

**FIN 242f (1)**  
**Credit Risk Analysis I**  
**Spring 2007**

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

**preliminary**

**Edward Bayone**

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## **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 real estate lending, as well as loan syndications.

## **COURSE REQUIREMENTS**

### **Required Reading**

A course packet available at the bookstore that contains the 5 HBS cases, 2 HBS notes, and 1 HBR article that are listed in the Course Outline. In addition, students will receive electronically the “Real Estate Financial Analysis Workbook”.

**Prerequisites:** Accounting & Financial Analysis (Fin 212a)

### **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.

### **Written Assignments**

Short-form assignments (*Hampton Machine Tool* and *Advanced Medical Technology*) must be done individually; team assignments (*Cartwright Lumber* and either of the following: *Dynashears* or *Revere Street*) must be done in groups of 3-4 students.

## **Grading**

<i>Short-form Analysis for Hampton</i>	10%
<i>Long-form Analysis + memo for Cartwright</i>	20%
<i>Short-form Analysis + memo for AMT</i>	20%
<i>Long-form Analysis + memo for Dynashears or Revere</i>	20%
<i>Class Participation*</i>	30%

\*excellent attendance but no participation receives a grade of “B-”

## **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, January 18

**“Salesperson or analyst?”** Today’s successful loan officers are both first-rate salespeople and top-notch 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, January 25

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

#### REQUIRED 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.*

### CLASS THREE

Thursday, February 1

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

#### REQUIRED READING:

**Cartwright Lumber Company (9-204-126)  
M. Porter, “How Competitive Forces Shape Strategy”,  
HBR, March/April 1979 (Reprint 79208)**

*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.*

## CLASS FOUR

Thursday, February 8

**“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.

### REQUIRED READING:

**Advanced Medical Technology Corporation (9-287-028)**

*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.*

## CLASS FIVE

Thursday, February 15

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

### REQUIRED READING:

**Dynashears, Inc. (9-292-017)**

*Please submit at the beginning of class the long-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.*

## CLASS SIX

Thursday, March 1

**“If it’s in the dirt, you can’t get hurt.”** So said a banker about commercial real estate lending; his bank failed. Deceptively simple, real estate lending has generated poor returns over extended periods of time as commercial bankers fall into one trap after another at the peak of economic cycles. Common sense and judgment return after the milk is spilled; promises are made never to repeat the sins of the past.

### REQUIRED READING:

**Revere Street (9-800-147)**

**Financial Analysis of Real Property Investments (9-379-193)**

**Real Estate Financial Analysis Workbook (to be provided)**

*Please submit at the beginning of class the long-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.*

## CLASS SEVEN

Thursday, March 8

A discussion of a highly-leveraged loan, followed by a lecture on loan syndications