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Top 25 Credit Analyst Interview Questions and Answers

1. What is credit Analysis?

Credit Analysis is the process of getting together the financial information about a customer (corporations and individuals) and evaluating it to assess their ability to repay a loan, they have applied for.

To do this, various ratios are calculated and compared with industry standards to ensure that while the customer gets the loan, the lender is adequately protected.

The amount of credit, tenure, interest rate, etc. is calculated based on the financial history of the customer.

The customer may be an individual or a company.

2. What Is Underwriting? Explaining the Underwriting Process

Though it might sound complicated, underwriting simply means that your lender verifies your income, assets, debt, and property details to issue final approval for your loan.

Underwriting happens behind the scenes, but that doesn't mean you won't be involved. Your lender might ask for additional documents and answers, such as where bank deposits came from, or ask you to provide proof of additional assets.

3. What are the important responsibilities of a Credit Analyst?

Your answer to this question, tells the interviewer if you are aware of the responsibilities you'll need to perform in this role, your capability, readiness, and commitment.

Make sure that you have read the job description well and are prepared to answer the questions.

Some of the things that you can talk about are:

- Assess credit requests - new, changed, requiring refinance, annual due diligence.
- Thoroughly Analyze the financial statements and make recommendations regarding
credit risk.
- Ascertain the borrower's ability to repay the amount and present your finding and recommendations to the authorities.
- Stay aware of any changes in the lending protocol of the bank or the company.
- Periodically reconcile credit files to identify any discrepancies & variances
- Prepare spreadsheets and develop models to analyze new and existing credit applications
- Discuss with customers to understand their real-world circumstances, other than financial, to see if they can have any impact on your decision.

4. How is a Credit Analyst different from a Loan Officer?

These two are very commonly confused positions. The two may look similar but they are very different.

While a loan officer helps customers through the process of procuring the loan explaining the various options, assisting with various documents, etc., a Credit Analyst studies their case and decides if they can be granted the loan, its terms, and conditions like period, interest rate, etc.

5. What are the 4 Cs of the Credit analyst?

The five criteria for credit analysis
Character - This refers to a person's subjective assessment of a company's ability to repay a debt.

The most crucial of the four characteristics.
Capacity – This refers to the borrower's ability to repay the loan with the money he makes from his investments.

Collateral (or guarantees) - Security that the borrower offers to the lender to allow the lender to appropriate the loan if it is not repaid from the returns determined at the time the facility was made available.

Covenants – Covenants are of below types:

- Affirmative Covenants: Require the borrowers to take certain actions including
- Using debt for a stated purpose
- Regular and on-time payment of interest amount
- Follow business continuity, laws, and regulations
- Negative Covenants: Restricts borrowers from taking certain actions
- Payment of dividends
- Certain restrictions on raising additional debt (D/E ratio limit, min coverage ratio)
- Restrict asset sales, certain investments
- Restrict M&As

6. What does "interest coverage ratio" mean?

One of the most significant interview questions for credit analysts is this one. A business must pay interest when it takes on debt. The interest coverage ratio demonstrates to the business their ability to handle their interest costs.

Interest Coverage Ratio = [EBIT / Interest Expense]
The greater the ratio better would be the company's ability to pay off the interest expenses and vice-versa.

7. What is DSCR? [Very important]

DSCR = Net Operating Income / Total Debt Service
Where total debt service is annual principal + interest payment to be made
DSCR ratio gives an idea of whether the company can cover its debt-related obligations with the net operating income it generates.

If DSCR>1, it means that the company is generating enough operating income to cover all its debt-related obligations. A ratio of 2x or more would be ideal
If DSCR<1, it means that the net operating income generated by the company is not enough to cover all the debt-related obligations of the company.

8. How is a firm valued?

Financial analysts can evaluate a corporation in a variety of ways. The discounted cash flow (DCF) approach and the relative valuation method are the two most popular methods of valuation. In the first approach, we must first determine the free cash flow before determining the present value of a company. In the second approach, we compare our results to those of other similar businesses and draw conclusions from their metrics and data.

9. What credit measures do banks often look at? / What typical credit analysis ratios are there?

The most popular credit indicators include the ratios of debt to equity, debt to capital, debt to EBITDA, interest coverage, fixed charge coverage, and debt service coverage ratio (DSCR)

10. Are banks targeting a specific debt-to-capital ratio?

There is no fair debt-capital ratio because it might vary from industry to industry.

11. How do credit rating companies help in credit analysis?

By examining the outstanding debts of a company, credit agencies assist the market evaluate the creditworthiness of that company. However, it wouldn't be wise to put all your faith in credit rating companies' ratings. To determine whether to issue a loan to a company, we must consider both its risk profile and the ratings from several credit agencies.

12. How would you decide whether to lend to a business?

There are numerous things I would consider.
First, examine the company's financial performance over the last five years by looking at all four financial statements.
Then consider the overall assets, and see what resources are available for use as collateral.

Additionally, learn how the company has been using its resources.
Next, determine whether the cash flow is sufficient to pay off the entire debt plus interest by examining the cash coming in and going out. Verify other measures, such as debt to EBITDA, debt to equity, interest coverage ratio, debt to capital ratio, and debt service coverage ratio. Verify that all the company's measurements are in accordance with the bank's requirements. Finally, consider additional qualitative elements that could show something very different from the financial data.

13. What kinds of credit facilities are available to businesses?

Two categories of credit facilities exist:

Quick loans, primarily for working capital requirements. Overdraft, letter of credit, factoring, export credit, and other short-term loans are only a few examples.
Loans with long duration are necessary for purchase or capex. It covers bridge loans, mezzanine loans, bank loans, notes, and securitization.

14. What is Debt to Income Ratio?

Your debt-to-income ratio (DTI) is a measure of your monthly debt compared to your monthly income, calculated by your monthly debt divided by your monthly gross (pre-tax) income. DTI is one of the factors used to determine how much you can afford in a monthly mortgage payment.

15. What is Down Payment?

A down payment is the amount of cash you pay upfront toward the purchase of a home. It's often expressed as a percentage of the selling price of a home—typically 5–20% depending on the type of loan. The difference between your down payment and the price of the home is what you finance with a mortgage. Generally, if you put less than 20% "down" on a home, private mortgage insurance (PMI) is required in addition to your monthly payment.

16. What is Loan to Value Ratio?

A loan-to-value (LTV) ratio is an equation that lenders use to assess the amount of risk associated with a loan.

In other words, how much loan the borrower is getting against its mortgaged property. An LTV of 80% means the borrower is getting 80% o

17. What is the net worth of a company?

Net worth is the amount by which assets exceed liabilities. Net worth is a concept applicable to individuals and businesses as a key measure of how much an entity is worth. A consistent increase in net worth indicates good financial health.

18. What is the difference between EBIT and EBITDA?

EBIT represents the approximate amount of operating income generated by a business, while EBITDA roughly represents the cash flow generated by the operations of a business.

19. What is securitization?

Securitization is the process of taking an illiquid asset, or group of assets, and through financial engineering, transforming it (or them) into a security. Securitization is the financial practice of pooling various types of contractual debt such as residential mortgages, commercial mortgages, auto loans, or credit card debt obligations (or other non-debt assets which generate receivables) and selling their related cash flows to the third party investors as securities, which may be described as MBS, pass-through securities, or collateralized debt obligations (CDOs), among others.

20. What is Credit Crunch?

A sudden drop in the general availability of loans or a sudden increase in the cost of borrowing from banks; also known as a credit squeeze.

21. What is Credit Risk?

Credit risk is the risk taken by a bond investor that the bond's issuer will default by failing to pay interest and repay the principal on schedule

22. What are Distressed Securities?

A financial instrument in a company that is near or is currently going through bankruptcy. This usually results from a company's inability to meet its financial obligations. As a result, these financial instruments have suffered a substantial reduction in value. Distressed securities can include common and preferred shares, bank debt, trade claims (goods owed), and corporate bonds.

23. Distinguish between Financial Lease and Operating Lease?

An operating lease is treated like renting -- payments are considered operational expenses and the asset being leased stays off the balance sheet. At the end of the operational lease, the asset is returned to the lessor.

In contrast, a financial lease or capital lease is more like a loan; the asset is treated as being owned by the lessee so it stays on the balance sheet.
[Note: There are various rules related to what can be considered an operating or finance lease]

24. What is working capital? How will you calculate it?

Working capital is the excess of current assets over current liabilities. In other words, it is the money invested in those assets of a business that are intended to be converted into cash in the ordinary course of business.

In calculating the working capital, we add up all the current assets such as inventory, receivables, short-term current investments, cash, and bank balances, and from the sum we reduce the current liabilities which are payable within the next 12 months. Examples of current liabilities are the dues to suppliers advances from customers, bills, and expenses payable.

25. Distinguish between long-term and short-term debt?

Long-term debt may be defined as one which is used to fund the capital of a business. In other words, it is intended to be invested in long-term assets, i.e., those assets which create a revenue stream for the company. On the other hand, short-term debt is one which is used primarily for working capital purposes.

26. What have you learned from Financial Statement Analysis?

FSA is an extremely important tool for enabling the management to:

- Evaluate business performance on all the key parameters such as profitability, solvency,
efficiency, and wealth building.
- Determine areas of concern; and
- Take corrective action.

27. What is the difference between Quick Ratio and Current Ratio?

The inclusion of inventory in the Current Ratio and its exclusion from the Quick Ratio is the key
difference between the two.

28. What is the Assets to Turnover Ratio?

An Asset to Turnover Ratio is an efficiency indicator that shows what multiple is turnover of the total assets employed in a business.

29. What is the role of Cash Flow?

The role of Cash Flow lies in showing the movement of cash between two points in time. It shows where the cash had come from and where it was utilized. The Cash Flow The statement is an extremely effective tool for a business enterprise to determine:

- Whether the operations are resulting in cash generation.
- How well the cash and funds are being managed.
- How is the enterprise managing its Assets and liabilities.

30. Relevant ratios to learn for credit analysis?

Liquidity ratios: Current, Quick and Cash Ratio
Leverage ratios: Debt / Equity, Debt / Total Cap, Debt / EBITDA
Coverage ratios: Interest Coverage, Debt Service Coverage
Others: Loan-to-Value Ratio

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Credit Rating Grading Table for Global Agencies / Also provide ratings under Investment Grade vs Non-Investment Grade

Long-Term Ratings Matrix: Investment Grade vs. Non-Investment Grade

		Moody's	S&P	Fitch
Investment Grade	High-Quality Grade	Aaa	AAA	AAA
		Aa1	AA+	AA+
		Aa2	AA	AA
		Aa3	AA-	AA-
	Upper-Medium Grade	A1	A+	A+
		A2	A	A
		A3	A-	A-
	Low-Medium Grade	Baa1	BBB+	BBB+
		Baa2	BBB	BBB
		Baa3	BBB-	BBB-

		Moody's	S&P	Fitch
Non-Investment Grade "Junk" or "High Yield"	Low Grade or Speculative Grade	Ba1	BB+	BB+
		Ba2	BB	BB
		Ba2	BB-	BB-
		B1	B+	B+
		B2	B	B
		B3	B-	B-
		Caa1	CCC+	CCC+
		Caa2	CCC	CCC
		Caa3	CCC-	CCC-
		Ca	CC	CC
		C	C	C
	Default	C	D	D

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