



**Credit Risk Management & Structured Finance – FIN 626**  
**Spring Quarter, 2017**

**Class Times/Room:** Tuesdays: 6 –9 / CLC 209  
**Instructor:** Steven Todd  
**Office:** Schreiber 626  
**Office Hours:** Mondays: 3 – 5 p.m.  
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**Overview:** We study credit risk and structured financial securities, including credit default swaps (CDS), asset-backed securities (ABS) and collateralized debt obligations (CDOs). We consider the role that structured credit products played in the global financial crisis.

**Text:** Structured Products and Related Credit Derivatives, by Lancaster, Schultz and Fabozzi (LSF); [ISBN: 978-0-470-12985-2]. The course schedule lists the reading assignments for each class session. I recommend you complete the readings before class.

**Cases:** I have chosen four case studies to supplement the text and encourage class discussions. Please form groups of 1 – 3 people and prepare written analyses for any **two** case studies/surveys. [Group members may change from one case to the next.] Case studies will be graded satisfactory (S+, S, or S-) or unsatisfactory (U). Poor grammar, sentence structure or organization will result in an automatic, one-notch minimum grade penalty.

**Participation:** Active participation is an important part of this course. I encourage you to ask questions and share comments freely. Quality trumps quantity.

**Exams:** The mid-term exam will cover all material (including case studies) from weeks 1 – 5. The final exam will cover all material (including case studies) from weeks 1 – 9. You may bring one double-sided 8 ½” by 11” sheet of notes to each exam.

**Project:** All MSF students must complete a project. Your assignment is to model and analyze a structured security within Excel (preferably using VBA). Project details will be forthcoming.

**Grades:** Course grades will be determined by weighting class activities as follows.

Midterm Exam:	25%	Case Studies:	25%
Final Exam:	20%*	Participation:	10%
Project:	20%		

\* The Final Exam weight is 40% for non-MSF students who refrain from completing the project.

Case study grades are translated to numeric grades using the scale below.

Letter Grade	<b>S+</b>	<b>S</b>	<b>S-</b>	<b>U</b>
Numeric Grade	95	85	75	60

Final course grades are assigned based on the following grid.

A	93 or above		
A-	90.0 – 92.9		
B+	87.0 – 89.9	C+	77.0 – 79.9
B	82.0 – 86.9	C	73.0 - 76.9
B-	80.0 – 81.9	C-	68.0 – 72.9

**Time  
Management:**

<b>Activity</b>	<b>Hours</b>
Class Meetings	30
Readings	50
Case Studies	20
Project	30
Review	20
<b>Total</b>	<b>150</b>

**Learning Outcomes:** By the end of this course, you should be able to:

1. Analyze structured securities
2. Measure and manage credit risks

## Course Outline

Date	Readings	Cases / Project
Feb. 28	Notes - Introduction; Notes – ABS; LSF: 3	
Mar. 14	LSF: 4, 5, 6; Notes – CDOs; LSF: 9	
Mar. 21	LSF: 10, 11, 12, 13; Notes - CDS;	Global Financial Crisis (Case # TB0257) <sup>1</sup>
Mar. 28	Notes – Correlation;	
Apr. 4	Notes – Structured Finance CDS;	
Apr. 11	<b>Midterm Exam</b>	
Apr. 18	Notes - Valuing Credit Default Swaps	A Tale of Two Hedge Funds (Case # KEL402) <sup>1</sup>
Apr. 25	Notes - Modeling Default Risk Notes - Managing Portfolio Default Risk	Primus, 2007 (Case # 9-208-099) <sup>1</sup>
May 2	Notes - Credit Risk Tools; Notes - CMBS; LSF: 14	Nexgen: Structuring CDOs (Case # 9-205-121) <sup>1</sup>
May 9	<b>Final Exam</b>	<b>Project</b>

This schedule is subject to change

<sup>1</sup>. Case studies are available for download/purchase at <http://hbr.org/case-studies>.

## Quinlan School of Business Policies

### **Attendance**

Class attendance and participation are fundamental components of learning, so punctual attendance at all classes, for the full class meeting period, is expected of Quinlan students. Faculty may set participation policies unique to their courses and use class participation as a component of the final grade. The student is responsible for any assignments or requirements missed during an absence.

### **Make-Up Examinations**

Loyola University academic policy provides that tests or examinations may be given during the semester or summer sessions as often as deemed advisable by the instructor. Because Quinlan faculty believe examinations represent a critical component of student learning, required examinations should be taken during the regularly scheduled class period. **Make-up examinations are discouraged.** Exceptions may be granted only by the faculty member or department chair, and only for unavoidable circumstances (illness verified by a signed physician's note, participation in intercollegiate athletic events, subpoenas, jury duty, military service, bereavement, or religious observance). A make-up final examination may be scheduled only with the permission of the appropriate Quinlan Assistant or Associate Dean.

If a make-up examination must be given, it is the responsibility of the faculty member to prepare, schedule, and proctor the exam. The only regular exception is for a student athlete, who may use the testing services of the Athletics Department to complete a make-up examination. For a student with a documented special testing need, please consult University policy concerning use of the testing center in Sullivan Center at Lake Shore Campus.

### **Academic Integrity**

All members of the Quinlan School shall refrain from academic dishonesty and misconduct in all forms, including plagiarism, cheating, misrepresentation, fabrication, and falsehood. Plagiarism or cheating on the part of the student in individual or group academic work or in examination behavior will result minimally in the instructor assigning the grade of "F" for the assignment or examination. In addition, all instances of academic dishonesty must be reported to the chairperson of the department involved.

For further information about expectations for academic integrity and sanctions for violations, consult the complete Quinlan School of Business Honor Code and Statement of Academic Integrity on the Quinlan website:

<http://www.luc.edu/media/lucedu/quinlanschoolofbusiness/pdfs/Honor-Code-Quinlan-July2012.pdf>