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Zero Textbook Cost Syllabus for FIN 4093 (Corporate Credit Risk)

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**FIN 4093-NFA (29784), Special Topics in Finance: Corporate Credit Risk
Fall 2019
Fr 2:30PM – 5:25PM
Please Note: This is a Hybrid Course with In-Class and Online Sessions**

CONTACT INFORMATION

Instructor: Michele Costello
Office
Location:
Office Hours: Fridays, 9-11AM or by appointment
Email:
Phone:

COURSE DESCRIPTION

The course will provide students with an overview of key concepts in corporate credit risk through the lens of a commercial banking risk analyst. Students will be assigned a company to follow throughout the semester and will be required to use the tools of the course to build their own credit rating analysis in a term paper due at the end of the semester. Topics including country risk, industry risk, market risk, business risk (financial and management), and structure risk will be explored through lectures, industry publications, and access to industry analysis and tools. Upon completion of this course, students will have an understanding of the main components of corporate credit risk scoring, industry terminology, and the capability to develop their own credit rating view on a company.

Prerequisites: FIN 3610 Corporate Finance

General Background on the Course Topic:

Credit risk refers to the potential failure of a counterparty to return principal, interest, or other required payments to a creditor (lender, vendor, government, etc.). Common examples include: potential for default of a corporation to repay its loan to a bank, potential for consumer to fail to pay an invoice when due, or potential for a government to default on its bonds. In order to anticipate and protect against default, analysts use quantitative modeling and qualitative assessment tools to assign risk ratings and potential for default. Appropriate risk assessment can allow analysts to structure agreements and obligations more effectively to mitigate the potential for credit losses. Credit risk analysis also allows for the efficient functioning of business and financial markets. Credit risk analysis is a fundamental skill for any manager or finance professional in order to anticipate and quantify potential financial loss.



COURSE LEARNING GOALS

Upon completion of the course, students should be able to:

- Explain what credit ratings are
- Identify who issues ratings
- Explain how credit ratings are determined
- Utilize financial statements to locate credit information
- Evaluate the components of fundamental credit analysis: country risk, industry risk, business risk, financial structure and management risk
- Develop and communicate a credit opinion on a company
- Identify the role of credit ratings in financial markets
- Interpret market pricing as a function of credit risk
- Utilize finance industry technology (Bloomberg, Capital IQ) to research elements of credit risk and ratings

PROGRAM LEARNING GOALS (BBA)

Analytical Skills	Students will possess the analytical and critical thinking skills to evaluate issues faced in business and professional careers.
Technological Skills	Students will possess the necessary technological skills to analyze problems, develop solutions and convey information.
Communication Skills: Oral	Students will have the necessary oral communication skills to convey ideas and information effectively and persuasively.
Communication Skills: Written	Students will have the necessary written communication skills to convey ideas and information effectively and persuasively.
Civic Awareness and Ethical Decision-Making	Students will have the knowledge base and analytical skill to guide them when faced with ethical dilemmas in business. Students will have an awareness of political, civic and public policy issues affecting business.
Global Awareness	Students will know how differences in perspectives and cultures affect business practices around the world.
Proficiency in a single discipline: Corporate Credit Risk	Students will understand the credit rating process, its role in financial markets, and the financial and qualitative metrics used to draw conclusions about the risk profile of corporations

This course will cover the following program learning goals:

- Proficiency in a single discipline – Corporate Credit Risk
- Analytical skills regarding financial statement analysis and interpretation of credit ratios
- Technological Skills as it pertains for financial spreadsheets and Bloomberg applications
- Communication Skills: Oral
- Communication Skills: Written
- Civic Awareness as it pertains to the role and regulation of credit ratings in markets
- Global Awareness as it pertains to country risk in credit ratings and the role of ratings in global financial markets



Note regarding Communication: While this course is not a Communications-Intensive-Course (CIC), there will be assignments which require students to hand in written work and/or present in class. Additionally, it is assumed that students will have experience using Microsoft Office applications.

COURSE MATERIALS

Required books:

The course textbooks are available free of charge at the Baruch library (baruch.cuny.edu/library). Bloomberg access is available free of charge at the Wasserman Trading Floor in the Baruch library.

1. *Fundamentals of Corporate Credit Analysis* by Blaise Ganguin and John Bilardello McGraw-Hill © 2005 (462 pages), ISBN:9780071441636
2. *The Rating Agencies and Their Credit Ratings: What They Are, How They Work and Why They are Relevant* by Herwig Langohr and Patricia Langohr John Wiley & Sons © 2008 (524 pages), ISBN:9780470018002
3. Bloomberg Terminal
4. Industry publications posted to Blackboard

COURSE ASSIGNMENTS

Students are expected to attend every class and be prepared to lead and/or participate in class discussions (whether they be in a classroom or online).

Weekly homework assignments are submitted in the Blackboard platform and reinforce the class material. **Late assignments will be penalized 10 points per day and will not be accepted after 3 days past the due date.**

The credit risk paper is a semester-long project on an assigned company where students analyze rating factors using the analytical tools discussed each week. Although this is not a communication intensive class, students will further develop their ability to write and speak professionally. **Late assignments will be penalized 10 points per day and will not be accepted after 3 days past the due date.**

There will be a midterm and final exam (cumulative). The midterm exam will be held during scheduled class time. The final exam will be scheduled in accordance with the final exam schedule of Baruch College or at discretion of the Professor.



The following table details the key course requirements and the respective contribution of each requirement toward final grading:

10%	Class Participation (in class and online)
10%	Homework
25%	Midterm Exam
20%	Credit Risk Analysis Paper
35%	Final Exam
<u>100%</u>	

GRADING POLICIES

Grades are assigned in accordance with the assignment weighing above and the Baruch Undergraduate Letter Grades and Grade Point Equivalents. I reserve the right to curve course grades if I deem it appropriate.

Letter Grades and Grade Point Equivalents		
A	4	93.0-100.0
A-	3.7	90.0-92.9
B+	3.3	87.1-89.9
B	3	83.0-87.0
B-	2.7	80.0-82.9
C+	2.3	77.1-79.9
C	2	73.0-77.0
C-	1.7	70.0-72.9
D+	1.3	67.1-69.9
D	1	60.0-67.0
F	0	below 60.0

POLICY REGARDING MAKE-UP EXAMS

Exams must be taken during the scheduled time and can only be taken once.

The university and department policies regarding conflict and make-up final exams apply.

Students who have three examinations in one day or two examinations scheduled at the same time must report to the Center for Academic Advisement for instructions.

Exams missed under extraordinary circumstances must be approved by the professor prior to the examination. An unapproved absence will result in a grade of zero on the exam. If a last-minute medical or equivalent emergency arises that will prevent you from taking an examination, inform me as soon as possible in writing using my Baruch email. Be prepared to provide acceptable,



official documentation such as a doctor or hospital note.

Students who are passing the course but cannot attend the final exam will receive an INC grade. The INC grade must be resolved by the end of the final examination period of the subsequent semester, or it becomes a grade of FIN, the equivalent of F. Only in cases where an acceptable excuse documentation is provided may the students proceed to schedule the make-up examination with the professor to resolve the INC grade.

CLASSROOM MANAGEMENT POLICIES

Students are expected to refrain from any activity during class that would be disruptive to others, including (but not limited to): independent conversations, web browsing and streaming on any device, arriving late, or leaving early.

ATTENDANCE AND LATENESS POLICIES

Attendance will be checked regularly using an attendance sheet circulated by the instructor during the class. Four (4) or more absences during the regular school term may constitute failing this class. Three lateness (more than 5 minutes) will count as one absence.

SCHEDULE OF TOPICS

Session	Topic	Assigned Reading
Class 1: Aug 30 Wasserman Trading Floor	Course Overview and Introduction to Corporate Credit Risk and Ratings	Fundamentals of Corporate Credit Introduction & Table 11-1 Rating Agencies and Their Credit Ratings Ch 1, Ch 2.2.1 and Ch 2.3 SPTV broadcast: "What are Corporate Ratings" and "How, When, and Why Do Corporate Entities Use Ratings?"
Class 2: Sept 6 Wasserman Trading Floor	Brief Review Introduction to Credit Paper Project & Company Assignments Business Risk: Overview	Fundamentals of Corporate Credit Ch.3 Corporate Credit Rating Paper Template Professor Video: Introduction to Bloomberg and Bloomberg Tips for Student Project document <i>In-Class Exercise:</i> <i>Fitch Navigator Business Risk Factors</i>



<p>Class 3: Sept 13</p> <p>Wasserman Trading Floor</p>	<p>Financial Risk – Trends, Ratios, Flexibility, Benchmarks, Access to Capital, Contingent Liabilities</p>	<p>Fundamentals of Corporate Credit Ch.5 & 6</p> <p>Fitch Paper on Pension Liabilities</p> <p>Fitch Paper on Operating Lease Adjustments</p>
<p>Class 4: Sept 20</p> <p>Wasserman Trading Floor</p>	<p>Building the Financial Model</p>	<p><i>In-Class Exercise:</i> <i>Bloomberg Financial Model Templates</i></p>
<p>Class 5: Sept 27</p> <p>RECORDED</p>	<p>Financial Risk (con't) Using Financial Statements</p>	<p>Fundamentals of Corporate Credit Ch.5 & 6</p> <p>Video Tutorial Financial Statements</p>
<p>Class 6: Oct 4</p> <p>RECORDED</p>	<p>Industry Risk: Market Conditions, Market Position and Outlook</p> <p>Peer Analysis</p>	<p>Fundamentals of Corporate Credit Ch.2</p> <p>Fundamentals of Corporate Credit Appendix F “Peer Comparison—The Three Largest U.S. Forest Products Companies” Moody’s Global Packaged Goods Methodology Moody’s Global Gaming Methodology</p>
<p>Class 7: Oct 11</p> <p>ONLINE EXAM & RECORDED LECTURE</p>	<p>Part I: Online <u>MID</u> <u>TERM EXAM</u></p> <p>Part II: Management Risk</p>	<p>Fundamentals of Corporate Credit Ch.4</p> <p>SPTV 5-part video series “Overview S&P’s New Criteria for Assessing and Scoring Management and Governance”</p> <p><i>In-Class Exercise:</i> <i>Identify Management Risk factors for assigned company in Discussion Board</i></p>
<p>Class 8: Oct 18</p> <p>Wasserman Trading Floor</p>	<p>Credit Paper Discussion</p> <p>How to Use the Risk Building Blocks to Assign a Credit Rating</p>	<p>Rating Agencies and Their Credit Ratings Ch 2.2.2 and Ch.6.2</p> <p>Fundamentals of Corporate Credit Ch.10</p> <p><i>In-Class Exercise:</i> <i>Fitch Navigator Rating Factors</i></p>



<p>Class 9: Oct 25</p> <p>Wasserman Trading Floor</p>	<p>Guest Speaker: S&P Capital IQ</p>	<p>Professor Notes on Capital IQ</p> <p><i>In-Class Exercise:</i> <i>Building a credit ratio heatmap</i></p>
<p>Class 10: Nov 1</p> <p>RECORDED</p>	<p>Country Risk</p>	<p>Fundamentals of Corporate Credit Ch.1</p> <p>Article: “Airline Debt in Venezuela”</p> <p>SPTV webcast “Midyear Global Sovereign Rating Trends 2018”</p> <p>S&P webcast “Key Factors That Led To Brazil's Recent Rating Downgrade and Negative Outlook”</p> <p>...and other assigned articles in Blackboard</p>
<p>Class 11: Nov 8</p> <p>RECORDED</p>	<p>Structural Risk/Mitigants which Impact the Credit Rating: Legal Structure, Structural Subordination, Guarantees & Collateral</p>	<p>Fundamentals of Corporate Credit Ch.8</p> <p>Mayer Brown High Yield Paper pp.3-5, 8-9</p> <p>S&P Corporate Criteria Book 2008 pp.93-94 “Structural Subordination”</p>
<p>Class 12: Nov 15</p> <p>RECORDED</p>	<p>Putting it All Together: Develop a Strong Credit Paper</p>	<p><i>In-Class Exercise:</i> <i>Draft Credit Paper Discussion Board</i></p>
<p>Class 13: Nov 22</p> <p>Wasserman Trading Floor</p>	<p>Market Signals: What is the Market Telling Us about this Company?</p> <p>Guest Speaker: Bloomberg</p>	<p>Rating Agencies and Their Credit Ratings Ch 2.2.2 and Ch.6.2</p> <p>Professor Notes on Bloomberg Market Signals</p> <p><i>In-Class Exercise:</i> <i>Building credit curves and mapping a security to credit curves in Bloomberg</i></p>



Class 14: Dec 6 Wasserman Trading Floor	Hot Topics in Credit Risk <u>CREDIT PAPERS Due</u> <u>(only accepted via upload</u> <u>in Blackboard)</u>	Articles Posted in Blackboard
FINAL: Dec 20	<u>FINAL EXAM</u> 330-530pm Subotnick Center Seminar Room	N/A

STATEMENT REGARDING ACADEMIC HONESTY

Please note that the standard Baruch College policies apply and will be enforced. The Department of Economics and Finance fully supports Baruch College's policy on Academic Honesty, which states, in part: "Academic dishonesty is unacceptable and will not be tolerated. Cheating, forgery, plagiarism and collusion in dishonest acts undermine the college's educational mission and the students' personal and intellectual growth. Baruch students are expected to bear individual responsibility for their work and to uphold the ideal of academic integrity. Any student who attempts to compromise or devalue the academic process will be sanctioned." Additional information can be found at http://www.baruch.cuny.edu/academic/academic_honesty.html. Students must understand that a report of suspected academic dishonesty will be sent to the Dean of Students office.

DISABILITIES STATEMENT

It is college policy to provide accommodations and academic adjustments for students with disabilities. Any student with a disability who may need accommodations in this class is requested to speak directly to Student Disabilities Services located in Newman Vertical Campus Room 2-271 as early in the semester as possible. All discussions will remain confidential.

ASSURANCE OF LEARNING CHART

BBA Common Educational Learning Goals	Significant Part of Course	Moderate Part of Course	Minimal Part of Course	Not Part of Course
Analytical skills	X			
Technological skills	X			
Communication skills: Oral		X		
Communication skills: Written		X		
Civic awareness and ethical decision-making			X	
Global awareness			X	
Proficiency in a single discipline	X			



ASSIGNMENT MAPPING

Assignments	Course Learning Goals	BBA Common Learning Goals
Class Lectures and Participation	<ul style="list-style-type: none"> • Explain what credit ratings are • Identify who issues ratings • Explain how credit ratings are determined • Utilize financial statements to locate credit information • Evaluate the components of fundamental credit analysis: country risk, industry risk, business risk, financial structure and management risk • Develop and communicate a credit opinion on a company • Identify the role of credit ratings in financial markets • Interpret market pricing as a function of credit risk • Utilize finance industry technology (Bloomberg, Capital IQ) to research elements of credit risk and ratings 	Analytical Skills Technological skills Communication skills: Oral Communication skills: Written Civic awareness and ethical decision-making Global Awareness Proficiency in a Single discipline
In-Class Exercises	<ul style="list-style-type: none"> • Utilize financial statements to locate credit information • Evaluate the components of fundamental credit analysis: country risk, industry risk, business risk, financial structure and management risk • Develop and communicate a credit opinion on a company 	Analytical Skills Technological skills Communication skills: Oral Communication skills: Written Proficiency in a Single discipline



	<ul style="list-style-type: none"> • Interpret market pricing as a function of credit risk • Utilize finance industry technology (Bloomberg, Capital IQ) to research elements of credit risk and ratings 	
Homework Assignments	<ul style="list-style-type: none"> • Explain what credit ratings are • Identify who issues ratings • Explain how credit ratings are determined • Utilize financial statements to locate credit information • Evaluate the components of fundamental credit analysis: country risk, industry risk, business risk, financial structure and management risk • Identify the role of credit ratings in financial markets • Interpret market pricing as a function of credit risk • Utilize finance industry technology (Bloomberg, Capital IQ) to research elements of credit risk and ratings 	Analytical Skills Technological skills Communication skills: Written Civic awareness and ethical decision-making Global Awareness Proficiency in a Single discipline
Credit Risk Analysis Paper	<ul style="list-style-type: none"> • Explain how credit ratings are determined • Utilize financial statements to locate credit information • Evaluate the components of fundamental credit analysis: country risk, industry risk, business risk, financial structure 	Analytical Skills Technological skills Communication skills: Written Global Awareness Proficiency in a Single discipline



	<p>and management risk</p> <ul style="list-style-type: none"> • Develop and communicate a credit opinion on a company • Interpret market pricing as a function of credit risk • Utilize finance industry technology (Bloomberg, Capital IQ) to research elements of credit risk and ratings 	
<p>Examinations</p>	<ul style="list-style-type: none"> • Explain what credit ratings are • Identify who issues ratings • Explain how credit ratings are determined • Utilize financial statements to locate credit information • Evaluate the components of fundamental credit analysis: country risk, industry risk, business risk, financial structure and management risk • Identify the role of credit ratings in financial markets • Interpret market pricing as a function of credit risk 	<p> Analytical Skills Communication skills: Written Civic awareness and ethical decision-making Global Awareness Proficiency in a Single discipline </p>

