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Standard & Poor's Fundamentals of Corporate Credit Analysis The Rating Agencies and Their Credit Ratings The Rating Agencies and Their Credit Ratings Credit Ratings and Market Over-reliance The Bank Credit Analysis Handbook The Analysis of the Influence of a Sovereign Foreign LT Issuer Credit Rating on Credit Spreads and Asset Swap Spreads Developing, Validating and Using Internal Ratings Credit Ratings Third International Conference on Credit Analysis and Risk Management Credit Rating Agencies on the Watch List Corporate Credit Analysis Corporate Credit Analysis Fundamentals of Public Credit Analysis International Corporate Finance - Impact of financial ratios on long term credit ratings The Relative Importance of Political and Economic Variables in Creditworthiness Ratings The Credit Rating Industry Credit Risk Management Corporate Credit Analysis Managing Credit Risk Bond Credit Analysis First International Conference on Credit Analysis and Risk Management A Comparative Analysis of Internal and External Credit Ratings Misconceptions About Credit Ratings Ratings International Corporate Finance - Impact of Financial Ratios on Long Term Credit Ratings Ratings, Rating Agencies and the Global Financial System Credit

Rating Agencies on the Watch List Global Credit Analysis Provincial Credit Ratings in Canada Modern Credit Risk Management Proceedings of the Second International Conference on Credit Analysis and Risk Management Fundamentals of Credit and Credit Analysis Areas of Concern in the Credit Rating Industry Efficiency and Credit Ratings The role of credit rating agencies in the global financial system and the associated problems Credit Rating Modelling by Neural Networks Certified Credit Research Analyst Level 2 Contents The Going Concern Opinion and the Adverse Credit Rating An Empirical Analysis of Changes in Credit Rating Properties Advanced Credit Risk Analysis and Management

The role of credit rating agencies has been under severe scrutiny after the subprime crisis. In this paper we explore the relationship between credit ratings and informational efficiency of a sample of thirty nine corporate bonds of US oil and energy companies from April 2008 to November 2012. For that purpose, we use a powerful statistical tool relatively new in the financial literature: the complexity-entropy causality plane. This representation space allows to graphically classify the different bonds according to their degree of informational efficiency. We find that this classification agrees with the credit ratings assigned by Moody's. Particularly, we detect the formation of two clusters, that correspond to the global categories of investment and speculative grades. Regarding to the latter cluster, two subgroups reflect distinct levels of efficiency. Additionally, we also find an intriguing absence of correlation between informational efficiency and firm characteristics. This allows us to conclude that the proposed permutation-information-theory approach provides an alternative practical way to justify bond classification. Masterarbeit aus dem Jahr 2012 im Fachbereich BWL - Bank, Börse, Versicherung, Fachhochschule des bfi Wien GmbH, Veranstaltung: Banking and Finance, Sprache: Deutsch, Abstract: The purpose of this paper is to measure the correlation between the foreign longterm issuer credit ratings and both, credit spreads and ASW and to assess the role that the Rating Agencies play on the capital markets. Ratings reflect the financial strength and credit-worthiness of the issuer as assessed by the external rating agency. Spreads indicate the market's expectations in connection to the riskiness of the investment. Hence high spreads compensate investors for the higher risk taken. The result of the analysis is that there indeed exist correlations between foreign long-term issuer credit ratings and both, credit spreads and ASW. A high spread is strongly correlated to a low credit rating. However, even if the relationship exists, it is not possible to draw clear patterns of the market behavior. In some of the analyzed cases, market movements took place before a rating change, which indicates that both, the market and rating agencies considered the same information. In other cases, the market was influenced by the rating change. And sometimes the market reacted different to the rating agencies decisions and expectations. Overall the market reacts differently fast and not homogenous to the "fundamental" information it has. This makes it impossible to clearly state the extent to which ratings influence spreads. The results are not clear enough to indicate a more precise answer or to fully understand the market behavior. The market is a highly volatile environment in which it is impossible to draw predictable behavior patterns in relation purely to the credit rating. This inconsistency in reaction is partially conflicting the theory of the strong-form EMH, as the market reacts to the asymmetric level of information available or prices in other factors not covered in this paper. Seminar paper from the year 2019 in the subject Business economics - Investment and Finance, , language: English, abstract: The objective of this seminar paper is to illuminate the work and role of credit rating agencies in the global financial system and to explain and understand the general criticism directed at them. In addition, their special part in the subprime crisis of 2008 will be analysed and an estimation will be made of how much responsibility they bear in the crisis. An authoritative, in-depth guide to all aspects of credit analysis from the experts at Standard & Poor's Credit analysis--gauging an issuer's ability to repay interest and principal on a bond issue--plays an essential role in determining how bond issues are rated and priced. Fundamentals of Corporate Credit Analysis provides both analysts and investors with the practical, up-to-date information they need, backed by Standard & Poor's research, data, and experience, to properly assess the credit risk of virtually any entity. Whether used as a handy all-in-one guide or as a comprehensive training tool, it will give anyone the knowledge and tools needed to dig beneath standard ratings and determine an organization's true creditworthiness. This text provides an understanding of the techniques applied in assessing the financial strength of any business. The book introduces the methods of analysis and provides an overview of the key areas for analysis; from the business environment to cash flows, liquidity and ability to repay. Credit analysis is an important factor in judging investment value. Fundamentally sound credit analysis can offer more insight into the value of an investment and lead to greater profits. This study presents a professional framework for understanding and managing a successful corporate or municipal bond analysis, while providing informative case studies from well-known private and government organizations. This study provides a comprehensive analysis of credit rating economics and draws conclusions on the nature of regulation. It starts with an overview of the credit rating industry and introduces a framework that structures multiple rating agency functions. At the heart of the credit rating business model lies the reputation mechanism, which is analyzed in detail.

After analyzing the reputation mechanism, the study takes a wider look at the industry and identifies the forces behind credit rating supply and demand. From an industrial organization perspective competition in the credit rating industry is limited. A comprehensive review of potential reasons for regulating the credit rating industry, however, reveals that there are only few compelling arguments. The regulatory approaches of the EU under the Capital Requirements Directive of 2005 and the USA under the Credit Rating Agency Reform Act of 2006 are contrasted against an optimal regulatory regime. This book provides a summary of state-of-the-art methods and research in the analysis of credit. It thereby supplies very useful insights into this vital area of finance that has previously been insufficiently taught and researched in academia. The book, which includes an overview of processes that are utilized for estimating the probability of default and the loss given default for a wide array of debts, will be useful in evaluating individual loans and bonds as well as managing entire portfolios of such assets. Each of the chapters in the book is written by authors who presented and discussed their contemporary research and knowledge at the First International Conference on Credit Analysis and Risk Management that was held July 21–23, 2011 at Oakland University, Michigan, USA. This collection of writings by these experts in the field is uniquely designed to enhance the understanding of credit analysis in a fashion that permits a broad perspective on the science and art of credit analysis. This first of three volumes on credit risk management, providing a thorough introduction to financial risk management and modelling. Arnold Ziegel formed Mountain Mentors Associates after his retirement from a corporate banking career of more than 30 years at Citibank. The lessons learned from his experience in dealing with entrepreneurs, multinational corporations, highly leveraged companies, financial institutions, and structured finance, led to the development and delivery of numerous senior level credit risk training programs for major global financial institutions from 2002 through the present. This book was conceived and written as a result of the development of these courses and his experience as a corporate banker. It illustrates the fundamental issues of credit and credit analysis in a manner that tries to take away its mystery. The overriding theme of this book is that when an investor extends credit of any type, the goal is "to get your money back", and with a return that is commensurate with the risk. The goal of credit analysis is not to make "yes or no" decisions about the extension of credit, but to identify the degree of risk associated with a particular obligor or a particular credit instrument. This is consistent with modern banking industry portfolio management and the rating systems of credit agencies. Once the "riskiness" of an obligor or credit instrument is established, it can be priced or structured to match the risk demands or investment criteria of the entity that is extending the credit. A simple quote from Mr. J. P. Morgan is used often in this text - "Lending is not based primarily on money or property. No sir, the first thing is character". This statement represents one of the conflicts in modern credit analysis - that of models for decision making versus traditional credit analysis. The 2008 financial crisis was rooted in the mortgage backed securities business. Sophisticated models were used by investors, banks, and rating agencies to judge the credit worthiness of billions (and maybe trillions) of dollars worth of residential mortgage loans that were packaged into securities and distributed to investors. The models indicated that these securities would have very low losses. Of course, huge losses were incurred. Mr. Morgan had a good point. In this case is was both property and character. The properties that were the collateral for many of the mortgages had much less value than was anticipated. The valuation of the collateral was na•ve and flawed. Many assumptions were made that the value of homes would rise without pause. Many mortgage loans were made that were at or even above the appraised value of a residence.But character was a huge, perhaps larger, factor behind these losses. Many of the residential mortgage loans were made to individuals who knew that they did not have the income to make the required payments on the mortgages. Many of the mortgage brokers and lenders who made these loans also knew that many of the borrowers were not properly qualified. And, many of the bankers who securitized these loans also may have doubted the credit quality of some of the underlying mortgages. If bankers and rating agencies understood the extent of the fraud and lax standards in the fundamental loans backing the mortgage securities, or were willing to acknowledge it, the fiasco would not have occurred. Rating agencies judge how solvent banks and big companies are. Prior to the financial crisis they were too optimistic when rating the risk of the banks and this prompted politicians worldwide to issue new regulations. This book explains what rating agencies do, why they are so important for the economy and the new European Regulation. Rating agencies strive to assign reliable, objective and comparable credit ratings as an indicator on one consistent scale. We test empirically how rating agencies meet their promise of providing objective and comparable assessments of credit risk of an issuer and thus creditworthiness. Logistic regressions of ratings across agencies and market sectors point to highly significant differences of ratings for issuers in the 11 market sectors in our sample. Based on inter-sectoral comparisons, we detect a systematically positive rating bias for financial issuers, while issuers operating in the cyclical consumer goods sector face relatively disadvantageous credit ratings. Our results indicate that the current assessment models and measurement standards do not only contain issuers' credit risk but to a considerable extent also an assessment of industry and operating risk. Credit ratings should therefore not be equated with the likelihood of default as is often done in empirical applications. Stakeholders and especially investors - as well as researchers - should be aware of this misconception and not refer to ratings as pure measures of default risk. Credit rating agencies play a critical role in capital markets, guiding the asset allocation of institutional investors as private capital moves freely around the world in search of the best trade-off between risk and return. However, they have also been strongly criticised for failing to spot the Asian crisis in the early 1990s, the Enron, WorldCom and Parmalat collapses in the early 2000s and finally for their ratings of subprime-related structured finance instruments and their role in the current financial crisis. This book is a guide to ratings, the ratings industry and the mechanics and economics of obtaining a rating. It sheds light on the role that the agencies play in the international financial markets. It avoids the sensationalist approach often associated with studies of rating scandals and the financial crisis, and instead provides an objective and critical analysis of the business of ratings. The book will be of practical use to any individual who has to deal with ratings and the ratings industry in their day-to-day job. Reviews "Rating agencies fulfil an important role in the capital markets, but given their power, they are frequently the object of criticism. Some of it is justified but most of it portrays a lack of understanding of their business. In their book The Rating Agencies and their Credit Ratings, Herwig and Patricia Langohr provide an excellent economic background to the role of rating agencies and also a thorough understanding of their business and the problems they face. I recommend this book to all those who have an interest in this somewhat arcane but extremely important area." -Robin Monro-Davies, Former CEO, Fitch Ratings. "At a time of unprecedented public and political scrutiny of the effectiveness and indeed the basic business model of the Credit Rating industry, and heightened concerns regarding the transparency and accountability of the leading agencies, this book provides a commendably comprehensive overview, and should provide invaluable assistance in the ongoing debate." -Rupert Atkinson, Managing Director, Head of Credit Advisory Group, Morgan Stanley and member of the SIFMA Rating Agency Task Force "The Langohrs have provided useful information in a field where one frequently finds only opinions or misconceptions. They supply a firm base from which to understand changes now underway. A well-read copy of this monograph should be close to the desk of every investor, issuer and financial regulator, legislator or commentator." -John Grout, Policy and Technical Director, The Association of Corporate Treasurers Held at Oakland University, School of Business Administration, Department of Accounting and Finance. This book provides a summary of state-of-the-art methods and research in the analysis of credit. As such, it offers very useful insights into this vital area of finance, which has too often been under-researched and little-taught in academia. Including an overview of processes that are utilized for estimating the probability of default and the loss given default for a wide array of debts, the book will also be useful in evaluating individual loans and bonds, as well as managing entire portfolios of such assets. Each chapter is written by authors who presented and discussed their contemporary research and knowledge at the Third International Conference on Credit Analysis and Risk Management, held on August 21–22, 2014 at the Department of Accounting and Finance, School of Business administration, Oakland University. This collection of writings by these experts in the field is uniquely designed to enhance the understanding of credit analysis in a fashion that permits a broad perspective on the science and art of credit analysis. Credit rating agencies have been criticized for their role in the financial crisis by understating credit risk. The US subprime mortgage crisis highlighted the systemic relevance of the rating agencies and the deficiencies in their activities; this led to an international consensus to regulate the rating business. Written by those involved in developing European Legislation, this book explains EU Regulation in the context of global initiatives undertaken by the G-20, the Financial Stability Board, and IOSCO to address failures within the rating industry. Through an in-depth analysis of the EU Regulation's requirements on governance, conflicts of interest, methodologies, and transparency, the book provides a clear explanation of how rating agencies operate and how the identified failures have been addressed. Moreover, it examines the supervisory and enforcement powers of ESMA, the EU authority in charge of the registration and oversight of rating agencies. This is complemented with an analysis of guidance from supervisors (ESMA and EBA), IOSCO's recommendations, and US legislation. The book discusses possible new regulatory developments in areas such as the agencies' business model, competition, civil liability, and ratings of sovereign debt, in light of the Euro debt sovereign crisis. It concludes with the authors' support for an enhanced regulatory and oversight coordination at international level and for the implementation of the necessary steps to reduce the existing over-reliance on ratings. This paper examines the relationship between going concern opinions issued by the Big 4 audit firms and adverse credit ratings from the two largest credit ratings agencies (CRAs), Standard & Poor's (S&P) and Moody's. The paper focuses on audit opinions and credit ratings of firms that later file for bankruptcy. The relationship is examined from both sides. We examine whether credit ratings inform auditors in the making of going-concern (GC) audit opinion decisions, and whether GC opinions have an impact on a firm's credit ratings. The analysis is undertaken on a sample of firms that filed for bankruptcy between the 1 January 2002 and 31 December 2013 that also had an audit opinion signed during the 12 months before bankruptcy, along with a credit rating issued by either or both, S&P and Moody's. The results show that the likelihood of an auditor issuing a GC opinion is related to the credit rating issued the month before by both S&P and Moody's. Results also show that S&P reacted in the month after an auditor issued a GC opinion by downgrading its ratings 68% of the time. However, Moody's did not react in the same way, downgrading their ratings only 24% of the time. This paper sheds light on the relationship between audit opinions and credit ratings in relation to distressed companies. This is useful to better understand the wider relationship between auditors and credit rating agencies, and to be able to consider the future of these services. The Certified Credit Research Analyst (CCRATM) is a comprehensive global education program designed to give an expert level understanding of credit markets to fresh graduates and experienced professionals. It integrates the fundamentals of financial analysis, credit analysis, rating methodologies, credit strategy and structuring. It offers the tools a candidate needs to occupy key positions in the world of finance, private banking, credit ratings and fixed income domain. This title is a guide to ratings, the ratings industry, and the mechanics and economics of obtaining a rating. It sheds light on the role that the agencies play in the international financial markets. The only title that combines discussion and analysis on the methodologies employed by the major rating agencies together with those actually implemented internally by credit practitioners from financial institutions. Bachelor Thesis from the year 2015 in the subject Business economics - Investment and Finance, grade: 1,5, EBS European Business School gGmbH, language: English, abstract: The text contains a 'Comparative Analysis of Internal and External Credit Ratings'. It compares and explains both concept, and concludes what impact both have on the Mid-Market Companies in Germany. In 2012, mid-market companies (KMU) based in Germany generated revenues of 2,149.0 billion Euros. They are responsible for 35,3% of all revenues generated in Germany. These mid-market companies employed 15.97 million people, a

workforce of 59,6% of all employees in Germany (IFM Bonn, 2014). Clearly, mid-market companies are elementary for the German economy. To continue to be a primary motor of the economy, they need sufficient funding. Nevertheless, financing for mid-market companies in Germany will become more difficult. Standard & Poor’s Ratings Services (2015, pp. 2-3) estimated that European mid-market companies are going to have difficulties to meet their financing needs, as banks reduce their lending to the mid-market sector as consequence of stricter regulations. Especially, smaller mid-market companies face problems to access credit loans (Standard & Poor's Financial Services LLC, 2014, p. 3). The reason for these difficulties is the implementation of Basel III. Financial institutions have to deleverage their business during the next years (Zainzinger, 2013). The problem is that mid-market companies traditionally relied on bank funding. Especially German mid-market companies relied on credit loans from financial institutions (Huber & Simmert, 2007, p. 167-196). The new regulations for deleveraging create a “scarcity of finance for European companies”; it will generate an acute financing problem for mid-market companies (Dimitrijevic & Wade, 2014, pp. 1-2). In 2013, the German mid-market financing gap already amounted to 38,9 billion Euros (KfW, 2014, p. 7). Therefore, these companies have to find new funding sources. They have to find solutions to improve the access to external financing. Credit ratings provide an opportunity to help in this process. The existence of credit ratings is widely known. They often appear in several newspapers, and magazines (Handelsblatt, 2014). Nevertheless, various mid-market companies cannot estimate the impact and importance of credit ratings. Specifically, differences between internal credit and external ratings are often unclear.
[...] Credit is essential in the modern world and creates wealth, provided it is used wisely. The Global Credit Crisis during 2008/2009 has shown that sound understanding of underlying credit risk is crucial.

If credit freezes, almost every activity in the economy is affected. The best way to utilize credit and get results is to understand credit risk. Advanced Credit Risk Analysis and Management helps the reader to understand the various nuances of credit risk. It discusses various techniques to measure, analyze and manage credit risk for both lenders and borrowers. The book begins by defining what credit is and its advantages and disadvantages, the causes of credit risk, a brief historical overview of credit risk analysis and the strategic importance of credit risk in institutions that rely on claims or debtors. The book then details various techniques to study the entity level credit risks, including portfolio level credit risks. Authored by a credit expert with two decades of experience in corporate finance and corporate credit risk, the book discusses the macroeconomic, industry and financial analysis for the study of credit risk. It covers credit risk grading and explains concepts including PD, EAD and LGD. It also highlights the distinction with equity risks and touches on credit risk pricing and the importance of credit risk in Basel Accords I, II and III. The two most common credit risks, project finance credit risk and working capital credit risk, are covered in detail with illustrations. The role of diversification and credit derivatives in credit portfolio management is considered. It also reflects on how the credit crisis develops in an economy by referring to the bubble formation. The book links with the 2008/2009 credit crisis and carries out an interesting discussion on how the credit crisis may have been avoided by following the fundamentals or principles of credit risk analysis and management. The book is essential for both lenders and borrowers. Containing case studies adapted from real life examples and exercises, this important text is practical, topical and challenging. It is useful for a wide spectrum of academics and practitioners in credit risk and anyone interested in commercial and corporate credit and related products. Credit risk plays a crucial role in most financial transactions in one form or another and therefore contributes to various different layers of economic activity. Three key elements in the analysis of credit risk can be distinguished, namely: (1) the lender-borrower relationship, which is at the core of the entire discussion on credit risk; (2) the pricing of credit risk in financial markets; and (3) the relevance of financial stability and regulation related to the occurrence of credit risk. This book captures these areas in a comprehensive way by highlighting some of the current issues and related questions. • Worked examples illustrating key points • Explanation of complex or obscure terms • Full glossary of terms The titles in this series, all previously published by BPP Training, are now available in entirely updated and reformatted editions. Each offers an international perspective on a particular aspect of risk management. Topics included in this title in the Credit Risk Management series include Establishing overall corporate goals for credit worthiness; Implementing credit analysis systems; Outsourcing to enhance credit analysis techniques; Case studies in applied credit analysis; Exercises and sample credit analysis programs. Intended for: risk managers, financial officers, fund managers, investment advisers, accountants, and students of business and finance. Master's Thesis from the year 2010 in the subject Business economics - Investment and Finance, grade: 2,0, Reutlingen University (Business Adminstration), language: English, abstract: The global financial and economic crises resulted for many corporations in a downgraded credit rating within the last 2 to 3 years. Even a large percentage of them defaulted on their credit obligations due to inherent operational factors. The importance of credit ratings will play an even more central role under the currently discussed New Basel Capital Accord (Basel III) (Standard & Poor ?s 2010; Basel III For Global Banks). The purpose of this research is to explore the relationship between long term credit ratings and selected financial ratios that can be derived by public information. Such information can be very valuable for companies in order to have a slight control over their credit rating obtained by rating agencies as well as in negotiations with banks and other outside creditors. The research design is based on three automotive manufacturers and involves their credit rating over the last decade. The data for the financial ratios was collected from respective financial statements. The study is based on a correlation and multiple regression analysis using the MINITAB (Minitab Data Analysis Software, Pennsylvania USA) software as a statistical platform. A step wise approach determined the regression equation with the highest significance. The equations were used to detect those variables that have the strongest impact on the credit rating. The results for automotive companies with a solid statistical data set are surprisingly high in significance with an adjusted coefficient of determination of over 90%. Overall it is not feasible to mention which one of the seventeen financial ratios explains the variation in credit rating most reliable, because such a statement depends always on the individual company. For example to explain the changes in the rating for the Ford Motor Master's Thesis from the year 2010 in the subject Business economics - Investment and Finance, grade: 2,0, Reutlingen University (Business Adminstration), language: English, abstract: The global financial and economic crises resulted for many corporations in a downgraded credit rating within the last 2 to 3 years. Even a large percentage of them defaulted on their credit obligations due to inherent operational factors. The importance of credit ratings will play an even more central role under the currently discussed New Basel Capital Accord (Basel III) (Standard & Poor ?s 2010; Basel III For Global Banks). The purpose of this research is to explore the relationship between long term credit ratings and selected financial ratios that can be derived by public information. 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Overall it is not feasible to mention which one of the seventeen financial ratios explains the variation in credit rating most reliable, because such a statement depends always on the individual company. For example to explain the changes in the rating for the Ford Motor Company, the following six ratios turned out to be the most significant ones: total equity to total assets; sales to fixed assets; sales to inventory; net income to total equity; total equity to long term liabilities and EBIT to sales. Each regression equation consisted mostly of different financial ratios. Apart from the fact that financial information is only one aspect of the credit rating determination process, the attained results are valid and valuable insights for all external and internal rating analysts. The global financial and economic crises resulted for many corporations in a downgraded credit rating within the last 2 to 3 years. [...] In recent years, credit rating agencies have faced increased regulatory pressure and investor criticism for their ratings' lack of timeliness. This study investigates whether and how rating agencies respond to such pressure and criticism. We find that the rating agencies not only improve rating timeliness, but also increase rating accuracy and reduce rating volatility. Our findings support the criticism that, in the past, rating agencies did not avail themselves of the best rating methodologies/efforts possible. When their market power is threatened by the possibility of increased regulatory intervention and/or reputation concerns, rating agencies respond by improving their credit analysis. Ratings, Rating Agencies and the Global Financial System brings together the research of economists at New York University and the University of Maryland, along with those from the private sector, government bodies, and other universities. The first section of the volume focuses on the historical origins of the credit rating business and its present day industrial organization structure. The second section presents several empirical studies crafted largely around individual firm-level or bank-level data. These studies examine (a) the relationship between ratings and the default and recovery experience of corporate borrowers, (b) the comparability of credit ratings made by domestic and foreign rating agencies, and (c) the usefulness of financial market indicators for rating banks, among other topics. In the third section, the record of sovereign credit ratings in predicting financial crises and the reaction of financial markets to changes in credit ratings is examined. The final section of the volume emphasizes policy issues now facing regulators and credit rating agencies. This book provides a thorough analysis of internal rating systems. Two case studies are devoted to building and validating statistical-based models for borrowers' ratings, using SPSS-PASW and SAS statistical packages. Mainstream approaches to building and validating models for assigning counterpart ratings to small and medium enterprises are discussed, together with their implications on lending strategy. Key Features: Presents an accessible framework for bank managers, students and quantitative analysts, combining strategic issues, management needs, regulatory requirements and statistical bases. Discusses available methodologies to build, validate and use internal rate models. Demonstrates how to use statistical packages for building statistical-based credit rating systems. Evaluates sources of model risks and strategic risks when using statistical-based rating systems in lending. This book will prove to be of great value to bank managers, credit and loan officers, quantitative analysts and advanced students on credit risk management courses. This study examines the relative importance of political and economic variables in the determination of a country’s standing in credit ratings provided by commercial rating agencies. It finds that creditworthiness appears to be determined primarily by economic variables. While including political events can improve the explanatory power of the regressions, the exclusion of political variables does not bias the parameter estimates for the effects of economic variables. 7.1.3 Evidence of Over-reliance on Credit Rating Legislative References -- 7.2 Anticipating the Post-crisis Debate on Over-reliance -- 7.2.1 CRA Message to the Regulators -- 7.2.2 CRA Message to the Users of Credit Ratings -- Concluding Remarks -- 8 Conclusions -- 8.1 Taking Stock of the Situation -- 8.2 Developing an Assertion into Certainty: Providing Evidence of Over-reliance -- 8.3 Encouraging More Dialogue and Coordination at All Levels -- 8.4 Ensuring More of a Level-playing Field among Credit Risk Assessment Tools -- 8.5 Looking Ahead -- Concluding Remarks -- Bibliography -- Index The first full analysis of the latest advances in managing credit risk. "Against a backdrop of radical industry evolution, the authors of Managing Credit Risk: The Next Great Financial Challenge provide a concise and practical overview of these dramatic market and technical developments in a book which is destined to become a standard reference in the field." -Thomas C. Wilson, Partner, McKinsey & Company, Inc. "Managing Credit Risk is an outstanding intellectual achievement. The authors have provided investors a comprehensive view of the state of credit analysis at the end of the millennium." -Martin S. Fridson, Financial Analysts Journal. "This book provides a comprehensive review of credit risk management that should be compulsory reading for not only those who are responsible for such risk but also for financial analysts and investors. An important addition to a significant but neglected subject." -B.J. Ranson, Senior Vice-President, Portfolio Management, Bank of Montreal. The phenomenal growth of the credit markets has spawned a powerful array of new instruments for managing credit risk, but until now there has been no single source of information and commentary on them. In Managing Credit Risk, three highly regarded professionals in the field have-for the first time-gathered state-of-the-art information on the tools, techniques, and vehicles available today for managing credit risk. Throughout the book they emphasize the actual practice of managing credit risk, and draw on the experience of leading experts who have successfully implemented credit risk solutions. Starting with a lucid analysis of recent sweeping changes in the U.S. and global financial markets, this comprehensive resource documents the credit explosion and its remarkable opportunities-as well as its potentially devastating dangers. Analyzing the problems that have occurred during its growth period-S&L failures, business failures, bond and loan defaults, derivatives debacles-and the solutions that have enabled the credit market to continue expanding, Managing Credit Risk examines the major players and institutional settings for credit risk, including banks, insurance companies, pension funds, exchanges, clearinghouses, and rating agencies. By carefully delineating the different perspectives of each of these groups with respect to credit risk, this unique resource offers a comprehensive guide to the rapidly changing marketplace for credit products. Managing Credit Risk describes all the major credit risk management tools with regard to their strengths and weaknesses, their fitness to specific financial situations, and their effectiveness. The instruments covered in each of these detailed sections include: credit risk models based on accounting data and market values; models based on stock price; consumer finance models; models for small business; models for real estate, emerging market corporations, and financial institutions; country risk models; and more. There is an important analysis of default results on corporate bonds and loans, and credit rating migration. In all cases, the authors emphasize that success will go to those firms that employ the right tools and create the right kind of risk culture within their organizations. A strong concluding chapter integrates emerging trends in the financial markets with the new methods in the context of the overall credit environment. Concise, authoritative, and lucidly written, Managing Credit Risk is essential reading for bankers, regulators, and financial market professionals who face the great new challenges-and promising rewards-of credit risk management. This book is a practical guide to the latest risk management tools and techniques applied in the market to assess and manage credit risks at bank, sovereign, corporate and structured finance level. It strongly advocates the importance of sound credit risk management and how this can be achieved with prudent origination, credit risk policies, approval process, setting of meaningful limits and underwriting criteria. The book discusses the various quantitative techniques used to assess and manage credit risk, including methods to estimate default probabilities, credit value at risk approaches and credit exposure analysis. Basel I, II and III are covered, as are the true meaning of credit ratings, how these are assigned, their limitations, the drivers of downgrades and upgrades, and how credit ratings should be used in practise is explained. Modern Credit Risk Management not only discusses credit risk from a quantitative angle but further explains how important the qualitative and legal assessment is. Credit risk transfer and mitigation techniques and tools are explained, as are netting, ISDA master agreements, centralised counterparty clearing, margin collateral, overcollateralization, covenants and events of default. Credit derivatives are also explained, as are Total Return Swaps (TRS), Credit Linked Notes (CLN) and Credit Default Swaps (CDS). Furthermore, the author discusses what we have learned from the financial crisis of 2007 and sovereign crisis of 2010 and how credit risk management has evolved. Finally the book examines the new regulatory environment, looking beyond Basel to the European Union (EU) Capital Requirements Regulation and Directive (CRR-CRD) IV, the Dodd–Frank Wall Street Reform and Consumer Protection Act. This book is a fully up to date resource for credit risk practitioners and academics everywhere, outlining the latest best practices and providing both quantitative and qualitative insights. It will prove a must-have reference for the field. A hands-on guide to the theory and practice of bank credit analysis and ratings In this revised edition, Jonathan Golin and Philippe Delhaise expand on the role of bank credit analysts and the methodology of their practice. Offering investors and practitioners an insider's perspective on how rating agencies assign all-important credit ratings to banks, the book is updated to reflect today's environment of increased oversight and demands for greater transparency. It includes international case studies of bank credit analysis, suggestions and insights for understanding and complying with the Basel Accords, techniques for reviewing asset quality on both quantitative and qualitative bases, explores the restructuring of distressed banks, and much more. Features charts, graphs, and spreadsheet illustrations to further explain topics discussed in the text Includes international case studies from North America, Asia, and Europe that offer readers a global perspective Offers coverage of the Basel Accords on Capital Adequacy and Liquidity and shares the authors' view that a bank could be compliant under those and other regulations without being creditworthy A uniquely practical guide to bank credit analysis as it is currently practiced around the world, The Bank Credit Analysis Handbook, Second Edition is a must-have resource for equity analysts, credit analysts, and bankers, as well as wealth managers and investors. This book presents the modelling possibilities of neural networks on a complex real-world problem, i.e. credit rating process modelling. Current approaches in credit rating modelling are introduced, as well as the incorporation of previous findings on corporate and municipal credit rating modelling. Based on this analysis, the model is designed to classify US companies and municipalities into credit rating classes. The model includes data pre-processing, the selection process of input variables, and the design of various neural networks' structures for classification. This book presents new methodologies for rating non-financial issuers and project ratings based on the BFO (Brusov-Filatova-Orekhova) theory of capital cost and structure, and its perpetuity limit (Modigliani-Miller theory), as well as modern investment models created by the authors. It first provides a critical analysis of the methodological and systemic shortcomings of the current credit ratings of non-financial issuers and project ratings. In order to increase the objectivity and accuracy of rating assessments, it then modifies the BFO theory for companies of arbitrary age as well as and the perpetuity limit (Modigliani-Miller theory) for rating needs. The authors also incorporate the financial indicators used in the rating methodology into both the BFO theory and the Modigliani-Miller theory. Within the framework of the modified BFO theory for rating needs, they then present a detailed study of the dependence of the weighted average cost of capital of WACC, used as the discount rate for discounting financial flows, on the financial ratios used in the rating, on the age of the company, on the leverage level and on the level of taxation for a wide range of values of equity cost and debt cost for companies of arbitrary age. This makes it possible to correctly assess of the discount rate, taking into account the values of financial ratios. The use of well-established corporate finance theories (BFO theory and its perpetuity limit) opens up new horizons in the rating industry, providing an opportunity to switch from mainly qualitative methods for determining the creditworthiness of issuers to mainly quantitative methods in rating, and as such improving the quality and accuracy of rating scores.

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