



2018 Bank Study Project Class of 2020

BASIC CREDIT ANALYSIS Gary Higgins

NOTES:

1. Please use 8 1/2" x 11" paper (or paper folded to that size).
2. Attach the **Freshman Cover Sheet – Class of 2020** from <http://www.gsblsu.org/students-3/> as the first page of your project.
3. Please staple your project or use a binder clip. **DO NOT** use paper clips. or any kind of folder or binder.

Complete and mail by September 17, 2018

June 14, 2018 (See edit on pages 3 and 4.)

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Basic Credit Analysis
2018
Bank Study Problem

Cooper's Coinage Inc.

With years of experience at a U.S. mint, Bill Cooper realized how important coins were in past history, what a small part they play in current transactions due to the use of credit cards for the smallest purchase, and how the value had escalated for coins that did not even exist – virtual currencies or crypto currencies.

Betting that real coins are still attractive, Cooper designed and minted coins for investors who held positions in virtual currencies. For each of his clients a separate design was implemented so that the investor could hold actual coins, see them stacked or displayed in cabinets, or traded with other investors who held Cooper's coins or historic currencies. The coins held by each investor have real value because they reflect the market price of the individual virtual currency.

The minting of Cooper's coins requires a manufacturing process involving machine tools, metallurgy, and artistic design and etching of metal. Cooper's customers have choices of metals ranging from gold or silver to copper or aluminum. Each customer is in the position of issuing an individually designed and produced coin featuring the investor's profile or another handpicked design theme.

Thelma Jones, loan officer with the Highland Park bank, has helped Cooper build his minting business with long-term financing of a manufacturing plant and cash management through an annually renewed line of credit. In September, 2018, Jones meets with Cooper to hear his current plans and credit requests.

On December 31, 2018, Cooper's Coinage total long-term debt will be \$5,020,653. This includes the current portion of long-term debt that will be repaid within the next twelve months. Cooper is requesting an additional amount for the purchase of a facility for design and production of coins. Construction is nearing completion and will be ready for occupancy on the target date, January 1, 2019.

Until long-term financing is arranged, construction of the new plant at a cost of \$2,200,000 is being paid for by private funds. Cooper asks Thelma Cooper to approve Bank funding for 75 percent of the new facility's cost and for the two long-term loans to be combined in a single loan to be repaid in equal monthly payments combining interest and principal over ten years beginning January 1, 2019.

Cooper also requests that Highland Park Bank provide short-term funds through a renewal of the line of credit to cover the need for occasional cash shortages. A cash budget and forecasts of other financial statements for the forecast year, 2019, are given to Thelma Jones for her review. The Highland Park Bank manages the Cooper's Coinage cash balance at the end of each month -- investing any surplus over \$10,000 in short-term Treasury bills and covering any cash deficit with funds from the line of credit and by selling Treasury securities.

The Cooper's Coinage simulation program shows predicted results for the forecast year once data provided by the company is entered on the Back (background) Excel worksheet. When the input numbers are entered, a beginning tax amount will be shown in cell H4.

The beginning tax will not be correct because no quarterly tax numbers are filled in on the cash budget. The next step is to enter the tax number shown in cell H4 into H5. Immediately a new tax amount will be shown in H4. Again, enter the new H4 number in H5. After this step is repeated several times, the two tax numbers will be equal. At this point the balance sheet for 2019 should be in balance, and all of the financial statements should be correct.

Do not use the Excel copy command – just enter the H4 number into H5 because you only want the H4 number and not the cell formula.

The simulation has the advantage of being able to compute results for what-if questions – changing original input numbers to see the new results. Of course, this means that incorrect numbers might be input originally and would still result in balanced financial statements. The user would not be aware of the error. Therefore, as a check number for a correct original set of input data, the tax following input and balancing of original data should be **212,463.520**.

If the computed tax is different from 212,463.520 some error or errors exist in the inputs on the Back worksheet. Look for the problem, and if it cannot be found email your Excel file to Paul for assistance in locating the problem. Cretien619@aol.com

Bill Cooper has researched the market for special coins and on the basis of his research is forecasting a growth rate in sales of eight percent in 2019 and again in 2020. Cash sales are expected to be eight percent of total sales, while forty percent will be by bank credit cards, and fifty-two percent by charges to Cooper's customer accounts.

For purposes of the cash budget, collection of customer accounts will include forty-five percent in the first month following sales, thirty-five percent in the second month, and eighteen percent in the third month. At the end of the third month following sales, two percent are considered to be non-collectable and considered a credit loss.

Cooper's cost of goods sold as a percent of sales is expected to be 66.50 percent in each of the two years, 2019 and 2020. Sales commissions will be six percent of sales.

Several expenses for Cooper's Coinage will each be divided into twelve equal amounts for 2019. These are salary expense, \$630,000; advertising expense, \$280,000; lease expense, \$280,000; and employee services and training, \$150,000.

Another expense, maintenance & other, includes equipment and services that allow Cooper to delay payment, with the cumulative total being shown on the balance sheet as Accrued Expenses. During 2019 Cooper's will pay out \$155,000 for maintenance & other, divided into twelve equal payments. Because maintenance & other expense for the year will be only \$95,000, this will reduce Accrued Expenses by \$60,000.

On the cash budget, there is a bank card terminal fee of \$10 per \$100,000 in bank card payments received for the year. The predicted total terminal fee is shown in twelve equal monthly payments. In each month on the cash budget, a dollar amount equal to 2.5 percent of bank card sales is paid to the bank for the bank credit card fee. There is a credit loss equal to 2 percent of bank credit card sales at the end of three months following sales.

Cooper's Coinage Inc. has 200,000 shares of common stock outstanding at a par value of \$1.00 per share. Bill Cooper wants to increase the equity value for his company and is planning to issue 5,000 new shares on January 1, 2019. The new shares will have a par value of \$1.00 and Cooper believes the price will be \$25 per share. His company's capital surplus will increase by the total difference between the issue price and par value per share.

Several interest rates that will apply during 2019 include the rate on short-term borrowing on the line of credit, 5.00 percent, short-term investments in Treasury securities, 0.5 percent, and the rate on the long-term bank loan, 7.5 percent.

Exhibits shown on the Back worksheet;

1. Amortization schedule for the new term loan row 68
2. Amortization schedule for the existing term loan row 104
3. Depreciation and fixed assets row 139
4. Monthly sales indexes as proportions of 12 row 160

Because some banks are reluctant to combine the two long-term loans into a single loan, an alternative simulation program is available that allows the existing loan to continue along with the new term loan. This program is Alternative B and is available by contacting Paul at Cretien619@aol.com.

Discussion questions:

1. Discuss Cooper's use of short-term borrowing under the line of credit. Is this line of credit being used to fund long-term assets and do you believe the line is being used appropriately?
2. To what extent is Cooper's growth in assets and sales being financed by long-term bank debt, and is this use of debt appropriate?
3. Should the credit requests for renewal of the line of credit and long-term fixed asset loan be approved by the Highland Park Bank? Explain why or why not.
4. Are depreciation funds appropriate for repayment of long-term debt? Explain why or why not.

5. You have the ability to ask what-if questions for analysis by using input values that are different from the original values. Discuss the results of two what-if questions of your choice.

For assistance on this project please email Paul Cretien at Cretien619@aol.com