



FCIB

The Finance, Credit & International
Business Association

Service, Development, Growth

Going Global Series



GOINGLOBAL

Resources - Agencies

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Building Nations with Education, Innovation and Confidence in Each Other

"Commercial Credit is the creation of modern times and belongs in its highest perfection only to the most enlightened and best governed nations. Credit is the vital air of the system of modern commerce. It has done more, a thousand times more, to enrich nations than all the minds of the world."

Daniel Webster, 1834



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GOINGGLOBAL

‘Going Global’ Checklist



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Your Checklist Should Include:

- ✓ Credit Policy
- ✓ Credit Investigation – Know your Customer
- ✓ Financial Information for the International Credit Decision
- ✓ Assessing International Risk
- ✓ Credit Insurance
- ✓ Commercial Letters of Credit
- ✓ Resources - Agencies
- ✓ Trade Credit Financing
- ✓ Correspondent Banking Relationships
- ✓ Compliance and Ethics





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Does your company have a list of resources and/or agencies that you can go to for International credit reports and information?

- Yes
- No



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Customer credit information

Key Points

Confidentiality of credit information is essential

Credit investigations require ethical treatment

Privacy laws vary around the world

There are legal aspects to consider regarding the exchange of credit information

Different accounting standards

The effective management of credit is both an “art” and a “science”



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Where to get customer credit information

Credit Investigation – Direct vs Indirect

Direct investigations are those where credit information is collected by the creditor either through direct contact with the customer or through direct contact with noncommercial sources of information such as individuals, banks or other trade references that may have useful information.

Indirect credit investigations usually refer to acquiring information from a commercial credit reporting agency that are in the business of obtaining and providing credit information.



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Where to get customer credit information

Direct Investigations

Direct correspondence

Order acknowledgement

Personal interview

Telephone contacts

Sales representatives

Terms of sale

Bank information

Trade information

Public records

Other sources such as newspaper, Internet, etc.



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Where to get customer credit information

Indirect Investigations

Credit data companies and rating agencies

Credit trade organizations

International trade organizations



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Resources and agencies

Credit data companies and rating agencies

dun&bradstreet
creditriskmonitor
Credit.Net
Cortera
Experian
Equifax
Hoovers
Fitch
S&P
Moody's



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Resources and agencies

Credit trade organizations

NACM

International trade organizations

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Organization for Economic Cooperation and Development
(OECD)

U.S. Department of Commerce

U.S. Chamber of Commerce Foundation (USCCF)

International Trade Administration (ITA)

The Federation of International Trade Associations (FITA)

World Trade Organization (WTO)



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Resources and agencies

Purpose of Credit Rating Agencies

Assign ratings to any organization that issues debt

How Credit Rating Agencies Work

Request from creditor

Often hired by companies to issue a rating on their debt

Ratings

High grade

Upper medium grade

Lower grade

Non-investment grade speculative

Highly speculative

Substantial risks or near default



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Resources and agencies

Advantages of Credit Agencies

- They help good institutions get better rates
- They warn investors of risky companies
- They provide a fair risk-return ratio
- They give institutions an incentive to improve

Disadvantages of Credit Rating Agencies

- Evaluation is highly subjective
- There can be conflict of interest
- Ratings aren't always accurate



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What to look for in credit reports

Credit reports should include:

Customer information and identification

Customer location

Customer financial information

Bank information

Trade information

Line of business

Industry information

Economic information

Risk assessment



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What should a credit report contain?

Customer information and identification

- Type of business
- Type of operation
- Legal entity
- Years in business
- History
- Background
- Principals
- Facilities

Customer location information

- Region
- Country
- Local address



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What should a credit report contain?

Customer financial information

Capital

Balance sheet

P&L

Cash Flow

Bank information

Bank reference

Account balance

Available credit line

Trade information

Number of trades

High credit limit

Average balance



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What should a credit report contain?

Line of business

- Product or service
- Profit margin
- Risk of the product
- Competitors

Industry information

- What industry is the customer in
- Economy of the industry
- Customers position in the industry



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What should a credit report contain?

Economic information

General economic condition

Capital markets

Ability to borrow capital

Risk Assessment

Rating

Financial strength

Risk indicator

Country

Culture



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**What else is needed to help make an
assessment of credit risk?**



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Comprehensive Financial Statement Analysis

Ratio analysis

Cash flow (source and use)

Capital expenditure programs

External and internal conditions that have or could effect financial soundness of the customer

Trend analysis (change for period to period)

Accuracy and competency of financial statements (accountants letter and footnotes)



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Credit Review Process

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Financial Information - What to look for in results of operations (performance)

- **Net sales**
 - % change over time
- **Gross margin**
 - % change over time
 - % of sales
- **SG&A**
 - % change over time
 - % of sales
- **Operating margin**
 - % change over time
 - % of sales
- **EBITDA**
 - % change over time
 - % of sales
- **Pre-tax income**
 - % change over time
 - % of sales
- **Net income**
 - % change over time
 - % of sales
- **Tax expense**
 - Effective tax rate
- **Capital expenditures**
 - % change over time
 - % of working capital
- **Free cash flow**
 - % change over time



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Credit Review Process

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Financial Information - What to look for under liquidity

- **Current assets**
 - % change over time
 - % of short-term debt
- **Current liabilities**
 - % change over time
- **Working capital**
 - % change over time
 - % of sales
- **Cash**
 - % change over time
 - % of short-term debt
- **Cash ratio**
 - % change over time
- **Quick assets**
 - % change over time
 - % of short-term debt
- **Quick ratio**
 - % change over time
- **Current ratio**
 - % change over time



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Credit Review Process

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Financial Information - What to look for under leverage

- **Total debt**
 - % change
- **Stockholders equity**
 - % change
- **Tangible net worth**
 - % change
- **Total assets**
 - % change
- **Total debt to asset ratio**
 - % change
- **Net tangible assets**
 - % change
- **Short term debts**
 - % change
- **Short term debt % of total debt**
 - % change
- **Short term debt % of working capital**
 - % change
- **Total liabilities**
 - % change



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Customer Payment Behavior

Good payment behavior is part of a good customer relationship

Five C's of credit help determine customer payment behavior

Commitment and willingness (character is just as important as capital and capacity)

What payment terms does the customer have/want?

How are they paying you vs these terms?

How are they paying others?

Has their payment behavior changed?



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Solvency – Financial Risk and Leverage

CAMEL

Capital Adequacy
Asset Quality
Management Quality
Earnings Potential
Liquidity





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Capital Adequacy

Current earnings in the Country Risk context

Most information on such earnings is contained in the balance of payments

Usually published by the Central Bank

Not too different from a company's financial statement

Unfortunately, countries use differing accounting methods for compiling their payments balances

The single most important and authoritative source of comparable data is the International Monetary Fund in Washington



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Asset Quality

A country's natural, human and general economic resource

A close meshing of all three gives a nation true economic and financial strength

Some countries with a wealth of natural resources remain desperately poor because they lack the human resources to exploit their bounty to the benefit of all

Zambia

Others lack natural resources, but do quite well on the basis of their human and general economic resources

Switzerland

Japan



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Management Quality

The government and the way in which it is running the nation's affairs

Ill-designed and badly implemented government policies can ruin the most affluent countries

Good policies can make a world of difference for nations that are resource-poor



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Management Quality

Of particular interest in this context should be:

- How those in power run their fiscal affairs

 - Spending and taxation

- How well monetary and credit management are adapted to the country's real needs

- Which way interest rates are trending and whether there is a big risk premium in local bond rates

- How inflation is being managed

- What kind of labor (especially wage) policy is being pursued

- Whether local/international investors show confidence

 - This will depend largely on how social and political stability is perceived



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Earnings Potential

How well a nation could do if it had the best possible government (read: management)

Among internal criteria are such things as:

The “quality” of the population (health, longevity, literacy, skills)

The local wealth distribution (very large gaps tend to create socio-political tensions, while a sizeable and well-living middle class gives a country stability)

Whether there are protectionist tendencies in the populace, among the leaders, or both



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Liquidity

A nation's foreign exchange cash flow prospects

Example: the risk of an export sale made on 180-day terms

Up-to-date information is most difficult to obtain, and one must often rely on inside information, since the published data rarely show the most relevant indicators





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Liquidity

But some idea of a nation's Liquidity can be gained also from regularly revealed indicators, such as:

- Official international monetary reserves

- Foreign exchange holdings in the local banking system

- Pending IMF and World Bank facilities

- Foreign debt payment schedules

- Official borrowing facilities a nation may have abroad



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Do you feel credit data companies and rating agencies are a value add resource that you will utilize in the future?

- Yes
- No



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Look for Future Educational Opportunities at FCIB:

July 21st – Trade Credit Financing (factoring, asset based lending, securitization, forfaiting)

August 10th – Correspondent Banking Relations



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Questions?

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