warning signs that all was not well?** (Of course there were.) **What options did the lenders have in 1998 after Sunbeam defaulted?**

Please consult LATTE for the specifics on this individual assignment. You are asked to write a memo, answering specific questions. Our guest speaker, a highly-regarded consultant, will teach the class. I will distribute readings in advance.