

**THE UNIVERSITY OF THE WEST INDIES, MONA**

**ECON3073: Credit Analysis and Lending  
Semester II, 2020-21**

Lecturer: Jevon Henry

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Office Hours: Mondays 12 noon – 2 pm; Tuesdays 4 pm – 5 pm

**Pre-requisites: ACCT2014 and ECON2002**

**Course Description**

This course covers credit underwriting, credit pricing, credit adjudication, credit management, including problem-loan management. The core of the course consists of credit principles, the analytical tools to assess credit worthiness, default probabilities, and elements of protection used for both business and personal loans. Compliance regulations and the ethical responsibilities of lending institutions towards clients are also discussed.

**Learning Outcomes**

- Understand the principles of credit and approaches to loan management
- Apply credit analysis to assess borrowers using financial statement analysis, credit scoring, and credit risk models
- Understand the relationship between financial and non-financial data in the credit analysis process
- Understand the elements of protection for loans and critique their usage in various situations
- Identify problem loans and determine appropriate strategies for addressing these
- Understand the legal and regulatory framework for lending, as well as ethical standard of lenders

**Modes of Delivery**

Two lecture hours and one tutorial hour per week. *Delivery will be online.*

**Assessment/ Grading**

Assignment (20%), Mid-semester Exam (30%), Final Exam (50%)

**Assignment**

Assignment (20%) will require students to apply various forms of analyses, reach clear conclusions and recommendations with regards to a loan application. Further instructions will be provided.

## **Course Syllabus**

### **Topic 1: Principles of Lending**

*Discuss the principles of good lending. Provide a framework for credit and lending decisions, the lending process, different types of borrowers, structuring of advances.*

### **Topic 2: Financial Statement Analysis**

*Learn to use line items of financial statements to compute ratios measuring (a) Liquidity, (b) Efficiency/ Activity, (c) Profitability, and (d) Leverage.*

*Discuss alternative approaches to credit appraisal for micro and small businesses*

### **Topic 3: Qualitative Analysis of the Borrower**

*Understand the macroeconomic, industry and business risks associated with lending. Use non-financial data to complement financial statement analysis in making credit decisions.*

### **Topic 4: Consumer Lending**

*Understand types of consumer loans, the purposes, suitability of the credit products, and the adjudication of such loans.*

### **Topic 5: Credit Scoring**

*Understand the determinants of credit scores, interpretation of credit scores, and discuss the variations in credit scoring techniques.*

### **Topic 6: Credit Risk Analysis**

*Discuss Expert Judgment. Introduce statistical methods of linear probability models. Revisit Financial Statement Analysis to apply Altman's Z.*

### **Topic 7: Elements of Protection**

*Examine the usage of covenants, collateral, and guarantees in securing loans.*

### **Topic 8: Security, Consumer Credit Legislation, Legal Aspects**

*Examine the legal and regulatory framework for lending. Discuss the role of the Proceeds of Crime Act and Anti-Money Laundering Regulations.*

### **Topic 9: Problem Loan Management**

*Understand Basel definition of Default. Identify problem-loan red flags and determine the strategies for dealing with impaired loans*

### **Topic 10: Agricultural Lending**

*Discuss the challenges with financing agriculture. Examine financial institutions, role of government, and risk mitigation associated with agricultural lending.*

### **Topic 11: Real Estate Lending**

*Understand how real estate loan applications are evaluated. Learn to calculate property value using the Present Value method.*

## Textbook

**Credit Analysis and Lending Management** by Miland Sathye, James Bartle, Raymond Boffey, Third Edition (or newer)

- Note: The authors of this textbook are Australian based and some of the material would not be applicable to the English speaking West Indies. However, in terms of credit underwriting, the core principles and best practices explained in the text, the material is universal.

## Other Recommended Reading Material:

- Bernstein. Leopold, Wild. John, *Analysis of Financial Statements*, Edition 5.
- Basel Committee on Banking Supervision, *International Convergence of Capital Measurement and Capital Standards*, June 2006. <http://www.bis.org/publ/bcbs128.pdf>
- Hosmer, Jr., David W, Stanley Lemeshow, Rodney X. Sturdivant . *Applied Logistic Regression*, [http://resource.heartonline.cn/20150528/1\\_3kOQSTg.pdf](http://resource.heartonline.cn/20150528/1_3kOQSTg.pdf)
- Ministry of Justice, Government of Jamaica, *The Proceeds of Crime Act*. [https://moj.gov.jm/sites/default/files/laws/The%20Proceeds%20of%20Crime%20Act\\_0.pdf](https://moj.gov.jm/sites/default/files/laws/The%20Proceeds%20of%20Crime%20Act_0.pdf)