



AFCP856

Lending and Borrowing Decisions

AFC Term 4 City 2019

Department of Applied Finance

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General Information

Unit convenor and teaching staff

Unit Convenor / Lecturer

Maxwell Morley

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Contact via Email

Credit points

2

Prerequisites

(Admission to MAppFin or MAppFin(Adv) or GradDipAppFin) and ECFS868

Corequisites

Co-badged status

Unit description

This unit focuses on credit risk from the perspectives of both a lender – taking credit risk – and a borrower – accessing debt capital and other financial services. This dual view allows us to discover how bankers assess default risk, make the decision to lend and structure loans to mitigate key risks, while also building an appreciation of how a business can shape and influence the terms on which debt capital is accessed from bank lenders to meet the borrower's needs. After a review of how various types of lending products can be matched to borrowers' requirements, we examine the core concepts of probability of default, loss given default and exposure at default. These concepts inform our discussion of how banks manage credit risks through the structure of the loan balanced against providing workable access to funding for the borrower. The obligations of borrowers under typical corporate loan documentation are discussed, including the practical implications for managing the banker-borrower relationship (from both perspectives) in normal times and when loans are becoming distressed. Finally the management of credit risk in financial institutions, including the interface with regulators, the governance framework and culture, is presented.

Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://students.mq.edu.au/important-dates>

Learning Outcomes

On successful completion of this unit, you will be able to:

Explain how a borrower's needs influence the selection of the appropriate loan product

and lending structure for debt financing; including the significance of unsecured, secured and subordinated characteristics.

Critique the alignment of the needs of a borrower with the risks a lender is prepared to accept and be able to implement the structural and documentary mechanisms for achieving this (including the functions performed by representations and warranties, financial covenants, undertaking, events of default and review).

Infer likely outcomes to management of problem loans from both the lender's and borrower's perspective.

Attribute how the management of issues in regulation, governance, risk culture and portfolio composition in a large financial institution impact the relationship between the lender and the borrower.

General Assessment Information

To pass this unit the student needs to (1) Achieve an aggregate mark of 50 or more, and; (2) Pass the Final Exam.

Assessment Tasks

Name	Weighting	Hurdle	Due
Case Study	40%	No	Refer to iLearn
Final Exam	60%	Yes	Refer to Timetable

Case Study

Due: **Refer to iLearn**

Weighting: **40%**

Summary of Assessment Task

Individual / Group: Individual.

Due Date: Refer to the unit's iLearn site; generally one week before final exam.

Submission Method: Online via the unit's iLearn site.

Extension Requests:

- No extensions will be granted. There will be a deduction of 10% of the total available marks made from the total awarded mark for each 24 hour period or part thereof that the submission is late (for example, 25 hours late in submission incurs a 20% penalty). This penalty does not apply for cases in which an application for Special Consideration is made and approved.

- Late submissions will be accepted up to 96 hours after the due date and time.
- Note: Applications for Special Consideration must be made within 5 (five) business days of the due date and time.
- Refer to MAFC Program Rules at <https://mafcstudents.mq.edu.au/> for information on the University's [Special Consideration Policy](#).

On successful completion you will be able to:

- Explain how a borrower's needs influence the selection of the appropriate loan product and lending structure for debt financing; including the significance of unsecured, secured and subordinated characteristics.
- Critique the alignment of the needs of a borrower with the risks a lender is prepared to accept and be able to implement the structural and documentary mechanisms for achieving this (including the functions performed by representations and warranties, financial covenants, undertaking, events of default and review).
- Attribute how the management of issues in regulation, governance, risk culture and portfolio composition in a large financial institution impact the relationship between the lender and the borrower.

Final Exam

Due: **Refer to Timetable**

Weighting: **60%**

This is a hurdle assessment task (see [assessment policy](#) for more information on hurdle assessment tasks)

Summary of Assessment Task

Individual / Group: Individual.

Due Date: Refer to Timetable.

Submission Method: As per MAFC Program Rules at <https://mafcstudents.mq.edu.au/>.

Duration: 2 hours plus 10 minutes reading time.

Examination Conditions:

- The final examination is open book. Any material and aid is permitted, including lecture notes.
- The exam will consist of short written answer questions.
- Exam times and locations are noted in the unit timetable at <https://www.mq.edu.au/about/about-the-university/faculties-and-departments/business/study-with-us/macquarie-applied-finance-centre/timetables>.

- Refer to MAFC Program Rules at <https://mafcstudents.mq.edu.au/>.

Extension Requests:

- You are expected to present yourself for examination at the time and place designated in the relevant MAFC Timetable at <https://www.mq.edu.au/about/about-the-university/faculties-and-departments/business/study-with-us/macquarie-applied-finance-centre/timetables>.
- Deferral of an examination is not permitted unless an application for Special Consideration is made and approved.
- Students who do not attend receive a mark of zero. This penalty does not apply in cases where an application for Special Consideration has been made and approved.
- Note: Applications for Special Consideration must be made within 5 (five) business days of the due date and time.
- Refer to MAFC Program Rules at <https://mafcstudents.mq.edu.au/> for information on the University's [Special Consideration Policy](#).

On successful completion you will be able to:

- Explain how a borrower's needs influence the selection of the appropriate loan product and lending structure for debt financing; including the significance of unsecured, secured and subordinated characteristics.
- Critique the alignment of the needs of a borrower with the risks a lender is prepared to accept and be able to implement the structural and documentary mechanisms for achieving this (including the functions performed by representations and warranties, financial covenants, undertaking, events of default and review).
- Infer likely outcomes to management of problem loans from both the lender's and borrower's perspective.
- Attribute how the management of issues in regulation, governance, risk culture and portfolio composition in a large financial institution impact the relationship between the lender and the borrower.

Delivery and Resources

CLASSES

Face-to-Face Teaching: Generally 20 hours.

Timetable: Detailed timetable for classes are available at <https://www.mq.edu.au/about/about-the-university/faculties-and-departments/business/study-with-us/macquarie-applied-finance-centre/timetables>.

Consultation Times:

Students who wish to contact any of the teaching staff may do so through:

- The unit's iLearn site, in relation to general queries (so that all students may benefit); or
- Individual consultation with the lecturer by email in the first instance, if necessary.

REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS

Text: Recommended: Ciby, Joseph, Advanced Credit Risk Analysis and Management, The Wiley Finance Series, 2013.

Additional Readings:

- Additional readings are available on iLearn. Spreadsheets critical to the unit are available on iLearn.
- Students should assume these readings and spreadsheets are examinable unless otherwise advised.

Lecture Notes: Available on iLearn.

Study Problems:

- Students are required to work systematically through the practice problems. These problems will not be collected but they will help you prepare for the exams.
- Guidelines for answers to the practice problems are available on iLearn.

Pre-unit Materials: Information papers on statistics, regression, accounting and other material may be found at <https://mafcstudents.mq.edu.au/new-to-mafc/pre-course-materials/>. Students should work through this material prior to commencing the degree. The material will remain a useful reference as students progress through the program.

Calculators:

- A financial calculator that can handle time value of money calculations, logs and power functions is required.
- The Hewlett Packard calculator hp17bII+ is recommended.
- In examinations, hand held calculators are permitted. Mobile phones and computers are not permitted.

Assumed Knowledge:

- The mathematical difficulty of this unit is not greater than in ECFS868 Financial Risk Management.
- Students are advised to review the Financial Risk Management notes before beginning this unit, as knowledge of the credit material from that unit will be assumed, with limited

revision.

Assumed Access:

- Access to a computer with word processing and spreadsheet capability and internet access are assumed, as is general student computer literacy.
- There is some EXCEL modelling work in the unit.

TECHNOLOGY USED AND REQUIRED

Unit iLearn Site:

- Found by logging on to iLearn ilearn.mq.edu.au, then clicking ***AFCP856 Lending and Borrowing Decisions***.
- This is where you will find forums, downloadable resources and links to important pages.
- Forums allow you to communicate with other students and lecturer(s) and may provide supplementary material.
- Please post questions to a forum at least 24 hours prior to the assignment submission date or the examination date. Questions posted after that time may not be answered.
Please try to not leave your questions to the last few days.

Important:

- It is important that you familiarise yourself with the unit's iLearn site.
- Students should check the unit's iLearn site regularly (minimum twice a week and prior to all lectures) and look for updates and distribution of materials (including case studies) related to the unit or assessments and, if relevant, participate in forum discussions.

Unit Schedule

SECTION 1. LENDERS, DEBT STAKEHOLDERS, INVESTORS

Topics:

- Debt v Equity
- Risk v Reward
- Debt as a Source of Capital
- $EL = PD \times LGD \times EAD$

SECTION 2. THE BORROWER & THE LOAN

Topics:

- Nature of the Borrower
 - Consumer

- Small/Medium Enterprise
- Business/Corporate
- Specialised - Financial Institution, Government, Project
- Nature of the Loan
- Meeting Borrower's Needs: Types of Loan Facilities
 - Core debt
 - Capex, Growth, Acquisition
 - Loan, Asset-based finance (Leasing, Receivables acquisition)
 - Seasonal financing
 - Working Capital Facilities (Trade Finance)
 - Guarantees & Performance Bonding
 - Bridging finance
 - Limited recourse/Project financing

SECTION 3. THE PROCESS TO THE CREDIT DECISION

Topics:

- Understanding the Borrower's Needs
- Information requirements
- Credit Analysis
 - PD
 - LGD
 - Consideration to Credit Ratings Agencies
- Formulation of Proposed Structure
- Drafting the Terms Sheet
- Indicative v Final Decisions
- Lender Commitment & Borrower Acceptance
- CPs & CSs to Drawdown/Completion

SECTION 4. STRUCTURING THE LOAN / CREDIT FACILITY

Topics:

- Meeting the Borrower's needs
- Managing the Lender's risks
 - Representations & Warranties
 - Financial Covenants
 - Undertakings
 - Events triggering Default or Review

- Typical Documentation
- Other considerations
 - Bilateral arrangements
 - Syndicated facilities
 - Club facilities
 - JVs
 - Risk Transfer
- Structured financings (securitization, off balance sheet)
- Considerations for Pricing

SECTION 5. MANAGING LOANS & CREDIT FACILITIES

Topics:

- Ongoing monitoring
- Borrower obligations
- Adverse developments and Problems Loans
 - Sell exposure
 - Support a Workout
 - Realise Security
 - Provisioning

SECTION 6. CREDIT RISK IN FINANCIAL INSTITUTIONS

Topics:

- Credit Culture
- Governance Considerations
- Regulatory issues
- Pricing for Counterparty Credit Risk
- Portfolio Treatment
- Management & Mitigation

Learning and Teaching Activities

Strategy

The Master of Applied Finance degree adopts a deep teaching and learning strategy, in which students acquire and retain knowledge and also are able to make sense of the issues and concepts and apply them in the “real world”. The degree relies heavily on student engagement and participation by: (a) Continuous learning throughout the term. This is encouraged through a combination of students undertaking prescribed reading throughout the units and/or completion of practice problems, case studies, assignments, class presentations etc and interaction via

forums in the unit's iLearn site; and (b) Assessments, which enable the student to demonstrate his/her understanding of the learning objectives achieved through the continuous learning.

Student Participation

Students participate in this unit by: (a) Attending lectures and participating in class discussion; (b) Before each class, completing the recommended readings of notes and text, and working systematically through suggested problem sets; (c) Interacting on the unit's iLearn site; and (d) Completing all assessment tasks and exams. On average, the unit will require students to complete, for every hour of class time, approximately 3 hours private study.

Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central \(https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central\)](https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central). Students should be aware of the following policies in particular with regard to Learning and Teaching:

- [Academic Appeals Policy](#)
- [Academic Integrity Policy](#)
- [Academic Progression Policy](#)
- [Assessment Policy](#)
- [Fitness to Practice Procedure](#)
- [Grade Appeal Policy](#)
- [Complaint Management Procedure for Students and Members of the Public](#)
- [Special Consideration Policy](#) (**Note:** *The Special Consideration Policy is effective from 4 December 2017 and replaces the Disruption to Studies Policy.*)

Undergraduate students seeking more policy resources can visit the [Student Policy Gateway \(https://students.mq.edu.au/support/study/student-policy-gateway\)](https://students.mq.edu.au/support/study/student-policy-gateway). It is your one-stop-shop for the key policies you need to know about throughout your undergraduate student journey.

If you would like to see all the policies relevant to Learning and Teaching visit [Policy Central \(https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central\)](https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central).

Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: <https://students.mq.edu.au/study/getting-started/student-conduct>

Results

Results published on platform other than [eStudent](#), (eg. iLearn, Coursera etc.) or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in [eStudent](#). For more information visit ask.mq.edu.au or if you are a Global MBA student contact globalmba.support@mq.edu.au

Students should also consult the MAFC Program Rules found at <https://mafcstudents.mq.edu.au/>.

Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

Learning Skills

Learning Skills (mq.edu.au/learningskills) provides academic writing resources and study strategies to improve your marks and take control of your study.

- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module for Students](#)
- [Ask a Learning Adviser](#)

Student enquiry service (MAFC-specific)

For all student enquiries, please contact studentsupport@mafc.mq.edu.au

Student Enquiry Service

For all student enquiries, visit Student Connect at ask.mq.edu.au

If you are a Global MBA student contact globalmba.support@mq.edu.au

Equity Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

IT Help

For help with University computer systems and technology, visit http://www.mq.edu.au/about_us/offices_and_units/information_technology/help/.

When using the University's IT, you must adhere to the [Acceptable Use of IT Resources Policy](#). The policy applies to all who connect to the MQ network including students.

Graduate Capabilities

PG - Discipline Knowledge and Skills

Our postgraduates will be able to demonstrate a significantly enhanced depth and breadth of knowledge, scholarly understanding, and specific subject content knowledge in their chosen fields.

This graduate capability is supported by:

Learning outcomes

- Explain how a borrower's needs influence the selection of the appropriate loan product and lending structure for debt financing; including the significance of unsecured, secured and subordinated characteristics.
- Critique the alignment of the needs of a borrower with the risks a lender is prepared to accept and be able to implement the structural and documentary mechanisms for achieving this (including the functions performed by representations and warranties, financial covenants, undertaking, events of default and review).
- Infer likely outcomes to management of problem loans from both the lender's and borrower's perspective.
- Attribute how the management of issues in regulation, governance, risk culture and portfolio composition in a large financial institution impact the relationship between the lender and the borrower.

Assessment tasks

- Case Study
- Final Exam

PG - Critical, Analytical and Integrative Thinking

Our postgraduates will be capable of utilising and reflecting on prior knowledge and experience, of applying higher level critical thinking skills, and of integrating and synthesising learning and knowledge from a range of sources and environments. A characteristic of this form of thinking is the generation of new, professionally oriented knowledge through personal or group-based critique of practice and theory.

This graduate capability is supported by:

Learning outcomes

- Explain how a borrower's needs influence the selection of the appropriate loan product and lending structure for debt financing; including the significance of unsecured, secured and subordinated characteristics.
- Critique the alignment of the needs of a borrower with the risks a lender is prepared to accept and be able to implement the structural and documentary mechanisms for achieving this (including the functions performed by representations and warranties, financial covenants, undertaking, events of default and review).

Assessment tasks

- Case Study
- Final Exam

PG - Research and Problem Solving Capability

Our postgraduates will be capable of systematic enquiry; able to use research skills to create new knowledge that can be applied to real world issues, or contribute to a field of study or practice to enhance society. They will be capable of creative questioning, problem finding and problem solving.

This graduate capability is supported by:

Learning outcomes

- Explain how a borrower's needs influence the selection of the appropriate loan product and lending structure for debt financing; including the significance of unsecured, secured and subordinated characteristics.
- Critique the alignment of the needs of a borrower with the risks a lender is prepared to accept and be able to implement the structural and documentary mechanisms for achieving this (including the functions performed by representations and warranties, financial covenants, undertaking, events of default and review).

Assessment tasks

- Case Study
- Final Exam

PG - Effective Communication

Our postgraduates will be able to communicate effectively and convey their views to different social, cultural, and professional audiences. They will be able to use a variety of technologically supported media to communicate with empathy using a range of written, spoken or visual formats.

This graduate capability is supported by:

Learning outcome

- Critique the alignment of the needs of a borrower with the risks a lender is prepared to accept and be able to implement the structural and documentary mechanisms for achieving this (including the functions performed by representations and warranties, financial covenants, undertaking, events of default and review).

Assessment tasks

- Case Study
- Final Exam

Important Notice

This Unit Guide may be subject to change. Students will be advised, via an "Announcement" on

iLearn, if the Unit Guide is changed.

The latest version is available at <https://unitguides.mq.edu.au/>.

Students should read the Unit Guide carefully at the start of term. It contains important information about the unit. If anything is unclear, please consult one of the unit lecturers.