Advanced Credit Policy
Module 2

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I. Chapter Notes for Chapter 4 of Decisions

   A. Credit Enhancements Defined

   B. Decisions Regarding

     Credit Enhancements

      1. Is a particular credit enhancement good enough

         to make the customer credit-worthy?

      2. Which credit enhancement is best?

   C. The Role of Exposure

     in Credit Enhancements

   D. Evaluating the Value

     of Credit Enhancements

I. Chapter Notes for Chapter 4 (con't)

  E. Credit Enhancements in an E(PV)

     1. For security interests

    2. For a personal guarantee

    3. For debiting

    4. For a down payment

    Framework: Effects on c, R, and X

  F. Charging the Debtor's Credit Card

    as an Enhancement

I. Chapter Notes for Chapter 4 (con't)

G. Basics of Negotiating

of Credit Enhancements

H. Meritorious Molders Part 2

II. Chapter Notes for Chapter 6

   A. Types of Scoring Systems

   B. Expert Systems

     1. How expert systems are work

     2. Ordinal measures of risk

     3. Problems in using expert systems

   C. Statistical Scoring Systems

     1. How statistical scoring systems

       are developed

     2. Scoring systems

       and revenue/cost approaches

II. Chapter Notes for Chapter 6 (con't)
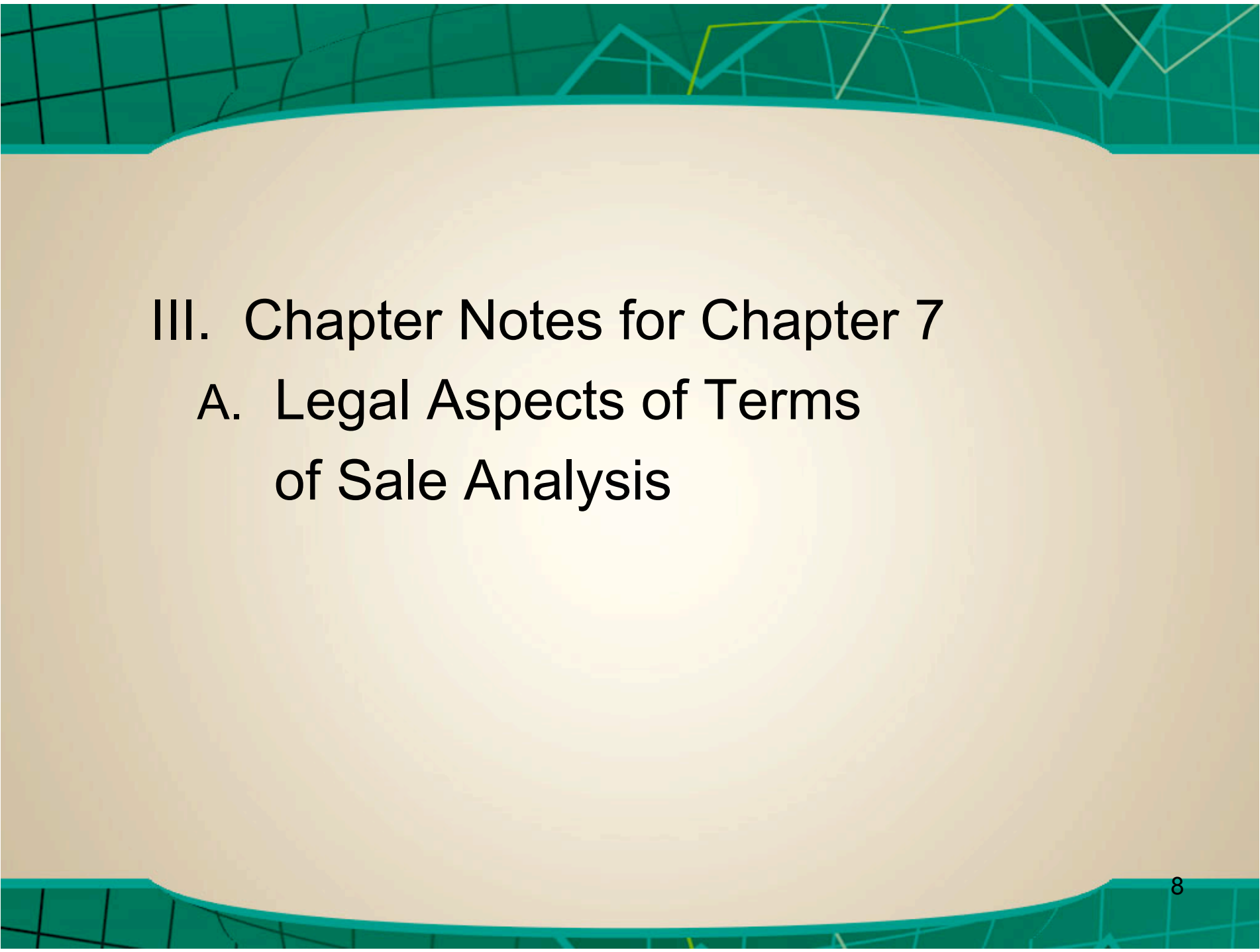
  D. Advantages of Scoring Systems

     for Making Credit-Granting Decisions

    1. Commercial scores are cheap

    2. Less analyst expertise required

    3. Better decisions if analysts

       are less experienced

    4. More consistent decisions

       among analysts

II. Chapter Notes for Chapter 6 (con't)

E. Disadvantages of Scoring Systems
   for Making Credit-Granting Decisions

   1. System is only a good as
      the expert who made it
   2. Scores are only approximations of risk
   3. Scores are a black box
   4. Scoring systems have no common sense
   5. How do you decide on the cutoffs?

III. Chapter Notes for Chapter 7

   A. Legal Aspects of Terms

      of Sale Analysis

III. Chapter Notes for Chapter 7 (con't)
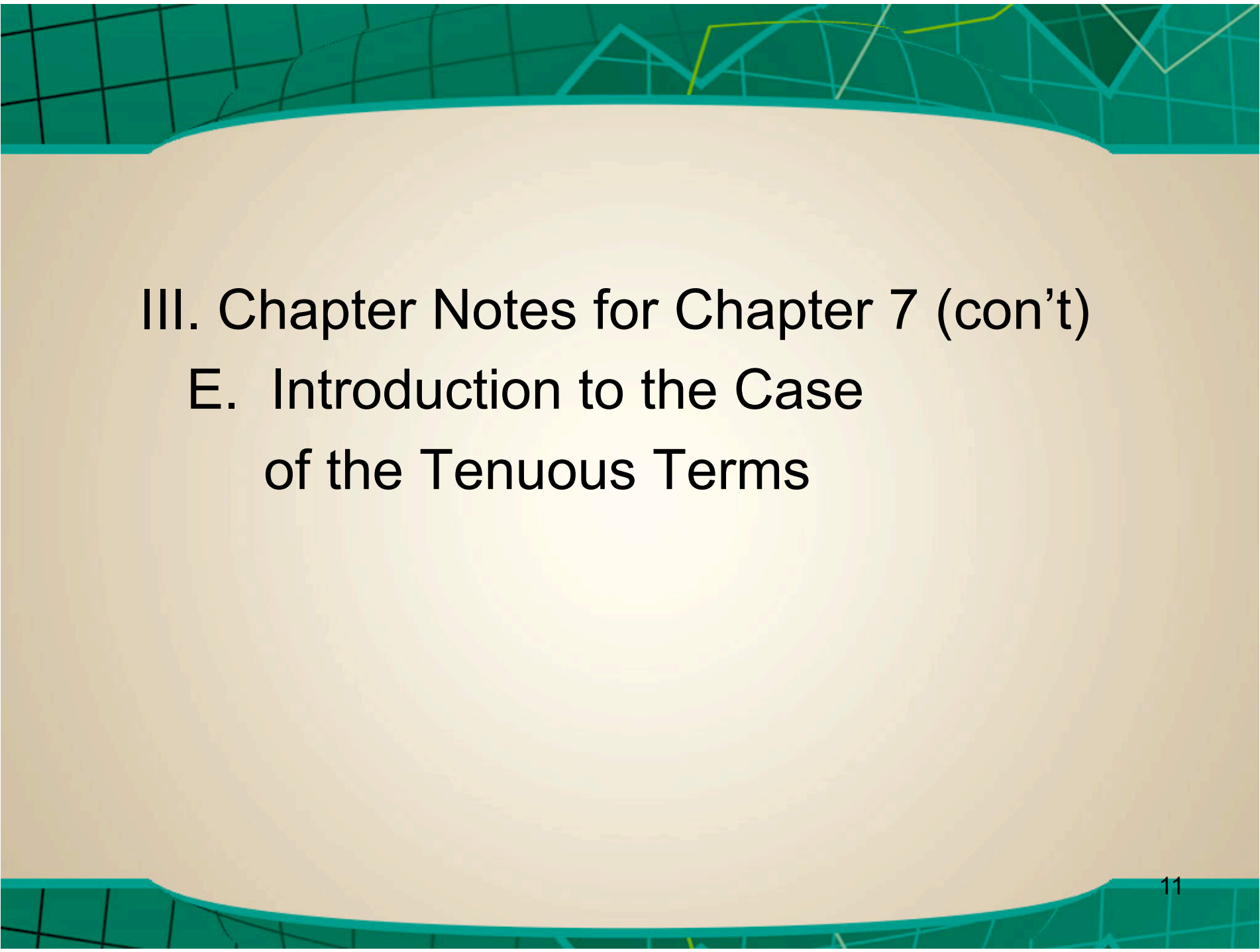
  B. Analysis of Terms of Sale Changes

    1. Analysis methodology

      a. Income statement method

      b. Current policy to proposed policy

      c. Estimation difficulties

    2. Example: base case

      a. Parameters for new customers

      b. Parameters for current customers

    3. Example: sensitivity analysis

      a. Worst case analysis

      b. Sales analysis

III. Chapter Notes for Chapter 7 (con't)

  C. Terms of Sale with Electronic Payments

  D. Cash Discount Terms

    1. Using cash discounts for accelerating collections

      a. Savings and costs

      b. Levels of discount

    2. Using cash discounts to get credit information

      a. Effects of the buyer's cost of capital

      b. Effects of stretching on the signal

      c. Is a cash discount

           for this purpose practical?

III. Chapter Notes for Chapter 7 (con't)
   E. Introduction to the Case
      of the Tenuous Terms

You may now pause to do the problem

- If your webinar connection times out as you are doing the problem, refresh your web browser.

- To do this click the button on your web browser that looks like a circle with arrows

- The webinar will reload and you may fast forward to this point.

Table 7-1CA (Summary: see original file)
Analysis of Granting 60-Day Terms to All
(All figures in rounded thousands)

	Present Policy	Proposed Policy
Sales:		
To Existing Customers	$75,000	$76,000
To New Customers	$0	$4,000
Total Sales	$75,000	$80,000
Cost of Sales	$63,750	$68,000
Accts. Rec. Carrying Costs	$1,138	$2,084
Bad Debt Expense	$131	$311
Coll. and Admin. Costs	$150	$200
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Earnings	$9,831	$9,404
Gain in Earnings		($427)

Table 7-2CA (Summary)

Analysis of Granting 60-Day Terms to All

Analysis of Sales Volume to New Customers

(All figures in rounded thousands)

Yearly Sales

to New Customers	Gain in Earnings
$4,000	($427)
$5,000	($325)
$6,000	($223)
$7,000	($121)
$8,000	($19)
$9,000	$84
$10,000	$186

Table 7-3CA (Summary)

Granting 60-Day Terms to New Customers Only:

Analysis of Sales to Current Customers

(All figures in rounded thousands)

Sales to Current Customers	Gain in Earnings
$75,000	$358
$74,500	$292
$74,000	$225
$73,500	$159
$73,000	$92
$72,500	$26
$72,000	($41)