Underwriting and due-diligence checklist

Appendix C, item by item. Status: done, open, not applicable. Every open item needs an owner and a date before the deal goes to committee.

Borrower / deal		**Prepared by**	
Fund		**Date**	

#	Item	Status	Owner	Note or answer
Financial information				
1	Audited or reviewed historical financial statements for at least three years.			
2	A quality of earnings report from an independent provider.			
3	Management's projections, with the underlying assumptions set out.			
4	A lender-built downside case, not the sponsor's.			
5	A stress case in which several adverse factors compound at once.			
6	Historical base reconciled to the general ledger, not taken from the information memorandum.			
7	EBITDA add-backs listed individually, with evidence for each.			
The business				
8	Customer concentration analysis.			
9	Customer reference calls, where feasible.			
10	Industry and competitive positioning research.			
11	Assessment of working capital dynamics and seasonality.			
12	Identification of any recently acquired or unseasoned part of the business.			
13	Separate, more conservative assumptions applied to that unseasoned part.			
Legal and structural				
14	Review of existing material contracts and leases.			
15	Litigation review.			
16	Capitalization table and legal entity structure review.			
17	Background checks on key management and sponsor principals.			
18	Insurance coverage review.			
Collateral and security				
19	Collateral and asset valuation, where applicable.			
20	Lien searches completed and clear.			
21	Security package confirmed against the proposed structure.			
Structure and terms				

#	Item	Status	Owner	Note or answer
22	Leverage at closing, and the cushion to the leverage covenant.			
23	Fixed charge coverage at closing, and the cushion to its covenant.			
24	Whether covenants are maintenance or incurrence, and which apply.			
25	Where the covenant levels sit relative to the downside case, not only the base case.			
26	Prepayment mechanics and their effect on yield.			
27	Cash sweep, and what it does to the modelled repayment profile.			
Conditions precedent				
28	Legal opinions.			
29	Closing deliverables listed and tracked.			
30	All conditions precedent required to fund confirmed.			
Before it reaches committee				
31	The model was built before the view was formed, not after.			
32	The memo states the deal's principal weaknesses candidly rather than burying them.			
33	The recommendation carries any conditions attached to approval.			

Credit committee memo outline

Appendix B. One box per section. Write the risk factors and the downside case as candidly as the recommendation: a reviewer reads them first.

Borrower / deal		**Prepared by**	
Fund		**Date**	

Section	What it is for	Your draft, in three lines
Executive summary	The recommendation, deal size, structure and headline terms, in a few sentences.	
Business overview	The borrower's operations, market position and competitive dynamics.	
Financial analysis	Historical and projected performance, the key assumptions, and a sensitivity or downside case.	
Structure and terms	Leverage, pricing, covenants and collateral.	
Sponsor and management	Track record and alignment.	
Risk factors	The deal's principal weaknesses, stated candidly rather than buried.	
Diligence summary	The work completed, including third-party reports.	
Recommendation	The recommendation, with any conditions attached to the approval.	

Quarterly credit snapshot

One page per portfolio company, every quarter (monitoring chapter). Explain any deviation greater than ten per cent from the underwriting case, before the covenant math shows a breach.

Borrower / deal		**Prepared by**	
Fund		**Date**	

Measure	Underwriting case	Actual (TTM)	Deviation	Covenant level	Cushion
Revenue					
EBITDA					
EBITDA margin					
Total leverage (debt / EBITDA)					
Net leverage					
Fixed charge coverage					
Interest coverage					
Liquidity: cash + undrawn revolver					
Peak revolver utilisation					

Deviations above ten per cent, and why
Risk rating this quarter / last quarter, and the evidence for any change

Early-warning sign	Seen?	Action taken
Reporting delivered late (even two weeks, after a reliable record)		
Change of auditor		
Delay in audited financials		
CFO slower to respond		
Change in payment terms to the company's own vendors		
Unexplained turnover in the finance team		
Margin compression two quarters running		
Same end market missing plan in other portfolio names		

Amendment, waiver and forbearance request

A waiver is a negotiation, not a courtesy. Relief requested because the business is underperforming is underwritten again, like a new deal.

Borrower / deal		**Prepared by**	
Fund		**Date**	

Question	Answer
What is requested, exactly (covenant, basket, maturity, amount)?	
Why: growth initiative or underperformance?	
What caused the shortfall, in management's words, and does independent data support it?	
Updated projections received and re-run in the lender model?	
Downside and stress re-run: coverage, leverage, liquidity runway in quarters	

What the fund receives in exchange	Agreed?	Terms
Additional pricing or a fee		
Tighter reporting (monthly, thirteen-week cash flow)		
A paydown		
Covenant reset at a level that reflects the business now, not the old cushion restored		
Tighter baskets elsewhere in the document		

If forbearance or amend-and-extend: the three conditions	Received?	Date
Fresh independent valuation of the business		
New equity contribution from the sponsor		
Thirteen-week cash flow forecast, updated weekly for the whole period		