

Workshop:

Expert Techniques for Crafting Effective Credit Assessment Memos (CAMs)



AI-Generated by DALL.E on November 23, 2023

Participant Manual

December 4, 2023

First Local Bank



AI-Generated by DALL.E on November 23, 2023

Introduction

Purpose of the workshop

The purpose of this training is to emphasize the importance of accurately completing a Credit Assessment Memo (CAM), which is crucial for enabling senior credit management to make well-informed decisions. Specifically, you will be able to distinguish the structure of a comprehensive CAM, identify its key sections, and discover the necessary information for each section with special emphasis on how to synthesize a conclusion and recommendation that align consistently with the findings presented in these sections.

Objectives of the workshop

At the end of this workshop, you will be able to:

- Identify the core purpose of a CAM (Unit 1)
- Describe the structure of a CAM (Unit 2)
 - List the main sections of a CAM with their respective sources of information,
 - Highlight the significance and purpose of each section for decision-making
- Conduct a comprehensive analysis of financials, risk, and collateral (Unit 3)
 - Highlight the significance of financial and risk analysis in credit decision-making
 - Record the outcomes in the designated sections of the credit assessment memo
- Synthesize a conclusion and a recommendation that integrates assessment findings and highlights their implications with consistency and with no errors (Unit 4)

Workshop Outline

8 mins	Introduction <ul style="list-style-type: none">✓ Outline of workshop✓ Overview of uncovered units (1-3, Importance of a CAM & significance of all sections)
15 mins	Unit 4: Conclusion and Recommendation within a CAM <ul style="list-style-type: none">✓ Objectives of the unit✓ Exercise 1✓ Debriefing & discussion✓ Presentation✓ Exercise 2✓ Debriefing & discussion✓ Summary
7 mins	Conclusion <ul style="list-style-type: none">✓ Wrap up✓ Evaluation

Overview of uncovered units

Unit 1: Identify the core purpose of a CAM

Focuses on the core purpose of a Credit Assessment Memo (CAM), this unit covers the definition and benefits of CAM, its impact on decision-making, its role in documentation, and its importance in addressing credit risks.

Unit 2: Structure of a CAM: Listing main Sections and highlighting their significance

This unit delves into the structure of CAM, identifying its main sections, the type and sources of information for each section, and highlighting the significance and purpose of these sections in influencing credit decisions.

Unit 3: Conduct comprehensive analysis:

This unit highlights the significance of carrying out a thorough analysis and recording outcomes. It emphasizes the evaluation of creditworthiness and addresses financial statement analysis, risk analysis, and the role of collaterals and covenants in CAMs. It serves as a documenting tool as well.

Unit 4: Synthesize a Conclusion and Recommendation

Objective

At the end of this unit, you will be able to:

Skillfully synthesize a conclusion and a recommendation in a Credit Assessment Memo (CAM) by:

- ✓ Integrating and correlating the assessment findings from various sections of the CAM to form a comprehensive and cohesive conclusion.
- ✓ Consistently highlighting the implications of these assessment findings, ensuring that the derived conclusions and recommendations are logically aligned and reflect the entirety of the analysis.

Exercise 1

Imagine you are analyzing a credit proposal for XYZ Corporation, a mid-sized manufacturing company seeking a loan to expand its operations. The company has shown steady revenue growth over the past five years, but its debt-to-equity ratio is higher than the industry average. Additionally, the company operates in a highly competitive sector, and recent market analysis predicts a potential downturn in the industry. However, XYZ Corporation's management team has a strong track record and has presented a robust plan for using the loan to diversify into new markets

Based on these findings:

Crafting Effective Credit Assessment Memo (CAM)

- 1) What specific information in the scenario most significantly affects your decision regarding XYZ Corporation's creditworthiness?
- 2) Identify the negative indicators in XYZ Corporation's profile. How might these impact the credit recommendation?
- 3) What are the positive aspects of XYZ Corporation's situation? How do these factors support a favorable credit decision?

Instructions

- i. In three groups, each group will have 3 minutes to brainstorm and come up with answers to their assigned question
- ii. Following the brainstorming, all groups will convene and have 2 minutes to collaboratively synthesize a consistent and coherent conclusion and recommendation for the credit proposal, based on their respective findings

Time allocated: 5 minutes

i. Separate group activity	
Groups	Findings
Group 1: Key Factors Influencing Decision	<hr/> <hr/>
Group 2: Negative Indicators	<hr/> <hr/>
Group 3: Positive Indicators	<hr/> <hr/>

ii. Consolidated group activity
Proposed conclusion and recommendation
<hr/> <hr/>

Presentation: Conclusion and recommendation

Definition of Conclusion

- **Summarizes Key Findings:** The conclusion is where key findings from the entire credit assessment process are summarized.
- **Evaluates Creditworthiness:** Includes an evaluation of the borrower's creditworthiness based on financial data, market conditions, and other relevant factors.
- **Synthesizes Data:** Integrates all data and insights into a clear, concise statement reflecting the borrower's risk profile and credit request's viability.

Importance of Conclusion

- **Effective Consolidation:** Summarizes all data and analysis from the CAM, providing a cohesive overview in one section.
- **Highlighting Key Information:** Brings focus to the most critical elements of the credit assessment, ensuring important details are not overlooked.
- **Ease of Decision-Making:** Enables quick understanding for decision-makers by distilling complex information into key insights.

Definition of Recommendation

- **Suggested Course of Action:** The recommendation is the section where the analyst proposes a specific course of action based on the assessment's findings.
- **Based on Analysis:** It is derived from the analysis of the borrower's financial status, risk factors, and overall creditworthiness evaluated in the CAM.
- **Detailed Proposals:** May include proposals for loan approval, rejection, or modification, often outlining terms and conditions.

Importance of Recommendation

- **Reflects Analytical Judgment:** Represents the analyst's professional judgment and understanding of the borrower's situation.
- **Risk Management Tool:** Helps in managing the lender's risk by suggesting tailored conditions or covenants.
- **Guides Decision Makers:** Provides clear guidance to decision-makers on how to proceed with the credit application.
- **Impacts Portfolio Quality:** Influences the quality and performance of the financial institution's credit portfolio.

Exercise 2

Background: You are evaluating a loan application from GreenTech Innovations, a startup specializing in renewable energy technology. GreenTech has been operating for two years and is seeking funding to research and develop a new solar panel technology. The company has shown innovative potential but lacks a solid track record in revenue generation. Its financial statements reveal fluctuating revenues and high operational costs, leading to minimal profits. Additionally, the solar technology market is highly competitive with uncertain regulatory environments in key markets.

Conclusion Provided: The credit assessment concludes that GreenTech Innovations presents a high-risk profile due to its limited operating history, inconsistent revenues, and the competitive and uncertain market environment.

Recommendation Provided: It is recommended that the loan be approved with minimal oversight conditions and standard market interest rates, based on the company's promising innovative potential and the growing demand for renewable energy solutions.

Question: Identify and explain the inconsistencies between the conclusion and the recommendation provided for GreenTech Innovations' loan application. Consider the following points:

1. How does the risk profile described in the conclusion align with the recommended loan terms?
2. Are the recommendation's terms appropriate considering the identified risks?
3. What aspects of the conclusion should have been more accurately reflected in the recommendation?

Instructions

- i. In three groups, each group will have 3 minutes to brainstorm and come up with answers to their assigned question
- ii. Following the brainstorming, groups will have 2 minutes to synthesize a consistent and coherent conclusion and recommendation for the credit proposal, based on their respective findings

Time allocated: 5 minutes

i. Separate group activity	
Groups	Findings
Group 1: How does the risk profile described in the conclusion align with the recommended loan terms?	<hr/> <hr/>
Group 2: Are the recommendation's terms appropriate considering the identified risks?	<hr/> <hr/>
Group 3: What aspects of the conclusion should have been more accurately reflected in the recommendation?	<hr/> <hr/>

Summary of Unit 4

To synthesize a reasonable and consistent conclusion and recommendation, it is crucial to note the following:

- Summarize key findings from the CAM in the conclusion.
- Identify and highlight findings crucial for decision-making.
- Ensure recommendations align with these findings, particularly in terms of loan terms and conditions.
- Integrate risk mitigation strategies into the recommendations.

Conclusion

This training emphasized the critical role of Credit Assessment Memos (CAMs) in informed credit decision-making. Key takeaways include:

- Distinguishing the different sections of the CAM and their collective impact on credit analysis.
- Recognizing the importance of skillfully gathering, analyzing, and synthesizing data for comprehensive borrower assessment.
- Formulating concise conclusions from the collected data that have been accurately recorded in the respective sections, and craft recommendations that are aligned with these conclusions.
- Placing an emphasis on accuracy and consistency in CAM preparation to guide informed credit decisions.

Appendix 1: CAM Template



First Local Bank

Credit Assessment Memorandum (CAM)

Date:

Borrower Name:	A/C #:
Branch:	Officer name:
Industry:	Industry Code:
Borrower Risk Rating:	Next Review Date:

<i>Client's Name:</i>		<i>/AC #:</i>					
Item	Type	Outstanding as at:	Present Limit	New limit	Interest	Qly Comm.	Maturity
1.					-Int		
2.					-Overrate Int:		
3.					-Prepayment penalty:		
Total C/V USD							

Notes if any: Special conditions (checks, cash...)

Security: (describe security, value, proposed new value)

	Description of security	Present Value	Proposed value	Coverage	Credit Int /Frequency	Appraisal Value & date
Against item #						
Against Item #						

Covenant

Against item #	
Against item #	

Request: (Detailed)

Obligor Information Report

- **Borrowing power:**
- **Management:**
- **Background**
- **Description of Business** (including client's sales, purchases, terms of operation & segregation of sales by market & product if available)
- **Employees**
- **Outlet locations**

Real Estate Net Worth in the name of Mr..... as at(Borrower and Guarantor).

Description	Location	Shares	Ownership	Estimated Value	Attached copy of title deeds

Account Activity & Banking Relationships

Currency: USD Values in 000's

Type of Account	Bank	Period	Year	Limit	Cr trxns	Dr trxns	H.Dr Balance	L.Dr Balance
Overdraft USD								
Checking AC				N/A				

Banking History and Interpretation of Bank Activity: (Core/excesses/past dues)

Account Profitability

Overdraft Account:	Effective Rate :
Revenues	(Including int. & quart.comm.)
Cost of Funding	(Effective COF @ / /)
Net Revenues	
Expenses (at R/E 1.6/1)	
Net Profit	

Credit Chckeing Report

- Market /Central Bank

Financial, Risk & Collateral Analysis

Based on the below observations:

We recommend approving as presented:

Credit Officer Conclusion and Recommendation


Based on the below observations:

We recommend approving as presented:

Credit Officer

Head of department

Appendix 2: Slides




Expert Techniques for Crafting Effective Credit Assessment Memos (CAMs)

Hania Al Abiad
December 4, 2023

Before we begin...


Workshop duration	: 30 minutes; No breaks
Restrooms	: Multiple, closest at the hallway end
Mobile phones	: Switched "Off" or in "Silent" mode
Attendees	: Credit Analysts within First Local Bank
Attendees Background	: A foundation in financial analysis Familiarity with credit risk assessment practices. Familiarity with a CAM template

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Introduction

Why is a CAM important?




- Enhances a well-informed decision making process
- Reflects information on borrower creditworthiness
- Identifies risks within proposed credit
- Serves as a documentation for compliance

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Objectives of Training

Introduction to uncovered units	Unit 4
Unit 1: Identify the core purpose of a CAM	Synthesize a Conclusion and Recommendation 
Unit 2: Describe the structure of a CAM	
Unit 3: Conduct a comprehensive analysis of financials, risk, and collateral.	

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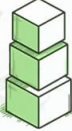
Introduction to Uncovered Units



Identify the core purpose of a CAM


Describe the structure of a CAM

- List the main sections of a CAM with their respective sources of information,
- Highlight the significance and purpose of each section for decision-making



Conduct a comprehensive analysis of financials, risk, & collateral

- Highlight the significance of financial and risk analysis in credit decision-making
- Record the outcomes in the designated sections of the credit assessment memo



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Unit 4

Synthesize a Conclusion and Recommendation


Objectives:

Skilfully synthesize a conclusion and a recommendation in a Credit Assessment Memo (CAM) by:



Integrating and correlating the assessment findings from various sections of the CAM to form a comprehensive and cohesive conclusion.

Consistently highlighting the implications of these assessment findings, ensuring that the derived conclusions and recommendations are logically aligned and reflect the entirety of the analysis.



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Group Activity



Instructions
Refer to Exercise 1 in the manual



Time Allocated
5 Minutes




Debriefing



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Significance of Conclusion & Recommendation

Definition a. Conclusion <ul style="list-style-type: none">• Summarizes Key Findings• Evaluates Creditworthiness• Synthesizes Data	Importance a. Conclusion <ul style="list-style-type: none">• Effective Consolidation of all data• Highlighting Key Information• Ease of Decision-Making
b. Recommendation <ul style="list-style-type: none">• Suggested Course of Action• Based on Analysis• Detailed Proposals	b. Recommendation <ul style="list-style-type: none">• Reflects Analytical Judgment• Risk Management Tool• Guides Decision Makers• Impacts Portfolio Quality

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Group Activity




	Instructions Refer to Exercise 1 in the manual
	Time Allocated 5 Minutes
	Debriefing

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Conclusion



To enhance credit decision-making and improve portfolio quality, credit analysts must

- ✓ Distinguish the different sections of the CAM and their collective impact on credit analysis.
- ✓ Recognize the importance of skillfully gathering, analyzing, and synthesizing data for comprehensive borrower assessment.
- ✓ Formulate concise conclusions from the collected data that has been accurately recorded in the respective sections, and craft recommendations that are aligned with these conclusions.
- ✓ Place an emphasis on accuracy and consistency in CAM preparation to guide informed credit decisions."

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Course and Instructor Evaluation Questionnaire

Kindly complete the following evaluation form:

1. The instructor's knowledge and communication skills were:

- 1 Limited
- 2
- 3 Satisfactory
- 4
- 5 Outstanding

2. I feel _____ in properly filling out a CAM after this training:

- 1 Less Confident
- 2
- 3 Equally Confident
- 4
- 5 More Confident

3. I found the practical questions and examples:

- 1 Not Valuable at All
- 2
- 3 Moderately Valuable
- 4
- 5 Extremely Valuable

4. The pace of the training was appropriate:

- 1 Slow
- 2
- 3 Moderate
- 4
- 5 Fast

5. Describe how you feel about this program in word:

6. Please provide any additional comments or suggestions for improvement:

Workshop: Expert Techniques for Crafting Effective Credit Assessment Memo (CAM)



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Instructor Guide December 4, 2023

First Local Bank



AI-Generated by DALL.E on November 23, 2023

Workshop Information

Purpose of the workshop

The purpose of this training is to emphasize the importance of accurately completing a Credit Assessment Memo (CAM), which is crucial for enabling senior credit management to make well-informed decisions. Specifically, while using the CAM template, participants will be able to distinguish the structure of a comprehensive CAM, identify its key sections, and understand the necessary information for each. Special emphasis will be placed on synthesizing a conclusion and recommendation that consistently aligns with the findings presented in these sections.

Objectives of the workshop

At the end of this workshop, participants will be able to:

- Identify the core purpose of a CAM (Unit 1)
- Describe the structure of a CAM (Unit 2)
 - List the main sections of a CAM with their respective sources of information,
 - Highlight the significance and purpose of each section for decision-making
- Conduct a comprehensive analysis of financials, risk, and collateral (Unit 3)
 - Highlight the significance of financial and risk analysis in credit decision-making
 - Record the outcomes in the designated sections of the credit assessment memo
- Synthesize a conclusion and a recommendation that integrates the assessment findings and highlights their implications with consistency and with no errors (Unit 4)

Workshop Outline

8 mins	Introduction <ul style="list-style-type: none"> ✓ Outline & overview of the workshop ✓ Synopsis of uncovered units (1-3, Importance of a CAM & significance of all sections)
15 mins	Unit 4: Conclusion and Recommendation within a CAM <ul style="list-style-type: none"> ✓ Purpose ✓ Objectives ✓ Exercise 1 ✓ Debriefing & discussion ✓ Presentation ✓ Exercise 2 ✓ Debriefing & discussion ✓ Summary
7 mins	Conclusion <ul style="list-style-type: none"> ✓ Wrap up ✓ Evaluation





Instructional Materials and Aids

- ✓ Participant Manual
- ✓ Handouts (a CAM template, questionnaire, and presentation slides)
- ✓ Notebooks and pens
- ✓ Flipchart stand and Flipchart paper
- ✓ Projector

Preparation for workshop

- ✓ Print and collate Participant Manuals for each participant
- ✓ Copy handouts
- ✓ Arrange room for group work
- ✓ Check projector

Icons Used




 <p>Group work</p>	 <p>Participant Manual</p>
 <p>Presentation Slides</p>	 <p>Time allotted</p>

Icons are downloaded from MS Word



Duration

This training takes 30 minutes to deliver

Introduction

 Slides # 1-2	<ul style="list-style-type: none"> ✓ Welcome participants ✓ Ask participants politely to switch their phones off or to silent mode as this training is very short and their full attention is highly appreciated. ✓ Advise participants that there will be no breaks as the training period is limited to 30 minutes and inform them about essential facilities. ✓ Clarify that your role is not to provide education on credit or credit analysis, as participants already possess the necessary skills in these areas. Instead, your focus is on the critical importance of accurately completing each section of the Credit Assessment Memo, with special emphasis on the 'Conclusion and Recommendation' section. ✓ Explain that this workshop will be highly interactive and reflective, yet enjoyable, adhering to adult learning principles. The onus of the work will be on them, the participants. The training will employ a discovery learning approach, meaning you will encourage them to think about and discuss CAM concepts in groups before providing them with debriefing. ✓ Explain to the participants that this training program on how to properly fill out a complete and consistent credit assessment memo (CAM) is crucial because it equips senior management with the necessary insights to make informed decisions, directly impacting the bank's portfolio quality and overall financial health ✓ Explain that the purpose, of using a CAM template, is to see how properly filling out each section with relevant information will enhance synthesizing a consistent and coherent conclusion and recommendation. ✓ Finally, ask participants to complete the evaluation questionnaire within their manuals at the end of the workshop <p>Time allocated: 3 minutes</p>
 P. 1	
	

Overview of the workshop

 Slide # 3	<p>State the workshop objectives to the participants: They will be briefly introduced to:</p> <ul style="list-style-type: none"> - Unit 1. Identify the core purpose of a CAM - Unit 2. Describe the structure of a CAM <ul style="list-style-type: none"> • List the main sections of a CAM with their respective sources of information, • Highlight the significance and purpose of each section for decision-making - Unit 3. Conduct a comprehensive analysis of financials, risk, and collateral. <ul style="list-style-type: none"> • Highlight the significance of financial & risk analysis in credit decision-making • Record the outcomes in the designated sections of the CAM <p>They will be trained on Unit 4, which ties together the content of the preceding units, emphasizing the synthesis of a coherent conclusion and recommendation that integrates the assessment findings and highlights their implications with consistency and with no errors.</p>
 p. 1	

Synopsis of uncovered units

Purpose

Using the CAM template, explain to participants that comprehending the objectives of the initial three units is fundamental to appreciating the essential role of synthesizing conclusions and recommendations in a credit assessment memo (CAM). These units provide the core comprehension of CAM's purpose, structure, and thorough analysis, which are necessary for skillfully crafting the final components for decision-making in Unit 4.

Instructional material and instructional aids




You will need the following materials to present this unit:

- ✓ Prepared flipchart for Objectives exercise
- ✓ Slide # 3-4

Duration

This section should take 5 minutes

Present the objectives of the first 3 units

 <p>Slide # 4</p>	<p>Unit 1: Identify the core purpose of a CAM Explain to participants that the core purpose of a credit assessment memo (CAM) is to provide a detailed and structured analysis of a borrower's creditworthiness. Emphasize the importance of the CAM as a key tool for decision-makers to evaluate credit risks and make informed lending decisions as well as it plays an important role in documentation.</p>
 <p>P. 1</p>	<p>Unit 2: Structure of a CAM: Listing main Sections and highlighting their significance Inform the participants that the Credit Assessment Memo (CAM) is composed of several key sections, each providing specific types of information. Clarify how these individual sections contribute valuable insights for decision-makers, emphasizing their role in crafting well-informed conclusions and recommendations. Add also that filling out the necessary information in the relevant section(s) will enhance the crafting of the conclusion and recommendation</p>
	<p>Unit 3: Conduct a comprehensive analysis of financials, risk, and collateral: highlighting significance and recording outcomes Brief the participants that, while the training will not be covering it in detail, this unit is crucial. It focuses on evaluating creditworthiness through financial statement analysis, risk analysis, and understanding collaterals and covenants in CAMs. Emphasize that this unit demonstrates how to document these elements effectively and their collective contribution to a thorough credit assessment.</p> <p>Time Allocated: 5 minutes</p>

Unit 4: Synthesize a Conclusion and Recommendation

Unit Purpose

Explain to the participants that the purpose of this training unit is to enhance participants' skills to synthesize comprehensive credit assessment into coherent conclusions and to construct consistent, well-supported recommendations within the Conclusion and Recommendation parts of a Credit Assessment Memo (CAM). Proficiency in this area is crucial for properly expressing analyses of creditworthiness, managing potential risks, and proposing clear recommendations for loan decision-making to senior credit management

Objective

State that at the end of this unit, you will be able to:

Skillfully synthesize a conclusion and a recommendation in a Credit Assessment Memo (CAM) by:

- ✓ Integrating and correlating the assessment findings from various sections of the CAM to form a comprehensive and cohesive conclusion.
- ✓ Consistently highlighting the implications of these assessment findings, ensuring that the derived conclusions and recommendations are logically aligned and reflect the entirety of the analysis.

Instructional material and instructional aids

You will need the following materials to present this unit:

- ✓ Prepared flipchart for Objectives exercise
- ✓ Slides 5-8

Duration

This unit should take 15 minutes

Exercise 1



Assume you are analyzing a credit proposal for XYZ Corporation, a manufacturing company seeking a loan to expand its operations. XYZ has shown steady revenue growth over the past 5 years, but its Debt-to-Equity ratio is higher than the industry average. Additionally, XYZ operates in a highly competitive sector, and recent market analysis predicts a potential downturn in the industry. However, XYZ's management has a strong track record and has presented a robust plan for using the loan to diversify into new markets.

Based on these findings:

- 1) What specific information in the scenario most significantly affects your decision regarding XYZ Corporation's creditworthiness?
- 2) Identify the negative indicators in XYZ Corporation's profile. How might these impact the credit recommendation?
- 3) What are the positive aspects of XYZ Corporation's situation? How do these factors support a favorable credit decision?

Instructions

- i. In 3 groups, each group will have 3 minutes to discuss and come up with answers to their assigned question
- ii. Following discussion, all groups will convene and have 2 minutes to collaboratively synthesize a consistent and coherent conclusion and recommendation for the credit proposal, based on their respective findings



Time allocated: 5 minutes

Divide participants into three groups. **Ensure** that each group will be of diverse experiences, ages, and gender (based on previous information provided to you).

Read the exercise to participants and **explain** the exact requirement from each group whereby Group 1 should list specific information about the company affecting decision-making while Group 2 should provide negative indicators and why they consider them negative. Group 3 on the other hand should list positive indicators justifying their choice.

After the individual group discussions, **bring** all groups together for a collaborative session (2 minutes, as mentioned) where they share their findings and insights allowing for cross-pollination of ideas and helping in forming a comprehensive understanding of the case to synthesize a conclusion and a recommendation.

Debriefing

Ask the learners about the purpose of evaluating both positive and negative indicators in our case study of Z Corporation. **Guide** them in understanding where within the CAM sections they can find the answers to their questions, and why it is critical to consistently question their analysis when synthesizing the Conclusion and Recommendation sections. **Encourage** them to reflect on how the identified key factors influence the final credit decision and how the balance of these factors informs the cautious approach recommended. First, **stress** the importance of evaluating both positive and negative indicators in the Z Corporation case study. **Explain** where specific information can be found in the CAM template. Then, **discuss** the need to consistently question the analysis, especially when encountering conflicting data.

Transition to the reflection aspect and **prompt** learners to consider how key factors impact the final credit decision and the cautious approach recommended in the conclusion and recommendation sections. Finally, open the floor for discussion, inviting agreement, additional examples, and opposing opinions

After discussion **provide** participants with the ideal answers for the 3 provided questions and how a properly crafted conclusion and recommendation should be.

Group 1: Key Factors Influencing Decision:

Answer: The company's steady revenue growth and strong management team are positive factors. However, the high debt-to-equity ratio and the prediction of a market downturn are significant concerns.

Group 2: Negative Indicators:

Answer: Negative indicators include the high D/E ratio, which implies financial risk, and the potential market downturn, which could affect the company's profitability and ability to repay the loan.

Group 3: Positive Indicators:

Answer: Positive aspects are the company's consistent revenue growth over five years and a management team with a strong track record, suggesting operational competence and strategic planning abilities.

A properly crafted Conclusion and recommendation

Conclusion: Z Corporation shows potential through consistent revenue growth and effective management, but faces financial risks due to a high debt-to-equity ratio and possible market downturn.

Recommendation: It is recommended that Z Corporation's credit request be approved with caution, providing a reduced loan amount and increased interest rate to balance the identified risks. Shorter repayment terms, financial covenants, regular reporting, and collateral are advised for risk management, along with ongoing review and monitoring of the company's financial status.

Unit 4 (Presentation)



Slide # 7

Ask the participants to provide you with definitions for each of Conclusion & Recommendation. **Encourage** them to engage.

Request three interpretations of each, focusing on the 'Conclusion' as a summary of key findings and risk profile, and the 'Recommendation' as an action plan based on analysis.



p. 4

Highlight the importance of these sections, emphasizing their role in consolidating complex information for decision-making, guiding actions, and managing risk effectively

Definition of Conclusion

- **Summarizes Key Findings:** **begin** by emphasizing that the conclusion serves as a summary of most key findings gathered through the analysis process. It is a means to refine and highlight critical takeaways from the analysis.
- **Evaluates Creditworthiness:** **stress** that the conclusion includes an evaluation of the borrower's creditworthiness based on financial data, market conditions, and other relevant factors that affect repayment capability.
- **Synthesizes Data:** **explain** that the conclusion is not only a summary; it integrates all data and insights into a clear, concise statement reflecting the borrower's risk profile and credit request's viability.

Importance of Conclusion

- **Effective Consolidation: start** by emphasizing that the conclusion is a vital section within the CAM because it serves as a powerful consolidation tool of all data and analysis from the CAM, providing a cohesive overview in one section.
- **Ease of Decision-Making: Stress** that the primary role of the conclusion is to make decision-making more straightforward and efficient whereby it enables quick understanding for decision-makers by distilling complex information into key insights.
- **Highlighting Key Information: explain** that the conclusion brings focus to the most critical elements of the credit assessment, ensuring important details are not overlooked. This way, decision-makers can focus their attention on the most pertinent information without getting lost in the minutiae.

Definition of Recommendation

- **Suggested Course of Action: start** by emphasizing that the recommendation is the section where the analyst proposes a specific course of action based on the assessment's findings. It's essentially the 'what should we do?' part of the assessment.
- **Based on Analysis: Explain** that the recommendation is not arbitrary; It is derived directly from the thorough analysis of the borrower's financial status, risk factors, and overall creditworthiness evaluated in the CAM.
- **Detailed Proposals: highlight** that the recommendation can be comprehensive and detailed. It may go beyond “approved” or “Declined” and may include proposals for loan approval, rejection, or modification, often outlining terms and conditions.

Importance of Recommendation

- **Guides Decision Makers:** start by stressing that the recommendation serves as a critical guide for decision-makers. It provides clear and actionable guidance on how to proceed with the credit application. Decision-makers rely on this section to make informed choices.
- **Reflects Analytical Judgment:** Explain that the recommendation is not merely a formality; It represents the analyst's professional judgment and understanding of the borrower's situation. It demonstrates the culmination of rigorous analysis.
- **Risk Management Tool:** Emphasize that the recommendation is a powerful tool for risk management. It helps manage the lender’s risk effectively by suggesting tailored conditions, covenants or specific actions that can mitigate potential risks associated with the credit.



Time allocated: 5 minutes

Exercise 2



You are evaluating a loan application from GreenTech Innovations, a startup specializing in renewable energy technology. GreenTech has been operating for two years and is seeking funding to research and develop a new solar panel technology. The company has shown innovative potential but lacks a solid track record in revenue generation. Its financial statements reveal fluctuating revenues and high operational costs, leading to minimal profits. Additionally, the solar technology market is highly competitive with uncertain regulatory environments in key markets.

Conclusion Provided: The credit assessment concludes that GreenTech Innovations presents a high-risk profile due to its limited operating history, inconsistent revenues, and the competitive and uncertain market environment.

Recommendation Provided: It is recommended that the loan be approved with minimal oversight conditions and standard market interest rates, based on the company's promising innovative potential and the growing demand for renewable energy solutions.

Question: Identify and explain the inconsistencies between the conclusion and the recommendation provided for GreenTech Innovations' loan application. Consider the following points:

1. How does the risk profile described in the conclusion align with the recommended loan terms?
2. Are the recommendation's terms appropriate considering the identified risks?
3. What aspects of the conclusion should have been more accurately reflected in the recommendation?

Instructions

- i. In three groups, each group will have 3 minutes to brainstorm and come up with answers to their assigned question
- ii. Following the brainstorming, groups will have 2 minutes to synthesize a consistent and coherent conclusion and recommendation for the credit proposal, based on their respective findings



Time allocated: 5 minutes

Divide participants into three groups. **Ensure** that each group will be of diverse experiences, ages, and gender (based on previous information provided to you). **Read** the exercise to participants and **explain** the exact requirement from each group whereby Group 1 should check the alignment of the borrower's risk profile with recommended loan terms while Group 2 should evaluate whether the recommended terms are appropriate to the borrower's risk level. Group 3 on the other hand should identify what aspects of the conclusion should have been reflected more accurately within the recommendation.

After the individual group discussions, **bring** all groups together for a collaborative session (2 minutes, as mentioned) where they share their findings and insights, facilitating the exchange of ideas and contributing to synthesizing a consistent and coherent conclusion and recommendation for the credit proposal

Debriefing

Pose the following questions to the participants:

- Why or why not should the loan terms align with the risk profile of the borrower?
After gathering participants' insights, stress the importance of aligning a borrower's risk profile with recommended loan terms. Emphasize that discrepancies between a high-risk profile and lenient loan terms, lacking necessary oversight, can jeopardize the bank's interests.
- In what way(s) should the risk profile affect the loan terms?
After encouraging responses from participants, **explain** that when dealing with high-risk profiles, it's crucial to incorporate elevated charges, stringent repayment conditions, and tangible collateral demands. In contrast, for low-risk profiles, the terms may be more favorable. **Emphasize** that aligning loan terms with risk profiles involves tailoring financial arrangements to appropriately mitigate potential risks and safeguard the bank's interests.
- How should the recommendation reflect the background and risk profile of the borrower?
After encouraging responses from participants, **emphasize** to the participants the importance of ensuring that the recommendation aligns with the findings presented in the conclusion section. In the case of a high-risk assessment like GreenTech's, the recommendation should reflect a more cautious lending approach or provide a well-justified rationale for the current terms to maintain consistency with the conclusion's high-risk identification

After discussion provide participants with the ideal answers for the 3 provided questions and a correct version of the conclusion and recommendation.

Group 1: Alignment Between Risk Profile and Loan Terms:

Answer: The inconsistency between GreenTech's high-risk profile, characterized by unstable revenue and market uncertainties reflected in the conclusion, and the lenient loan terms recommended, which lack necessary oversight for such risk.

Group 2: Appropriateness of the Recommended Terms:

Answer: The recommendation is critiqued for not proposing more cautious terms considering the risks. Enhanced monitoring, stricter covenants, or a reduced loan amount would be more fitting.

Group 3: Reflecting Conclusion in the Recommendation:

Answer: The recommendation doesn't adequately reflect the high-risk factors identified in the conclusion. A more guarded lending approach or a justified rationale for the current terms would be more consistent with the conclusion's findings.

Corrected Conclusion: GreenTech Innovations is assessed as presenting a high-risk profile due to its limited operating history, inconsistent revenues, and the competitive and uncertain market environment.

Corrected Recommendation: Given the high-risk profile identified in the conclusion, it is recommended that the loan be approved with stringent oversight conditions, higher interest rates, and tangible collateral requirements to safeguard the lender's interests effectively

Summary of Unit 4

State: In this unit, we have learned that to synthesize a reasonable and consistent conclusion and recommendation, it is crucial to do the following:

- Summarize key findings from several sections of the CAM in the conclusion.
- Identify and highlight findings crucial for decision-making.
- Ensure recommendations align with these findings, particularly in terms of loan terms and conditions.
- Integrate risk mitigation strategies into the recommendations.

Conclusion



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Ask the participants to actively articulate their newfound understanding of completing a CAM, prompting them to share their insights and observations regarding the CAM's various sections. **Encourage** open discussions among participants to explore the interconnections between these sections, allowing them to identify how each part contributes to the overall assessment. Finally, **guide** the participants in concluding the profound impact of a well-prepared CAM on the quality of decisions made by senior management. **Encourage** them to provide specific examples or actual cases they encountered to illustrate these points.

In the end, state that this training emphasized the critical role of Credit Assessment Memos (CAMs) in informed credit decision-making. Key takeaways include:

- Distinguishing the different sections of the CAM and their collective impact on credit analysis.
- Recognizing the importance of skillfully gathering, analyzing, and synthesizing data for comprehensive borrower assessment.
- Formulating concise conclusions from the collected data that have been accurately recorded in the respective sections, and craft recommendations that are aligned with these conclusions.
- Emphasizing accuracy and consistency in CAM preparation to guide informed credit decisions.

Time allocated: 7 minutes