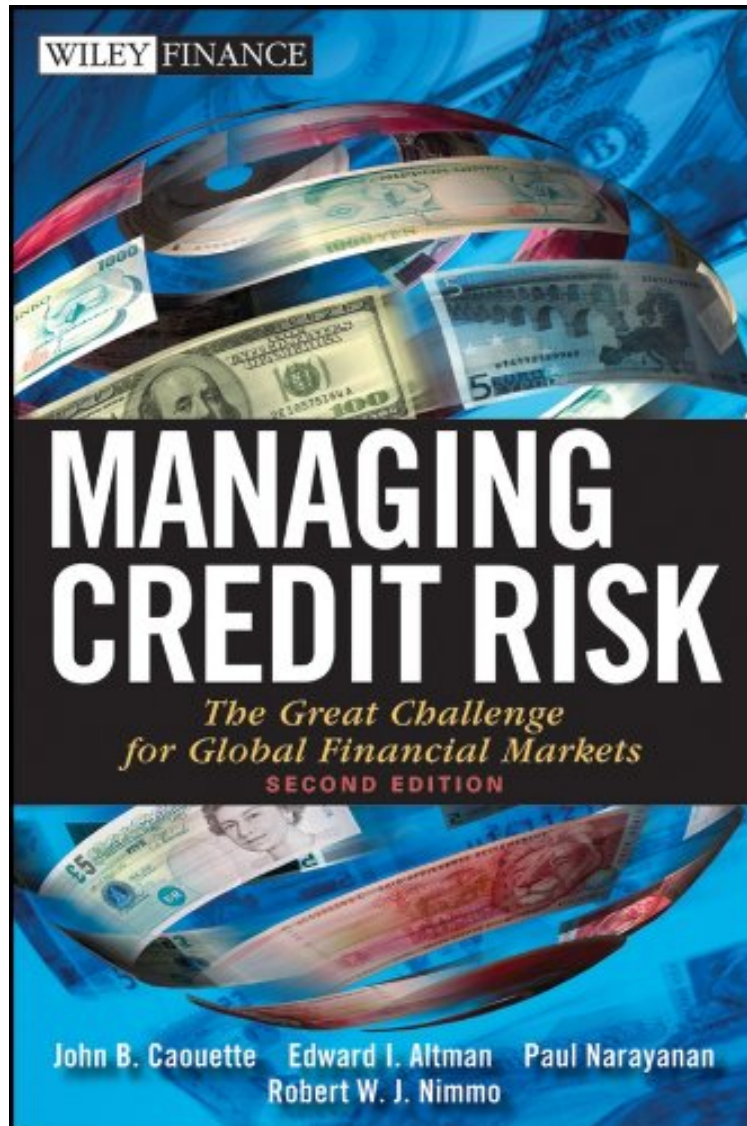


Managing Credit Risk: The Great Challenge for Global Financial Markets (Wiley Finance)

John B. Caouette, Edward I. Altman, Paul Narayanan, Robert Nimmo
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John B. Caouette, Edward I. Altman, Paul Narayanan, Robert Nimmo : Managing Credit Risk: The Great Challenge for Global Financial Markets (Wiley Finance) before purchasing it in order to gauge whether or not it would be worth my time, and all praised *Managing Credit Risk: The Great Challenge for Global Financial Markets (Wiley Finance)*:

2 of 3 people found the following review helpful. A Useful Overview of Credit Risk By Bjorn Overall this is an effective overview of credit risk, particularly useful for training new staff or for explaining credit risk concepts to non-

experts involved in the risk management process. This book certainly has some shortcomings as pointed out in the prior review. It is not well-suited to teaching the mechanics of credit risk modeling, although it does provide a foundation in the basic terms and concepts employed in evaluating credit risk. Indeed, this book is helpful in providing a context for the application of quant modeling to credit risk for those who already have strong facility in quant modeling.

0 of 1 people found the following review helpful. Only the qualitative side
By Nikolaos Zikas
The book is quite good, even it needs to be updated a little. However it provides only the qualitative side of the credit world.

13 of 13 people found the following review helpful. Okay introduction (qualitative, not on models) but bad timing
By David R. Harper
This second edition publishes ten years after the first. Much has changed in credit risk, but the book suffers from unfortunate timing: while some chapters reference the 2007+ credit crunch, none of the employed databases do (e.g., defaults, rating migrations). That's not the fault of the authors, the data just hadn't been recorded. For example, rating and default performance discussions are based on good historical records, but alas the relevant databases they don't reflect very recent activity.

This is a satisfactory survey of credit risk. But it is primarily a qualitative survey. If you are looking for a book on credit risk models, this isn't your answer. It only flirts in sections with quantitative methods. It does have an introduction to credit portfolio models, but it does not really penetrate their mechanics. I was hoping to learn something new about portfolio methods (CreditMetrics, CreditRisk+, KMV PM) but I didn't find much new here (the credit portfolio surveys barely improve on the De Servigny who has been assigned in the FRM). As Edward Altman is an author, there is quite a bit of historical data on ratings and migration patterns.

The first half of the book, frankly, is a bland introduction/rehash that brings little new information or insight. The second half is better.

Some of my highlights/notes:
Introduction to credit industry players (Chapters 1 through 5)
Pretty typical overview of rating agencies. Unfortunately, the database predates the credit crunch (Chapter 6)
Classic credit analysis. Ratios like ROE and EBITDA and their flaws; e.g., they ignore, respectively, risk and capital employed. (Chapter 7)
Chapter 8 is brief, weak filler on asset based lending.
Chapter 9 a brief throwaway introduction to credit risk models. Introduces typology (econometrics, simulation, optimization) then ignores it.
Chapter 10 is about models based on accounting data. As you'd expect, a helpful review of Altman's Z and its variations (private firm Z')
Chapter 11 introduction to the structural model using Moody's KMV EDF. Nothing new, KMV's own papers are better.
Chapter 12 and 13: Consumer finance and small business credit models. Introductions.
Chapter 14: Testing and implementation of credit risk models. Brief mention of Type I error (model classifies bankrupt company as nonbankrupt) and Type II error (model classifies nonbankrupt company as bankrupt). Brief extract of Basel II. Disappointing, no depth. This wasn't such a hot topic at press, but it will be!
Chapter 15 (About Corporate Default rates) starts the better part of the book.
Chapter 16 is an easy, helpful introduction to structural versus reduced-form (again, if you are looking for quant, it will be too easy). And credit value-at-risk (credit VaR; i.e., a loss quantile based on a distributional assumption). Helpful discussion of recovery rates and procyclicality; e.g., if you assume PD and recovery are uncorrelated (data doesn't support this, data shows correlation), then you expected loss (EL) and unexpected loss (UL) are underestimated.
Chapter 17 (credit risk migration) helpfully contrasts three migration studies, including Altman's. Highlights aging effect: older bonds have greater tendency to be upgraded/downgraded than newly issued bonds.
Chapter 18 very *lightly* introduces portfolio approaches; e.g., diversity score used in Moody's binomial expansion technique (BET).
Chapter 19 on economic capital is a good intro that compares RAROC to other metrics and nicely distinguishes between economic and regulatory capital.
Application of portfolio approaches (20) repeats what is elsewhere found on, e.g., creditmetrics.
BIS II IRB glancingly discussed; much better are BIS own documents!
Chapters 20-24 introduce topics (credit derivatives, counterparty risk, country risk models, and structured finance) but covers none of them deeply.
The last two chapters (25 and 26) talk about new players (SIV, CDPC) and make predictions. They are okay summaries, no new insights whatsoever.; e.g., liquidity risk is "the next big challenges,"

Managing Credit Risk, Second Edition opens with a detailed discussion of today's global credit markets—touching on everything from the emergence of hedge funds as major players to the growing influence of rating agencies. After gaining a firm understanding of these issues, you'll be introduced to some of the most effective credit risk management tools, techniques, and vehicles currently available. If you need to keep up with the constant changes in the world of credit risk management, this book will show you how.

From the Inside Flap
It would be an understatement to say that the field of finance—specifically the credit arena—has changed in the decade since the first edition of Managing Credit Risk was published. Ten years later, things look a lot different. Credit risk has grown in scope and complexity against the backdrop of global economic, political, and technological change, and there are also many more tools, much more information, and some important new players to deal with. That's why John Caouette, Edward Altman, Paul Narayanan, and Robert Nimmo have created Managing Credit Risk, Second Edition. Fully revised and updated to reflect the numerous developments within the discipline, this timely title combines state-of-the-art credit risk solutions with the practical perspectives of leading experts who have successfully implemented them. Written with the serious financial professional in mind, Managing Credit Risk, Second Edition opens with a detailed discussion of today's global credit markets—touching on

everything from the emergence of hedge funds as major players to the growing influence of rating agencies. After gaining a firm understanding of these issues, you'll be introduced to some of the most effective credit risk management tools, techniques, and vehicles currently available, including: Credit models for small business, real estate, and emerging market companies Default recovery rates and "loss given default" in credit risk modeling and practice Credit risk models based on accounting data and market values Testing and implementation of credit risk models The most popular forms of credit derivatives and approaches that can be used to analyze counterparty credit risk and much more Rounding out this discussion of credit risk management, the authors skillfully integrate emerging trends in the financial markets with the new methods mentioned. This will allow you to quickly apply the lessons outlined throughout these pages to today's dynamic credit environment. In recent years, credit risk has become pervasive throughout the world. The dramatic growth in borrowing by all segments of society—from corporations and consumers to governments—clearly illustrates the scale of this credit explosion. If you need to keep up with the constant changes in the world of credit risk management, and want to improve your overall understanding of this field, then look no further than *Managing Credit Risk, Second Edition*. From the Back Cover Praise for *Managing Credit Risk* "Against a backdrop of radical industry evolution, the authors of *Managing Credit Risk* provide a concise and practical overview of these dramatic markets and technical developments in a book that has become a standard reference in the field." —Thomas C. Wilson, Chief Insurance Risk Officer, ING Group "Managing Credit Risk is an outstanding intellectual achievement. The authors have provided investors with a comprehensive view of the state of credit analysis as the implications of the financial engineering revolution become fully revealed." —Martin S. Fridson, CFA, Chief Executive Officer, FridsonVision LLC "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 subject." —Brian Ranson, Managing Director, Moody's Analytics "This book straddles the vast landscape of the credit market, reflecting the major changes in the past decade, namely the commoditization of credit risk by sophisticated players, through the use of synthetic securities, securitization, and the application of advanced quantitative tools. I know of no other book on the subject with as comprehensive a coverage of this fast-growing field." —Sanjiv Das, Professor of Finance, Santa Clara University "At just the right time, the authors of *Managing Credit Risk* give us an up-to-date and comprehensive look at the complex, internationally connected world of credit. The author illuminates the subject with depth and delivers it in a writing style that will stimulate rather than dull the brain for what could have been a very dry topic." —Barrett Burns, President and CEO, VantageScore Solutions LLC "Managing Credit Risk lays out in clear terms the multiple innovations that we have seen in the credit markets including quantitative analysis of both consumer and corporate financing and portfolio management, securitization and structured financing, derivatives, and other tools. The authors, strongly and correctly, maintain that these innovations must be used by all originators and investors in credit assets in the context of a strong credit risk management culture." —Philip Sherman, financial services industry consultant About the Author John B. Caouette is the former vice chairman of MBIA Insurance Corporation and is currently Chairman of Channel Capital Group, a European-based credit derivative products company. Edward I. Altman, PhD, MBA, is the Max L. Heine Professor of Finance at the Stern School of Business, New York University. Previously, he chaired the Stern School's MBA Program for twelve years. He has been acclaimed as the world's leading academic on credit risk and distressed and high-yield debt for most of his forty-year career. Paul Narayanan is Director of Credit Portfolio Analytics at American International Group, Inc. He has been involved with credit risk management for more than two decades and in the development and deployment of analytical solutions for credit issues. Robert W. J. Nimmo is the former group risk director of Barclays PLC, where he was responsible for all the risk management activities of the group covering credit, market, operational risk, and compliance. He was also the chief risk officer for Wachovia Corporation (2000–2001) and for Westpac Banking Corporation (1993–2000).