

THE UNIVERSITY OF
NEW SOUTH WALES



Australian School of Business
School of Banking and Finance

FINS3634
CREDIT ANALYSIS AND LENDING

COURSE OUTLINE
SEMESTER 1, 2009

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1. STAFF CONTACT DETAILS

Lecturer: Thuy Duong To

Email: td.to@unsw.edu.au

Location: ASB, Room 359B (East wing)

Consultation time: Consultation time will be posted on WebCT

Students are encouraged to post questions on WebCT Discussion Board. This is the preferred method of contact as one student's questions are usually relevant and useful for other students in the course. The lecturer will monitor and answer all students' questions. However, students are strongly encouraged to discuss each other's questions. This exercise is aimed to

- Provide students who ask questions with quick answers;
- Provide students who answer questions an opportunity to think critically about new problems, to organize their thoughts, to structure arguments so that they can explain and convince others;
- Foster a collegial approach to learning.

Only questions of a personal or confidential nature should be directed to the lecturer's email address. For security reasons staff can only respond to emails from your official university account. This way we can verify that we are communicating with the correct student. It is your responsibility to check this account regularly. If you prefer to use a different address please ensure that your UNSW email is forwarded and that you include your name and student ID when communicating with staff or other students.

2. COURSE DETAILS

2.1 Teaching Times and Locations

Tuesday 9-11am

Lecture: Rupert Myers Theatre

Computer lab: Quadrangle lab 10 (Room 1038)

2.2 Units of Credit

This course has 6 units of credit and 3 contact hours per week.

2.3 Summary of Course

This course focuses on credit risk analysis. It will provide an overview of credit risk and the modern approach to measuring and managing credit risk. Traditional and modern credit rating process will be discussed. Four main industry-sponsored approaches to credit risk measuring will be explored, namely contingent claim, credit migration, actuarial and reduced form approaches. Credit risk mitigation technique will then be presented. The course wraps up with discussion on capital attribution and allocation.

2.4 Course Aims and Relationship to Other Courses

Risk is the fundamental element that influences financial behaviour. Amongst different types of risk, credit risk is the oldest form of risk in the financial market. It is as old as the lending practice itself. Though the essential elements are still unchanged, financial institutions and investors are facing credit risk in many different ways, much more sophisticated than one can ever imagine. New tools and techniques are developed and applied in an exponential growth rate. This rapid development makes it hard for even sophisticated investors, such as financial institutions, to properly understand and manage the credit risk involved in their transaction, which in turn can cause severe consequences like those we have observed during the current financial crisis. The course therefore aims to provide students with an overview of the issue and an understanding of the most modern techniques to measure and manage credit risk.

The course aims to

- Provide an understanding of the credit risk, the market and the regulatory environment;
- Develop knowledge on the most advanced and industry-sponsored approaches to credit risk measurement, as well as credit risk mitigation methods;
- Develop the ability to implement theory with data in Excel spreadsheet;
- Enhance analytical skills, as well as communication and groupwork skills.

The prerequisite for this course is FINS1613 (Business Finance) and FINS2624 (Portfolio Management). The two prerequisite courses will equip students with a good understanding of the concept of time value of money and modern portfolio theory, and therefore ability to value asset prices. Good understanding of basic algebra and some familiarity with Excel is needed. When the course is completed, students should have confidence and ability to work with Excel efficiently for modelling, analysing data and providing practical solutions to business problems. The knowledge in this course is essential for anyone working in banking and risk management. This knowledge is also helpful for individual investors in everyday situations, as what have been shown in the subprime mortgage crisis experienced in the U.S. recently.

2.5 Student Learning Outcomes

On successful completion of this course you should be able to

1. Understand credit risk and modern portfolio approach to measuring and managing credit risk;
2. Describe characteristics of different debt instruments and the market.
3. Appreciate the importance of capital adequacy, capital attribution and allocation, and the regulatory requirements;
4. Understand the process of credit rating and credit scoring;
5. Measure credit risk of credit portfolios using major industry-sponsored approaches;
6. Understand the construction and uses of different credit mitigation techniques and instruments;
7. Use Excel proficiently to solve financial problems related to credit risk management;

8. Write concise and relevant reports to managers and other stakeholders;
9. Work effectively with others in a team.

Graduate Attributes

Course Learning Outcomes	ASB Graduate Attributes
1-7	1. Critical thinking and problem solving
8, 9	2. Communication
8, 9	3. Teamwork and leadership
	4. Social, ethical and global perspectives
1-7	5. In-depth engagement with relevant disciplinary knowledge
8, 9	6. Professional skills

3. LEARNING AND TEACHING ACTIVITIES

3.1 Approach to Learning and Teaching in the Course

In FINS3634 we take an active learning strategy. Students will take the central role in gathering and analysing information, under the guidance of the lecturers. Emphasis will be placed on practice, so that students are well equipped to tackle real problems upon employment. Spreadsheet and team-work skills are essential in finance, and therefore will be particularly tested in this course.

3.2 Learning Activities and Teaching Strategies

There are two components of the course, lectures and computer labs. Lectures are to discuss theories, issues and approaches to solutions. Students practise the process of gathering and analysing information by doing suggested readings before the lectures. Questions and debates are strongly encouraged in lectures to explore any discussed issues in depth. From time to time, video footage will be shown to demonstrate the link between theory and market issues/practice.

In addition, computer labs will be an essential and important part of the course, as the ability to practically solve problems is highly regarded in the market place. In the computer labs students will formulate and solve problems in Excel. Students then form groups to work on assignments with real data, and are required to write a report to managers and relevant stakeholders.

4. ASSESSMENT

4.1 Formal Requirements

In order to pass this course, you must:

- achieve a composite mark of at least 50; and
- make a satisfactory attempt at all assessment tasks (see below).

4.2 Assessment Details

Assessment Task	Weighting	Learning Outcomes assessed	ASB Graduate Attributes assessed	Length	Due Date
1. Mid semester exam	10%	1-5	1,5,6	1 hour	Week 7, 28 th April, Lecture time.
2. Group assignment	50%	1-9	1,2,3,5,6	See WebCT	Week 11, 25 th May, 4pm.
3. Final exam	40%	1-9	1,5,6	2 hours	Formal UNSW exam period

4.3 Assessment Format

Mid semester exam

Weight: 10%

The mid semester exam is to ensure students can have a firm grasp of the subject in a timely manner. The test results serve to inform students of their understanding so that they can take actions promptly.

The test will be held during lecture time. All students are required to sit the test.

All information related to the test will be provided via WebCT closer to the date of the test.

Group assignment

Weight: 50%

The group assignment is to test students' understanding of the course materials, their critical thinking and analysis skills. It is also to ensure that students have a competent level of Excel to solve real life problems.

The group should be formed by 3-5 students. There is a minimum number requirement for the group members as the course aims to develop and foster communication and group-work skills. In the industry it is frequent that you will have to work in a team, and this skill is an essential preparation for later employment. There will be one and only one group mark. Group members have sole responsibility to solve group conflicts.

Details about the assignment will be posted in WebCT. Data and any provided spreadsheets will be available via WebCT.

Final Exam

Weight 40%

- Date: The final exam is centrally administered and will be scheduled during the university examination period. Details will be available later in the semester.
- Duration: 2 hours plus 10 minutes reading time
- Calculators: Calculators will **not** be provided. Students are required to provide their own “approved” calculator. Details of the new UNSW policy can be found at <https://my.unsw.edu.au/student/academiclife/assessment/examinations/Calculator.html>

More details relating to the final exam will be given closer to the time.

The final course grades will be given in accordance with UNSW guidelines:

HD	High Distinction	85-100%	An outstanding performance
DN	Distinction	75 – 84	A superior, well above average performance
CR	Credit	65-74	A good, above average performance
PS	Pass	50-64	An acceptable level of performance
FL	Fail	0-49	Unsatisfactory performance

4.4 Assignment Submission Procedure

There will be an assignment box provided. Students should drop their assignment in the box before the due date and time.

4.5 Late Submission

Late assignment submission will attract a penalty of 10/100 marks for each calendar day.

5. ACADEMIC HONESTY AND PLAGIARISM

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For UNSW’s policies, penalties, and information to help you avoid plagiarism see: <http://www.lc.unsw.edu.au/plagiarism/index.html> as well as the guidelines in the online ELISE tutorial for all new UNSW students: <http://info.library.unsw.edu.au/skills/tutorials/InfoSkills/index.htm>.

To see if you understand plagiarism, do this short quiz:

<http://www.lc.unsw.edu.au/plagiarism/plagquiz.html>

For information on how to acknowledge your sources and reference correctly, see:

<http://www.lc.unsw.edu.au/onlib/ref.html>

For the ASB Harvard Referencing Guide, see:

http://wwwdocs.fce.unsw.edu.au/fce/EDU/harvard_ref_guide.pdf

6. COURSE RESOURCES

The textbook for this course (there is no requirement to purchase one) is Crouhy, M., D. Galai and R. Mark (2001), "Risk Management", McGraw-Hill (reading list: CGM)

Other reference books are

1. Ganguin, B. and J. Bilardello. (2005), "Fundamentals of Corporate Credit Analysis", McGraw-Hill (reading list: GB)
2. Loffler, G and P. Posch (2007), "Credit Risk Modelling Using Excel and VBA", Wiley Finance (reading list: LP)
3. Saunders, A. and L. Allen (2002), "Credit Risk Measurement: New Approaches to Value at Risk and Other Paradigms", 2nd edition (reading list: SA)
4. Smithson, C. (2003), "Credit portfolio management", Wiley Finance (reading list: S)

Additional resources and links are available on WebCT.

7. COURSE EVALUATION AND DEVELOPMENT

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's Course and Teaching Evaluation and Improvement (CATEI) Process (http://www.ltu.unsw.edu.au/ref4-5-1_catei_process.cfm) is one of the ways in which student evaluative feedback is gathered. Significant changes to courses and programs within the School are communicated to subsequent cohorts of students.

This course has been freshly designed to capture the newest development in the financial market. Therefore feedback from students at the end of the course is critically important in improving the course content.

8. STUDENT RESPONSIBILITIES AND CONDUCT

Students are expected to be familiar with and adhere to university policies in relation to class attendance and general conduct and behaviour, including maintaining a safe, respectful environment; and to understand their obligations in relation to workload, assessment and keeping informed.

8.1 Workload

It is expected that you will spend at least **ten hours** per week studying this course. This time should be made up of reading, research, working on exercises and problems, and attending classes. In periods where you need to complete assignments or prepare for examinations, the workload may be greater.

Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

8.2 Special Consideration and Supplementary Examinations

You must submit all assignments and attend all examinations scheduled for your course. You should seek assistance early if you suffer illness or misadventure which affects your course progress. For advice on UNSW policies and procedures for granting special consideration and supplementary exams, see:

‘UNSW Policy and Process for Special Consideration’:
<https://my.unsw.edu.au/student/atoz/SpecialConsideration.html>

The ‘ASB Policy and Process for Special Consideration and Supplementary Exams in Undergraduate Courses’ is available at:
<http://wwwdocs.fce.unsw.edu.au/fce/current/StudentSuppExamProcedure.pdf> .

Further information for undergraduate students is on the ASB website (see ‘[Policies and Guidelines for Current Students](#)’).

8.3 General Conduct and Behaviour

You are expected to conduct yourself with consideration and respect for the needs of your fellow students and teaching staff. Conduct which unduly disrupts or interferes with a class, such as ringing or talking on mobile phones, is not acceptable and students may be asked to leave the class. More information on student conduct is available at: www.my.unsw.edu.au

8.4 Occupational Health and Safety

UNSW Policy requires each person to work safely and responsibly, in order to avoid personal injury and to protect the safety of others. For more information, see <https://my.unsw.edu.au/student/atoz/OccupationalHealth.html>.

8.5 Keeping Informed

You should take note of all announcements made in lectures, tutorials or on the course web site. From time to time, the University will send important announcements to your university e-mail address without providing you with a paper copy. You will be deemed to have received this information. It is also your responsibility to keep the University informed of all changes to your contact details.

9. ADDITIONAL STUDENT RESOURCES AND SUPPORT

The University and the ASB provide a wide range of support services for students, including:

- **ASB Education Development Unit (EDU)** (www.business.unsw.edu.au/edu)
Academic writing, study skills and maths support specifically for ASB students. Services include workshops, online and printed resources, and individual consultations. EDU Office: Room GO7, Ground Floor, ASB Building (opposite Student Centre); Ph: 9385 5584; Email: edu@unsw.edu.au
- **UNSW Learning Centre** (www.lc.unsw.edu.au)
Academic skills support services, including workshops and resources, for all UNSW students. See website for details.
- **Library training and search support services:** <http://info.library.unsw.edu.au>
- **UNSW IT Service Desk:** Technical support for problems logging in to websites, downloading documents etc. Library, Level 2; Ph: 9385 1333.
Website: www.its.unsw.edu.au/support/support_home.html
- **UNSW Counselling Service** (<http://www.counselling.unsw.edu.au>)
Free, confidential service for problems of a personal or academic nature; and workshops on study issues such as 'Coping With Stress' and 'Procrastination'. Office: Level 2, Quadrangle East Wing; Ph: 9385 5418
- **Student Equity & Disabilities Unit** (<http://www.studentequity.unsw.edu.au>)
Advice regarding equity and diversity issues, and support for students who have a disability or disadvantage that interferes with their learning.
Office: Ground Floor, John Goodsell Building; Ph: 9385 4734

10. COURSE SCHEDULE

Week	Date	Lecture Content/Topic	Readings	Other activities/ Assessment
1	9 Mar	Introduction to Credit Risk Management	S. 1,2; SA. 1-3, 10; CGM. 1-4	
2	16 Mar	Lab	LP. 11;	
3	23 Mar	Credit rating	GB all; CGM 7;	
4	30 Mar	Lab	LP 1, 7;	
5	6 Apr	Contingent claim approach to credit risk measurement	CGM 9; SA 4;	
Mid semester break				
6	20 Apr	Lab	LP 2;	
7	27 Apr	Mid term exam		Mid term exam
8	4 May	Credit migration approach to credit risk measurement	CGM 8; SA 6;	
9	11 May	Lab	LP 3-6;	
10	18 May	Actuarial and Reduced-formed approach	CGM 10; SA 5, 8;	
11	25 May	Credit risk mitigation	CGM 12; SA 14, 15;	Group assignment due, 25 th May, 4pm
12	1 June	Capital attribution and allocation	CGM 14; SA 13;	

This lecture outline is subject to change. Students will be able to download the lecture slides from the WebCT subject site before the relevant lecture, at the discretion of the lecturer.