

While a lot of ground has already been covered by the above posts, a structured approach could be useful (especially if you are given a case study):

Segment the credit risk analysis into different types as below :

(a) Define your counterparty. Who are the parties on whom you have a legal recourse to (include here the borrowers, co-borrowers and guarantors, CDS providers). Who are the other parties, whose continued well-being is important for your credit exposure (typically includes subsidiaries, holding companies, suppliers, customers etc). You would not have legal recourse to these, but need to be covered in your credit assessment.

(b) Structure risk : These include :

(i) level of finance : is the debt at holdco level or operating company level. If at holdco level, servicing of the debt would be affected by possible cash upstreaming restrictions by debt providers at the opco level. To that extent your debt will be structurally sub-ordinated to the opco level with regard to level of finance

(ii) Your relative position in the overall debt profile : other debt maturing before yours (structural subordination in terms of tenor); other debt enjoying better collateral protection (structural sub-ordination in terms of collateral);

(iii) Check whether inter-creditor arrangements are in place and if there is subordinated debt in the balance sheet, whether it is indeed completely sub-ordinated in terms of claim on cashflow, security etc.

(c) Business risk assessment: Typically involves industry analysis, counterparty's competitive position within the industry, cyclicalty (latter very important especially in commodities)

(d) Financial analysis :

(i) Typically leverage (Debt/EBITDA), Gearing (Debt/Tangible Networkth), Interest Cover ((EBITDA - Taxes)/Interest)) and Debt Service Coverage Ratio (DSCR) i.e. ((EBITDA-Taxes)/(Interest + Principal amortization)); Collateral coverage are considered important.

(ii) More important is cashflow analysis and checking if Net Cashflow From Operations (NCFO) exceed the financing payments due (i.e. interest and principal amortizations)

(iii) If there are periods when the NCFO is inadequate for financing payments (due to say bullet loan redemptions) a.k.a refinancing risk; check if there are sources of back-up liquidity in the form of (cash + marketable securities) and available revolver bank lines which can be drawn to meet liquidity mismatches. Also check if the financial profile of the company is projected to be healthy enough to raise the required refinance.

(iv) It is normal to draw up projected financials, especially for long term debt analysis. In such cases, the profitability assumptions should be closely linked to the business drivers (for e.g. commodity prices, input cost parameters etc.). It is also common to run stress scenarios on these drivers and then examine debt serviceability

(e) Evaluation of covenants : whether the covenants are tight enough and provide adequate protection. Ideally, the covenants should breach in a projected stress case (the idea being that if such a stress scenario actually occurs, you can get the counterparty to the table early enough on covenant breach; without actually waiting for a payment default).

(f) Do look out for significant investments planned for capex, M&A etc. as this can significantly alter the current credit profile of the counterparty

(g) In addition to the more quantitative assessments mentioned above; assessment of management quality, legal jurisdictions and risks thereon, compliance/policy requirements need to be looked at.

If the counterparty has an external rating available, that is a useful reference point as well(though this remains very debatable !!)

Trust the above is useful and all the best for your interview.

If it is a junior level position, I doubt there will be too much in the way of technical questions, beyond wanting to test your intermediate level accounting knowledge.

For a entry level credit analyst, ability to read and interpret financial statements is key. Ability to analyze them and draw conclusions is better, but not required or expected at the entry level. Other factors, in no particular order:

- Intellectual curiosity - desire to understand how something works and the risks involved is more important than sheer brainpower, not that brainpower is bad at all.
- Detail focus. To lend money successfully you've got to be on top of a lot of nit picky items.
- Maturity, confidence, and sound judgement - is this someone I'll want to put in front of borrowers to negotiate deals in a few years?
- Organization & Attitude - sounds wishy washy, but the most important role of a junior analyst is to keep things moving, i.e. staying on top of things and doing what you're told when you're told without being told twice. No one wants their greenhorn slowing up the deal or bitching about the grunt work.

At a more experienced level analytical background and experience become more of an issue, as you're looking for someone to hit the ground running. Lots of those technical details have been covered above.

Specifically for commercial bank lending, top two ratios by a wide margin:

1) Debt Service Coverage. This has many variations (funds flow, fixed charge, w/ and w/o interest, real estate or project specific) but the essential is the same: The ability of recurring cash flow to cover meet the obligations of the borrower.

2) Leverage. Most common is tangible net worth / equity. How much leverage is too much varies by industry and structure, but lower leverage means more flexibility.

These two ratios will be reflected in the loan covenants of the majority of your deals.

In any business or industry where there's a lot of cyclical or seasonality, working capital analysis becomes key as well.

For your **Credit analyst** job interview preparation, review the following questions and answers.

Background –

Credit analysts are also called Credit Risk Analysts. They work in various establishments, from banks to investment companies. Their job is to assess the risks of lending credit to clients.

Credit Analyst Job Interview Questions and Answers for a Credit Risk Analyst

Question: What are the steps and process you follow for considering credit to a customer or not?

Answer: The analyst's job is to analyze customers, as well as the market. The analyst must know how safe the playing habits of the client are. The analyst studies customer records and meets customers regarding various issues.

Question: What characteristics are most important to be successful as a credit analyst?

Answer: It may sound obvious, but it must be stressed: analytical thinking is key to success as a credit analyst. Professionals in this field do a lot of evaluating: they study customer records, meet clients in person, become familiar with their history and habits. Analysts must be able to put all these together and decide if it's productive for the company to extend credit in this case.

Question: What is the role of interpersonal and communication skills in the career of a credit analyst?

Answer: Interpersonal communication is key to realizing your full potential as a credit analyst. A credit analyst communicates regularly with internal and external business representatives regarding credit information. He/she also meets clients in person to answer queries, solve problems, respond to complaints, etc.

Question: Are you skilled in financial analysis?

Answer: Financial analysis is part of the job. Analysts must understand things like financial and cash-flow statements, market share, management accounts, income growth, etc. They are required to generate financial ratios to figure out a customer's financial situation.

Question: Are proficient with relevant financially-oriented software and technology?

Answer: Professionals are typically required to use specialized software to perform things like generating financial ratios and developing statistical models to assess and predict information.

Mentioning your ability to use computers in general for related activities such as market research is also relevant.


Weakness the interviewer already knows: I lack general work experience because I spent many years in advancing my education. However, my education has prepared me for the job – I learned some skills that couldn't be gained as extensively in any regular job, such as: research experience that helped me analyzing and developing A, B, C.


Most important things:

- Cap structures. Why raise debt instead of equity, covenants, etc.
- Knowledge of the three financial statements is essential
- Obviously FCF is paramount. Know this calculation off hand
- If you're an experienced hire, be able to talk about deals you've worked on as well as pricing
- EV and valuation techniques (mainly comparable companies and transactions) are useful when calculating coverage ratios in a potential default


Hope this helps.

INTERVIEW QUESTIONS FOR A CREDIT ANALYST


1	Tell me how you organize, plan, and prioritize your work.	
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2	Share an effective method you have used to determine the degree of risk involved in extending credit or lending money.	
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3	Name a time when you identified strengths and weaknesses of alternative solutions to problems. What was the impact?	
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3.

4	Would you consider analyzing data or information a strength? How so?	
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5.

5	Share an experience you had in dealing with a difficult person and how you handled the situation.	
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7.

6	Provide an example of a time when you were able to demonstrate excellent listening skills. What was the situation and outcome?	
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9.


7	Share an experience in which your understanding of a current or upcoming problem helped your company to respond to the problem.	
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11.


8	Share an experience when you applied new technology or information in your job. How did it help your company?	
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12.

9	Provide an example when your ethics were tested.	
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14.

10	Share an experience in which your ability to consider the costs or benefits of a potential action helped you choose the most appropriate action.	
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16.

11	Share an experience in which your attention to detail and thoroughness had an impact on your last company.	
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18.

12	Share an example of when you went above and beyond the "call of duty". (Look for answers that show the candidate is dependable.)	
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Name a time when your patience was tested. How did you keep your emotions in check?



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Provide a time when you dealt calmly and effectively with a high-stress situation.



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How would you rate your writing skills? (Ask for an example that demonstrates great writing skills.)

1.

16

Provide an effective method you have used to generate financial ratios and evaluate customers' financial status.



3.

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Share a time when you willingly took on additional responsibilities or challenges. How did you successfully meet all of the demands of these responsibilities? (Make sure the candidate is a self-starter and can demonstrate some initiative.)



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Share an experience in which you resolved a difficult complaint.



6.

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What is the state of the reports you prepare? What is one thing you would like to improve upon?



8.

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How do you balance cooperation with others and independent thinking? Share an example. (Try to determine if the candidate has a cooperative attitude or is otherwise good-natured.)



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Provide an example of when you were persistent in the face of obstacles.



12.

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What methods do you use to compare the liquidity, profitability, and credit histories of establishments?



14.

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Share an example of when you established and accomplished a goal that was personally challenging. What helped you succeed?



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15.

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Provide a time when you worked in a rapidly evolving workplace. How did you deal with the change? (Make sure the candidate is flexible.)



17.

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Provide a time when you were able to identify a complex problem, evaluate the options, and implement a solution. How did the solution benefit your employer?



19.

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Tell me about a time when you developed your own way of doing things or were self-motivated to finish an important task.



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Share an effective method you have used to determine expected profitability of loans.



23.

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Describe the methods you use to recommend customer payment plans. Share a successful experience.



25.

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Share an experience in which conferring with a credit association representative or other business representative helped you in your work.



27.

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Share an experience in which your willingness to lead or offer an opinion helped your company.

1.

Provide an experience in which you were sensitive to someone's needs or feelings. How did your helpfulness affect your work environment?



3.

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Provide an experience in which your ability to actively find ways to help people improved your company or your own work ethic.



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4.

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What have you found to be the best way to monitor the performance of your work and/or the work of others? Share a time when you had to take corrective action.



6.

8.	34	Provide an experience that demonstrates your ability to manage time effectively. What were the challenges and results?	
10.	35	Share an experience in which personal connections to coworkers or others helped you to be successful in your work. (Make sure candidate works well with others.)	
12.	36	Describe a time when you successfully persuaded another person to change his/her way of thinking or behavior.	
14.	37	Describe an experience in which your ability to work well with others and reconcile differences helped your company or employer. (Make sure the candidate knows how to negotiate.)	
	38	In your experience, what is the key to developing a good team? (Look for how they build mutual trust, respect, and cooperation.)	

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15.	39	Name a time when your creativity or alternative thinking solved a problem in your workplace.	
17.	40	Provide an example when you were able to prevent a problem because you foresaw the reaction of another person.	
19.	41	Share an experience in which you successfully coordinated with others. How about a coordination effort that was not as successful?	
21.	42	Tell me about a time when your ability to analyze needs and product requirements helped you create an effective design or make an informed decision to benefit your company.	
23.	43	Please share with me an example of how you helped coach or mentor someone. What improvements did you see in the person's knowledge or skills?	

The job of a credit analyst is a challenging one, oriented to analytical and detail-driven people. Credit analysts assess the financial risks in things like equity or fixed income offerings, distressed debt, lending vehicles, or commodity portfolios. Gary McKelvie, director at recruiter Integrated Management Resources

says you should be prepared to interview with a number of people, including the HR person, IT lead, a risk team specialist and possibly others.

Here are five interview questions you might hear.

Can you tell me about your technical expertise in credit analysis?

This is when you need to bring up your specific skills in credit analysis, risk and valuation. A quantitative background is a great thing to have. Show that you also have a strong understanding of VAR, CVaR, PFE and portfolio analysis tools.

Can you describe your programming and modeling experience?

Credit analysts should have modeling skills. It pays to be proficient in MATLAB, SAS, C++, Moody's KMV, VB/VBA, and SQL. Individuals with systems development expertise are sure to get snatched up.

What's your experience in managing a team or leading junior employees?

Credit analysts work hand-in-hand with traders, bank management, risk specialists and/or IT people. So, it's a given that you'll need to be a people person, a team player, and a go-getter. For instance, you'll need to demonstrate how you can effectively deal with the inherent challenges of a trading environment. If you have specific examples of management experience, this is the time to emphasize them.

Tell me what you know about this division.

Your interviewers will want to know that you're familiar with their firm, bank or hedge fund. McKelvie says that if you're using a recruiter, use him for all he's worth. He'll most likely help you to understand the company culture, as well as the products traded, portfolio managed, or loan vehicles offered. But do your own homework, too.

Do you have any other particular skill sets that make you ideally suited for this position?

This is a good time to highlight specific accounting, corporate finance, and financial research expertise. If you've worked with the products the firm has traded, make sure to work it into the conversation a number of times. Basel II implementation experience is also a selling point. Problem solving skills are a major requirement for the job, so be prepared to discuss them.