



Credit Portfolio Risk Management

This advanced course focuses on credit portfolio risk management techniques, examining several of the models and approaches that have developed in the marketplace. It considers how credit derivatives and other risk mitigation methods can be used in the implementation of a credit portfolio risk management program. There is a discussion of the relationship of credit risk to other risks faced by financial institutions including market risk, operational risk, and liquidity risk.

The course examines these risks and the associated management tools and techniques within the broader context of the Value at Risk (VaR) approach to integrated risk management. VaR is important because it has the support of the banking regulators as an acceptable basis for the development of internal models of risk analysis, the return on capital and capital adequacy. Finally, the course addresses the policy, practice and process issues that need to be part of an integrated risk management program within a financial institution.

Available Session(s):

03-Dec-2008 -- 05-Dec-2008	New York	USD \$3275
NY Institute of Finance - Midtown	9:00am - 4:30pm	Wed Thu Fri

Instructor(s):[Mayra Rodríguez Valladares;]

Targeted Audience

Credit portfolio managers, credit managers, risk managers, risk controllers, credit risk modelers, investment managers, asset managers, portfolio managers, quantitative analysts, IT professionals, regulators.

Special Offer

Clients who register for this course will receive a complimentary 6 month subscription to the Financial Times and FT.com. The Financial Times is the world's most respected financial newspaper providing a broad assessment on finance, business and the industrial sector. Subscriptions will start within 6-8 weeks of the application process, and are limited to one per client. For questions about your subscriptions call 800-628-8088 or email uscirculation@ft.com. US and Canada enrollees only.

Advance Preparation

No advance preparation required.

Learning Objectives

Students will be able to:

- Define market environment and risk management lessons
- Explain risk management and the role of the Regulators
- Define and discuss the integrated view of risk management
- Answer the question of why does the credit cycle exist?
- Define the role of the credit reporting agencies
- Define and Discuss Internal Risk Rating Systems
- Discuss "measuring risk" in relation to the Value-at-Risk (VaR) approach
- Explain and apply modern portfolio management techniques
- Define credit risk management in relation to the VaR approach
- Discuss the Options Theoretic Model of credit risk
- Through practical application explain the KMV Model
- Discuss and review the CreditMetrics Model as it relates to:
 - A credit migration model of credit risk
 - An actuarial model of credit risk
- Define and discuss credit portfolio risk management techniques
- Explain credit derivatives
- Define the importance of operational risk
- Reevaluate and discuss integrated risk management
- Review internal risk management organization
- Discuss credit portfolio risk management and risk adjusted return on capital

Alumni Comments

"A good review on the basics of credit risk."

"The instructor is extremely experienced in the credit risk field."

"This course contained many helpful case studies."

"The course material was current, especially as related to current market conditions and Basel II."

"The instructor is knowledgeable and the handouts are useful."

Follow-Up Courses

Credit Derivatives: Intermediate

Advanced Credit Risk Analysis

Level: Advanced

CPE Credits: 21.5

Instructional Method: Group-Live

Detailed Outline

DAY ONE

Overview & Concepts

- Market environment
- Deregulation
- Technology
- Risk management lessons
- Market risk
- Procter & Gamble case study
- Bank for International Settlements
- Operational risk
- Barings & Allied Irish
- Credit risk
- Enron
- Vivendi

Risk Management & the Role of the Regulators

- Credit risk, capital & the The Federal Reserve system & the Bank of England
- 1988 BIS Accord
- Capital rule making
- Internal Risk Management
- 1996 BIS Amendment
- BIS standards
- Internal models
- The new Basel Accord implementation
- VaR models & integrated risk management

An Integrated View of Risk Management

- Definition of risk
- Market risk
- Credit risk
- Operational risk
- Group of 30 (G-30) Policy Recommendations

The Credit Cycle: Does it exist?

- Historical evidence
- Recent experiences
- The credit cycle & interest rates -

DAY TWO

Internal Rating Systems

- Exposure, default probability & expected loss
- Default probabilities & recovery
- Policies, structure, process
- Role of agency ratings
- Credit ratings & Risk-Adjusted Return on Capital (RAROC)

Internal Risk Rating Systems

- Exposure, Probability of Default, and Expected Loss
- Default Probabilities & Recovery Rates
- Financial Assessment
- Qualitative Factors
- Industry Analysis
- Third party support
- Term, Structure & Collateral
- Ratings, Pricing, Return on Capital & Economic Capital

Measuring Risk: The Value-at-Risk (VaR) Approach

- Traditional approaches
- Notional amount
- Value of a basis point and duration (bond market)
- Value-at-Risk concept
- Definition of VaR
- Specified maximum loss
- Specified time period
- Specified probability
- Calculating VaR
- Variance-covariance approach
- Monte Carlo approach
- Historical simulation
- Advantages & disadvantages

Modern Portfolio Management Techniques - Overview

- Modern Portfolio Concepts

interpretation

The Role of the Credit Rating Agencies

- Concepts
- Process
- Methodology/Oversight
- The Issuer / The Issue
- Credit Enhancement Limitations

- The efficient frontier
- Risk and return - Single asset risk versus portfolio risk Covariation, Correlation & Portfolio Risk
- Portfolio diversification
- Portfolio risk & return
- Marginal risk contribution of an individual asset

Credit Risk Management - VaR Approach

- Definition of Credit VaR
- Return distribution: credit vs. security
- Credit VaR & the capital charge
- Expected loss, unexpected loss & economic capital

An Options Theoretic Model of Credit Risk

- Conceptual building blocks
- The option approach to credit
- Equity - a call option on the firm's asset value
- Estimating default risk

Practical Application: The KMV Model

- Definition of Expected Default Frequency (EDF)
- Addressing the non-normality issue

DAY THREE

A Credit Migration Model of Credit Risk: The CreditMetrics Model

- The transition matrix
- Defining a credit rating system
- Establishing transition & default probability distributions
- Determining a forward discount curve
- Determining the capital charge

An Actuarial Model of Credit Risk

- Characteristics of the default probability

distribution

- Advantages & disadvantages

Credit Portfolio Risk Management Techniques

- Secondary market trading - ISDA & standardized credit documents
- Asset securitization
- Hedging

Credit Derivatives

- Total Return Swap
- Credit Swaps
- Credit Spread Options

Operational Risk

- Definition of Operational Risk
- Significance of Operational Risk
- Measuring Operational Risk
- An Operational Risk Measurement Process
- Operational Risk VaR

Integrated Risk Management Revisited

- Interrelationships among Market risk, Credit risk, Operational risk
- Credit risk & market risk
- Credit risk & operational risk
- Credit risk & liquidity risk

Internal Risk Management

Organization

- Life cycle of risk management- From limits to RAROC
- Policy / Infrastructure/ Process Systems & technology

Credit Portfolio Risk Management and Risk-adjusted Return on Capital

- Regulatory capital
- Economic capital
- Risk-adjusted return
- Risk-adjusted capital
- Risk-adjusted return on risk-adjusted capital
- Looking forward

For more information regarding administrative policies such as complaints and refunds, please contact our offices at 212-641-6616.