

Federal Reserve Board

Course Description for Credit Risk Analysis School (CRAS)

Course Catalog Detail

Credit Risk Analysis School (CRAS)

Type of Participant Targeted

Credit Risk Analysis School (CRAS) is intended for individuals with 18 months to three years of relevant experience who are working in the safety and soundness area. The curriculum provides an introductory learning experience designed to assist professional staff in developing analysis and examination skills applicable to a bank's credit function. *All assistant safety and soundness examiners must complete the course before becoming commissioned.*

Prerequisites

The participant will have completed Orientation, Banking and Supervision Elements (BASE), and Self-Study Programs #1 and #2. In addition, CRAS includes precourse work, which requires approximately 45 hours of self-instruction modules and completion of a pretest.

Course Overview

CRAS is a two-week program that provides a foundation for participants to analyze commercial and commercial real estate credits and to evaluate inherent credit risk and the effectiveness of credit administration. Week One is presented by Omega Performance Corporation (Omega) and focuses on individual credit analysis from a banker's perspective. Participants play the role of banker to assess financial, managerial, and environmental factors associated with three credit requests and subsequently present credit decisions to a mock directorate. During week two, the participants evaluate credit administration at a regional institution through the evaluation of a variety of individual credits and an assessment of both front-end and back-end credit administration practices using a combination of case study analysis and interviews. Participants must complete (1) write-ups of individual credits supporting their classification decisions and (2) a credit risk assessment which supports their analysis of the degree of credit risk in the loan portfolio.

Course Objectives

After completing this 9½-day course, the participant, at a minimum, will be able to accomplish the following objectives.

- Identify the basic principles of commercial and commercial real estate lending and credit risk management.
- Perform financial, management, and business environment analysis to practice the process bankers use to make sound lending decisions.
- Demonstrate the process lenders use to present credit decisions to loan committee for approval.
- Rate a borrower's capacity and related exposure according to interagency classification definitions.
- Prepare a loan write-up to support a classification decision in accordance with System guidelines.
- Assess the level and trend of an institution's credit risk and document support for these ratings in a risk assessment.
- Determine the adequacy of credit administration practices at an institution, focusing on the various front-end and back-end processes used to identify, measure, monitor and control risk.

Overview of CRAS Curriculum

<i>Subject</i>	<i>Approximate Class Hours</i>	<i>Approximate Homework Hours</i>
OMEGA Credit Analysis Case Study Workshop (Week One)		
1. Accounting Concepts	3.00	
2. Borrowing Causes and the Business Cycle	2.00	
3. Industry, Management and Economic Influences	1.00	
4. Financial Statement and Ratio Analysis	6.00	
5. Cash Flow Analysis and Projections	8.00	2.00
6. Loan Structure, Pricing, and Documentation	1.00	1.00
7. Real Estate Lending	6.00	
8. Mock Loan Committee Preparation and Presentation	4.00	
9. Proficiency Checks and Final Examination	3.00	2.00
Examiner Case Study Workshop (Week Two)		
1. Examiner Loan Review Process and Walk-through	8.00	1.00
2. Loan Discussion and Write-up	6.00	2.00
3. Overview of Credit Risk & Credit Administration	1.00	
4. Credit Culture	1.00	
5. Elements of an Effective Credit Risk Management Program including Underwriting, Rating and Review Systems, MIS, Internal Controls, Loan Review, Audit, Workout, Portfolio Management, and ALLL Adequacy and Methodology	11.00	
6. Credit Risk & Credit Risk Administration Institutional Assessment	5.00	4.00
7. Case Study Debrief and Hot Topics	2.00	
Totals	68.00	12.00

Learning Objectives

After completing each in-class learning module, the participant, at a minimum, will be able to demonstrate the following skills.

Week One

Accounting Concepts

- Summarize the key accounting concepts used to create borrower financial statements
- Apply the key accounting concepts to identify the effect of financial transactions on borrower financial statements

Borrowing Causes and the Business Cycle

- Compare and contrast the characteristics and financials of different types of companies.
- Interpret financial statements to diagnose probable borrowing causes for a given scenario description.
- Given the probable borrowing causes, determine loan structure, or the type of financing required and anticipated repayment source.
- Determine how changes in the operating cycle will affect borrowing needs and repayment ability.

Industry, Management, and Economic Influences

- Explain the various economic, business, and industry factors that influence a company's financial requirements.
- Assess management of the company to determine its ability to achieve success.
- Determine if the company's business strategy is appropriate and assess management's ability to carry out the strategy.

Financial Statement and Ratio Analysis

- Analyze financial statements to determine a borrower's financial strengths and weaknesses and ability to repay debt.
- Explain the purpose of key financial ratios used to analyze borrowers.
- Recognize common risks and red flags that may indicate potential default

Cash Flow Analysis

- Create and analyze cash flow statements to determine a borrower's debt repayment capacity.
- Determine the effect of a given change in situation on a borrower's cash flow and ability to repay a loan.

Loan Structure, Pricing, and Documentation

- Explain various loan and pricing structures and the circumstances under which they are utilized.
- Determine ways to mitigate risks through the structure and pricing of a credit.
- List the various types of loan documentation and their functions.

Real Estate Loans

- Explain the key concepts of real estate lending, both residential and commercial, with primary focus on the commercial segment.
- Compare and contrast the three appraisal methodologies used to value commercial property, recognizing common risks and red flags that may indicate deficiencies.
- Evaluate a borrower's ability to repay a commercial real estate loan.

Mock Loan Committee Preparation and Presentation

- Practice the role of the lender in determining the outcome of credit requests.
- Using the information learned in the workshop, decide whether to approve or deny a credit request.
- If approved, determine the structure and pricing of the credit.
- Present the decision to the bank's loan committee using appropriate support and documentation.

Week Two

Examiner Loan Review Process and "Walk-through"

- Explain the framework for evaluating individual credits.
- Review loan documents and reports to complete line sheets appropriately.
- Distinguish the various classification and criticism categories for credits.
- Analyze the financial condition of the borrower and guarantors.
- Determine appropriate collateral valuation.
- Recognize improper or missing loan documentation and determine the associated risks.
- Prepare an initial assessment of the credit and determine questions to ask management during loan discussion.
- Determine an appropriate loan classification/disposition and support decision by documenting conclusions on the linesheets.
- Define the 6P format of composing loan write-ups. Review loan write-ups for completeness, accuracy, and support.

Loan Discussion and Write-up

- Review a set of loans, including those that exhibit weaknesses in repayment ability, collateral protection, loan administration, or structure.
- Analyze the credits and prepare pertinent questions to ask management in loan discussion.
- Discuss credits with management and follow up on management's responses appropriately.
- Using the FFIEC's interagency policy statement for classification and special mention definitions, assign an appropriate classification/disposition to the loans.
- Prepare one detailed loan write-up and several bullet point summaries that support the classification/criticism decisions and follow the 6P format.

Overview of Credit Risk and Credit Risk Management

- Define credit risk and credit risk management and discuss the reasons to evaluate them
- Be cognizant of pertinent regulations and regulatory guidance provided to examiners in the evaluation of credit

Credit Culture

- Define credit culture, focusing on the importance of credit culture on the risk management process.
- Determine the credit culture that exists at the Case Study Bank and the effect that this culture has on credit risk and credit risk management at the institution.

Elements of an Effective Credit Risk Management Program

- Understand the key front end and back end processes of a credit risk management program included in the categories "risk identification, risk measurement, risk monitoring, and risk control."
- Analyze an institution's credit risk management program for effectiveness, including, but not limited to, underwriting, structure, pricing, rating systems, management information systems, internal loan review, audit, and workout.
- Determine if the institution's ALLL is adequate and if the methodology is appropriate.

Credit Risk and Credit Risk Management Institutional Assessment

- Determine an institution's credit risk rating and direction.
- Prepare the credit risk section of an institutional risk assessment, including reasoning for the degree and trend of credit risk.

Post-Course Intervention

After completing this course, the participant should be assigned to a field examination with responsibility for analyzing, discussing and classifying loans. In addition, the participant should be involved in completing the credit risk portion of a risk assessment/scoping memorandum. If possible, the participant should assist in writing the analysis of credit administration in the examination report.

Class Size

The minimum class size is 16 and the maximum class size is 25.

Instructors

The first week of the course is taught by the OMEGA representative, assisted by the lead examiner instructor. During the second week, the course is taught by the lead examiner instructor and three or more case instructors. All instructors are senior level examiners with significant commercial credit experience and expertise.