

Avoiding the 50-Page Credit Application

Today's Presenters



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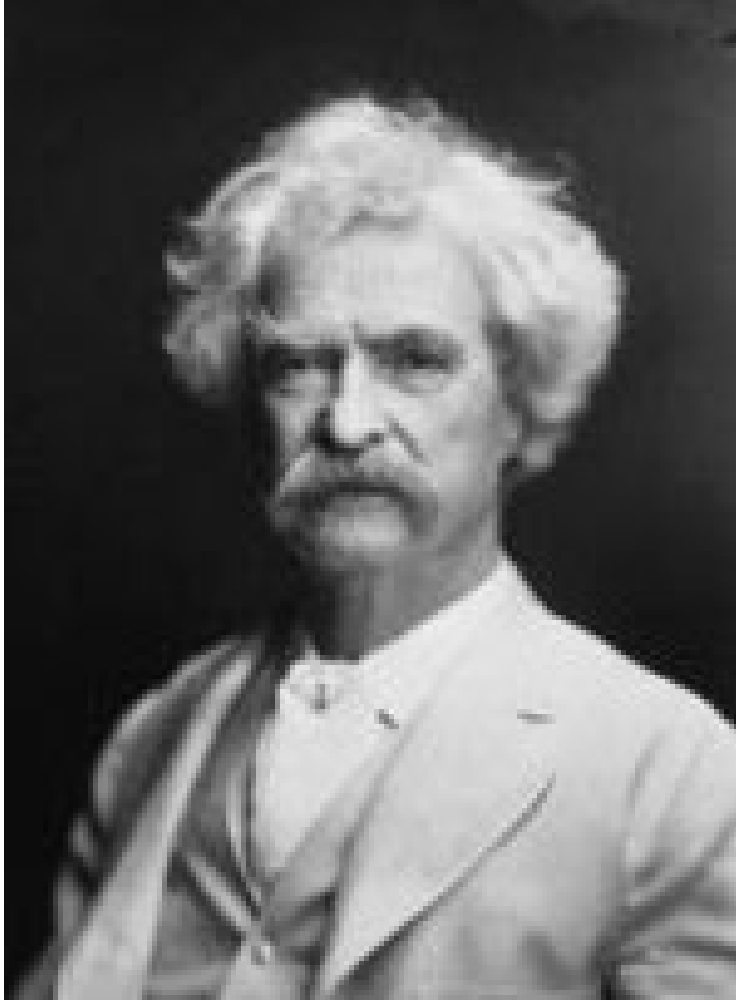
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Agenda

- 1. Write it Right – Credit Application Quick Tips**
- 2. Writing for the Reader**
- 3. Deciding Which Information to Include**
- 4. Integrating Writing Skills with Credit Analysis**

Write It Right – Credit Application Quick Tips

Good writing is a process...



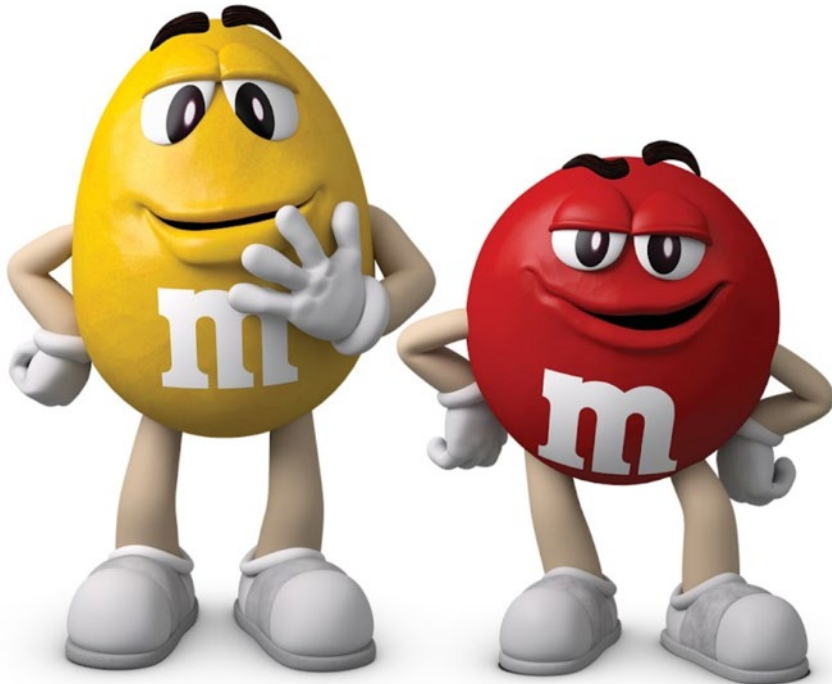
“I apologize for such a long letter - I didn't have time to write a short one.”

— Mark Twain

If it's not well written, not only is your writing suspect, so too is your analysis!

1. **An integrated analysis** will identify key analytical elements and relationships.
2. **Organizing** – even if you have a template, use an outline. This will later serve as your Exec. Summary.
3. **Drafting** – “get it on paper,” but don't expect it to be one and done!
4. **Revising** – more on this later.

Writing with numbers...



\$22MM

Write: **\$22.4 million**, not \$22.4M nor \$22.4MM

Write: **\$2,357 million** or **\$2.4 billion**

Write: **\$237,000** not \$237K

- » The numbers are the evidence or magnitude of the analysis, not the subject.
- » Use numbers to support the analysis, don't simply "narrate" them; ***you're an analyst not a reporter.***

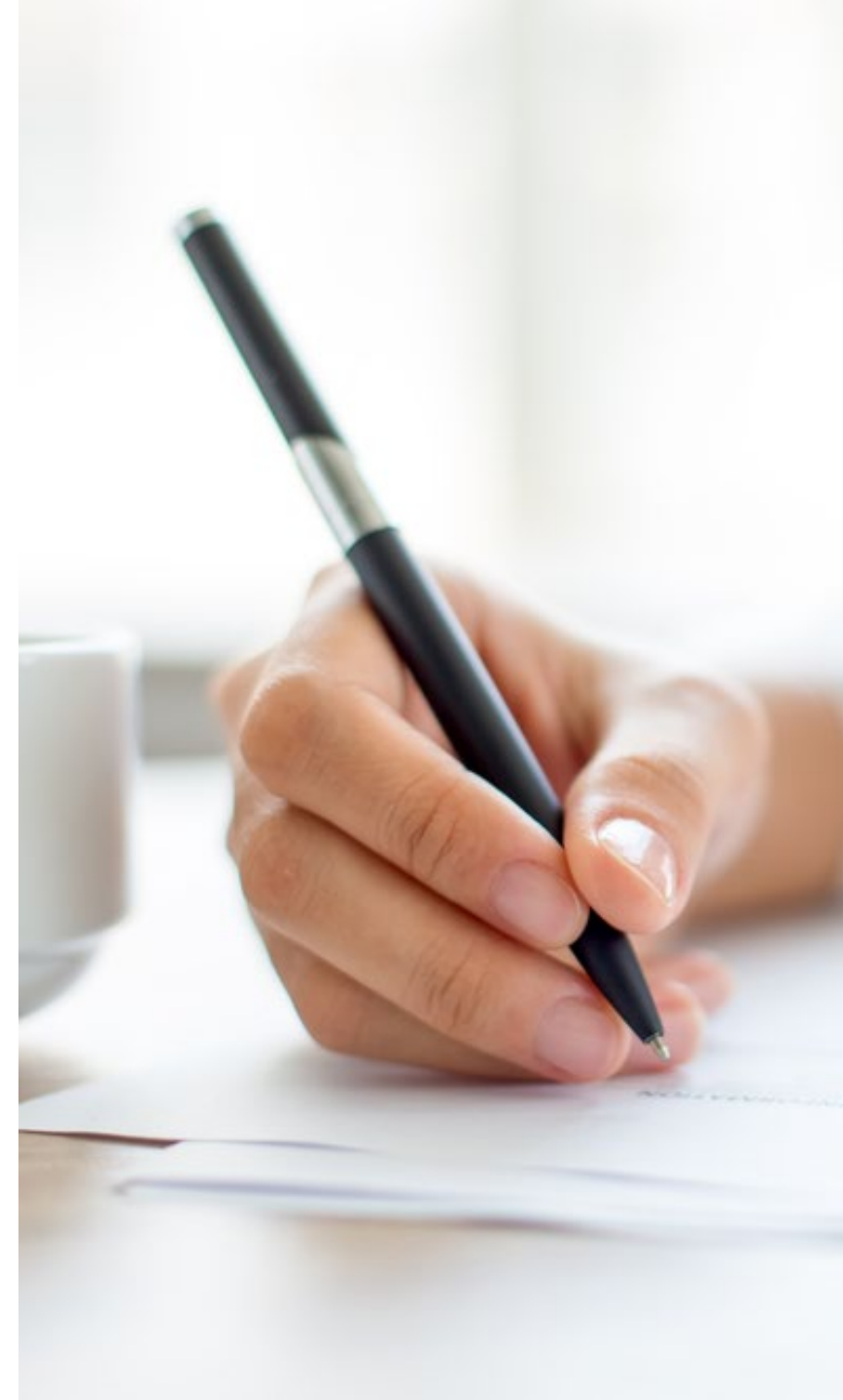
Writing with numbers...

- » Use a **consistent** number of **significant** digits...
 - “\$56.4 million” is likely sufficient accuracy, as is \$223,000.
 - “The Gross Profit Margin was 12.45% in fiscal 2020” is probably too precise.
- » Write out numbers below 10; larger numbers use figures.
- » Use figures for any number expressing time, measurement or money.
- » Write out numbers that begin a sentence or re-write the sentence.
- » Describe changes in percentages as “points” or basis points if fractional.
- » When you describe turnover, use faster/slower not higher/lower.



Use the right term

- » **A decline** is measured over multiple **time periods and conveys a trend**. A **decrease** happens from one period to the next.
- » **Affect** is a verb meaning to alter.
- » **Effect** can be a noun or a verb, but as a verb it means to cause something to happen.
- » **Fiscal year end, or FYE**, is a specific date, as in March 31, 2021; usually applicable to balance sheet (point in time) references.
- » **Fiscal year, or FY**, is a period of time, as in FY 2021; usually applicable to income statement (period of time) references.



Active and passive writing...

- » Prefer active style writing;
 - Actor (subject)
 - Action (verb)
 - Receiver
- » Passive sentences can seem weak, indecisive, or elusive, even unaccountable. Generally avoid “to be” verbs and verbs ending in ...en or ...ed.
- » Don't use passive sentences to avoid first person pronouns.



usually shorter, more
dynamic and conveys
self-confidence

You're an analyst/loan officer/credit officer – ***an agent of the bank*** – accept that responsibility and reflect it in your write-up!



Don't forget to revise

1. **First Pass:** highlight your message. Is it clear what *the reader* is to know or do?
2. **Second Pass:** Check your style; are your sentences and paragraphs clear, concise, and correct?
3. **Third Pass:** Proofread with a fresh set of eyes; grammar, punctuation and spelling matter.



Any fool can make things bigger and more complex... It takes a touch of genius -- and a lot of courage -- to move in the opposite direction.

— **Albert Einstein**



Writing for the Reader

Thought for the day...



“To do our work, we all have to read a mass of papers. Nearly all of them are far too long. This wastes time, while energy has to be spent in looking for the essential points.”

— In a memo written by Sir Winston Churchill 9th
August, 1940

A good Credit Application ('CA'):

Cashflow focused

Focuses on
where the cash
is coming from
to repay the
facility

Clear

Is easy to read
and understand

Complete

Contains all the
information that
is needed to
allow a decision
to be made

Consistent

Is free from
inconsistencies
& contradictions

Concise

Does not include
any
unnecessary
words,
sentences or
information

Poll Question #1

What are the most common comments from readers of Credit Applications? (select all that apply)

- a) Too long
- b) No logical flow
- c) Lots of duplicated information
- d) Risks and mitigants poorly identified and written
- e) No analysis of the cash flow
- f) The projections are inconsistent with the historical performance

How can you improve your writing skills?

One of the best things you can do for yourself to improve the quality of your writing is to learn how to reduce the number of words that do not add anything to the meaning and are therefore not necessary, and could be eliminated.

44 words, 187 letters

VS.

To improve your writing, reduce the number of words!

9 words, 42 letters

Make your CA clear and easy to read

- » **Use short words** and short sentences
- » **Make your point in the first sentence of the paragraph** then develop the point in the rest of the paragraph
- » Try to give your paragraph a **logical order**
 - Tell a story
- » Make your next point in a new paragraph
- » **Use headings and sub headings** but make them informative and consistent
- » **Use a mix** of text and bullet points



Exercise: Telling a story



Rewrite this paragraph, telling a logical story

During the four years from 2012 to 2015 the company closed 5 plants and idled or sold a further 10 plants and 13 distribution centers. The production capacity of the remaining facilities was able to cover the increase in throughput. In addition, the workforce was reduced from 45,500 to 39,500 through streamlining working practices. Cost reductions have also been achieved through improved yields, labor practices and changes in the product mix.

Exercise: A sample rewrite



From 2012 to 2015 the company went through a restructuring program. The key components were:

- » closing 5 plants and idling or selling a further 23 plants and distribution centers;
- » reducing the workforce from 45,500 to 39,500; and
- » additional cost reductions achieved through improved yields, labor practices and changes in the product mix.

The company's overall production capacity actually increased over this time period.

The background is a solid blue color with a faint, abstract pattern of white lines and dots, resembling a network or a molecular structure. The lines connect various points, creating a complex, interconnected web. The dots are small and white, scattered throughout the blue field.

Deciding Which Information to Include

The three basic components of a CA

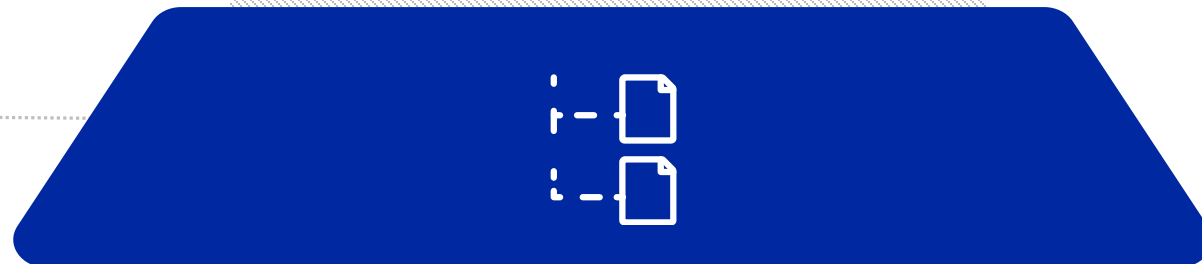
Executive Summary



Credit Application



Appendices



The three basic components of a CA

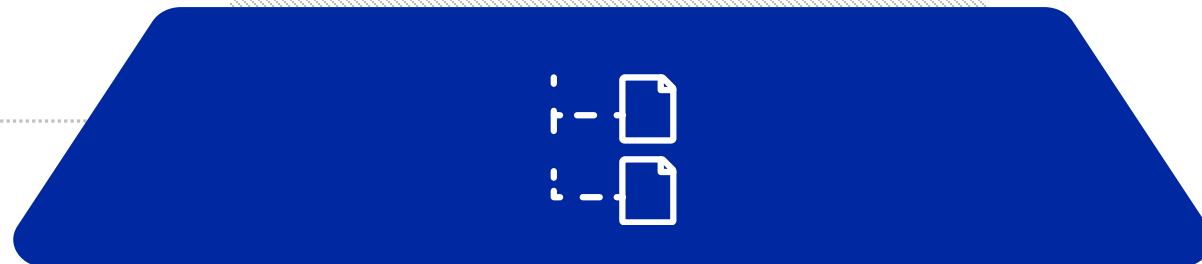
ESsential



neCessAry



appeNdICEs



The credit file will include far more information than the CA

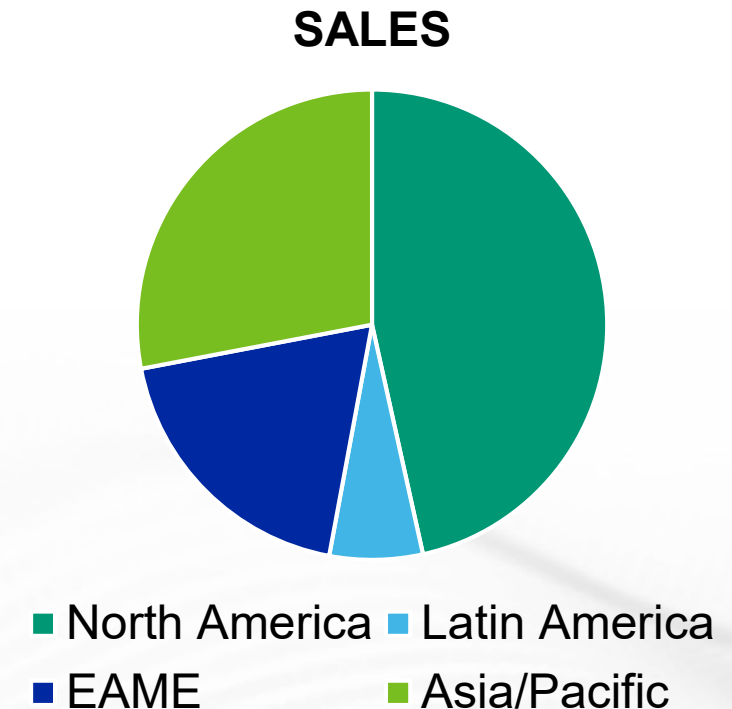
Integrating Writing Skills with Credit Analysis

Risks and Mitigants

Case Study: The Construction Equipment Company

The Construction Equipment Company (CEC) is:

- » A global manufacturer of construction and mining equipment
- » It also finances its customers through a captive finance subsidiary
- » 2019 revenues of \$53.8 billion and EBIT of \$8.3 billion
- » Listed on the NYSE

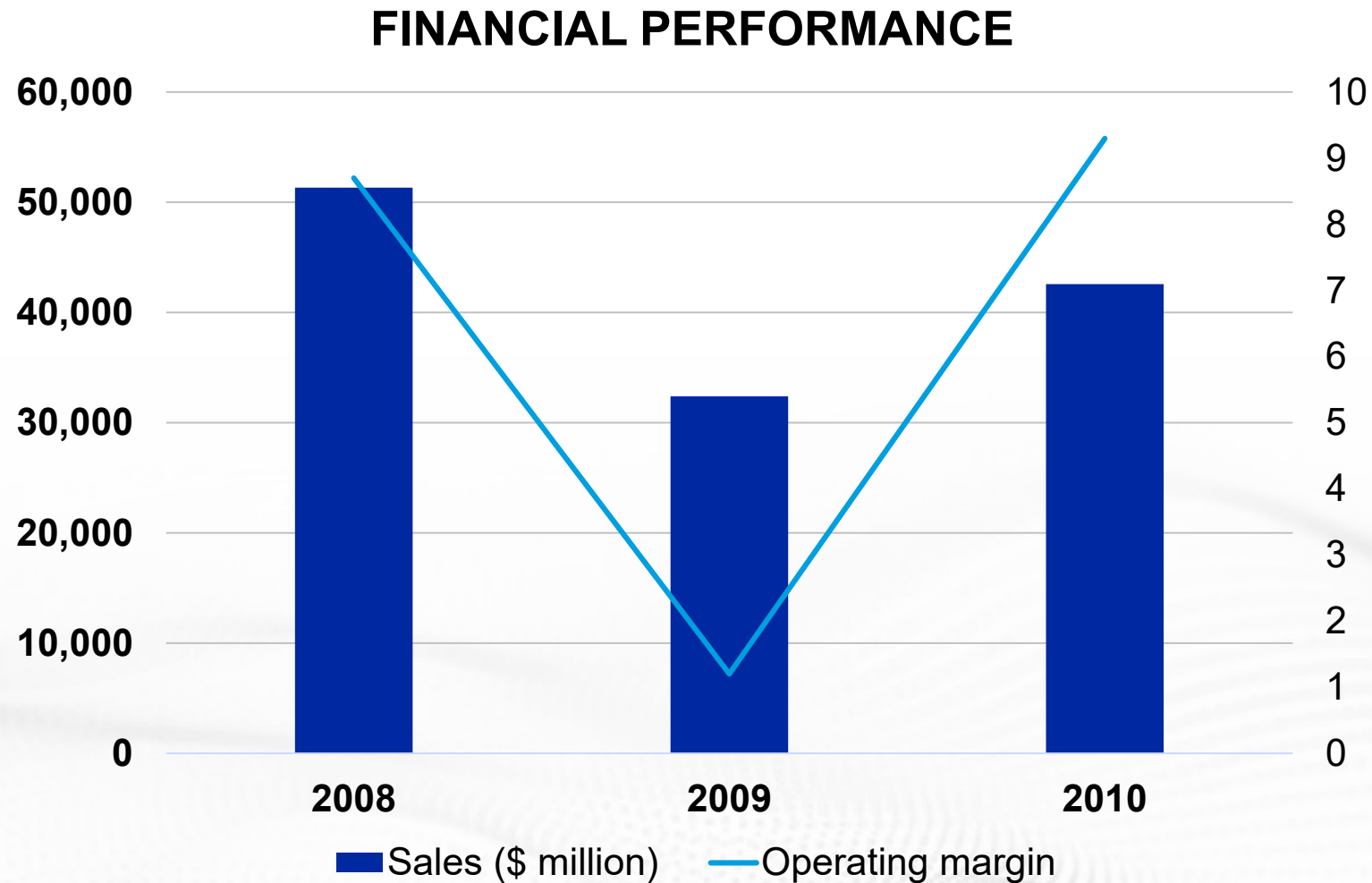


Poll Question #2

What would your key credit risks be? (select all that apply)

- a) Cyclical
- b) ESG risks related to the mining industry
- c) Political risks
- d) Currency risks
- e) High fixed costs
- f) High investment requirements
- g) Intensely competitive sector

The last downturn



Risk and Mitigants: a sample

Risk	Mitigant
The Company is highly cyclical	<ul style="list-style-type: none">» Strong management» The bank is projecting positive GDP growth in the US and Europe in 2020 and 2021» The recent cost-cutting exercise has been successful» Available credit lines of \$10.1 billion at FYE 2019

What are the credit mitigants for cyclicality?

THERE ARE FIVE BASIC MITIGANTS:

1

**Size &
diversification**

2

**Flexible
cost base**

3

**Low-cost
producer**

4

**Strong
Liquidity**

5

**No near-term
debt maturities**

Cash flow in the last downturn

	2010	2009	2008
Cash flow from operating activities:			
1 Profit of consolidated and affiliated companies	\$ 2,758	\$ 827	\$ 3,585
Adjustments for non-cash items:			
Depreciation and amortization	2,296	2,336	1,980
Other	469	137	355
Changes in assets and liabilities, net of acquisitions:			
3 Receivables - trade and other	(2,320)	4,014	(545)
Inventories	(2,667)	2,501	(833)
Accounts payable	2,570	(1,878)	(129)
Accrued expenses	117	(505)	660
Accrued wages, salaries and employee benefits	847	(534)	154
Customer advances	604	(646)	286
Other assets - net	358	235	(470)
Other liabilities - net	(23)	12	(371)
2 Net cash provided by (used for) operating activities	5,009	6,499	4,672
Cash flow from investing activities:			
4 Capital expenditures - excluding equipment leased to others	(1,575)	(1,504)	(2,320)

Risk and Mitigants: rewritten

Risk	Mitigant
<p>The Company is highly cyclical:</p> <ul style="list-style-type: none">» In the last downturn (2008 to 2009):<ul style="list-style-type: none">– Revenues fell 37%– EBIT fell 87%	<ul style="list-style-type: none">» Globally diversified – over 50% of revenues are from outside North America» In the last downturn:<ul style="list-style-type: none">– AR, Inventories and AP were reduced by \$4.6 billion– Capex was reduced by \$0.8 billion– FCF was increased by \$1.8 billion» At FYE 2019:<ul style="list-style-type: none">– Available credit lines of \$10.1 billion– Cash and equivalents of \$8.3 billion– Short-term debt of \$5.2 billion» No long-term debt maturity in 2020» Market-leading EBIT margins

Conclusion: Key Takeaways



Writing about credit should be different to the way we think, speak and write in everyday interactions.



Concise writing is harder to do than long-form writing

- » There are ways you can help yourself to do it better



Credit applications are formal documents

- » Establish your rules of writing up-front and stick to them



Your readers want to read the document quickly

- » Make it skim-friendly by using a mix of headers, paragraphs, bullet points and tables



Risks and mitigants is where the writer demonstrates they really understand the credit

- » Too often this is done as an afterthought – and it shows

Questions and Answers

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