Motivational Credit Training Videos

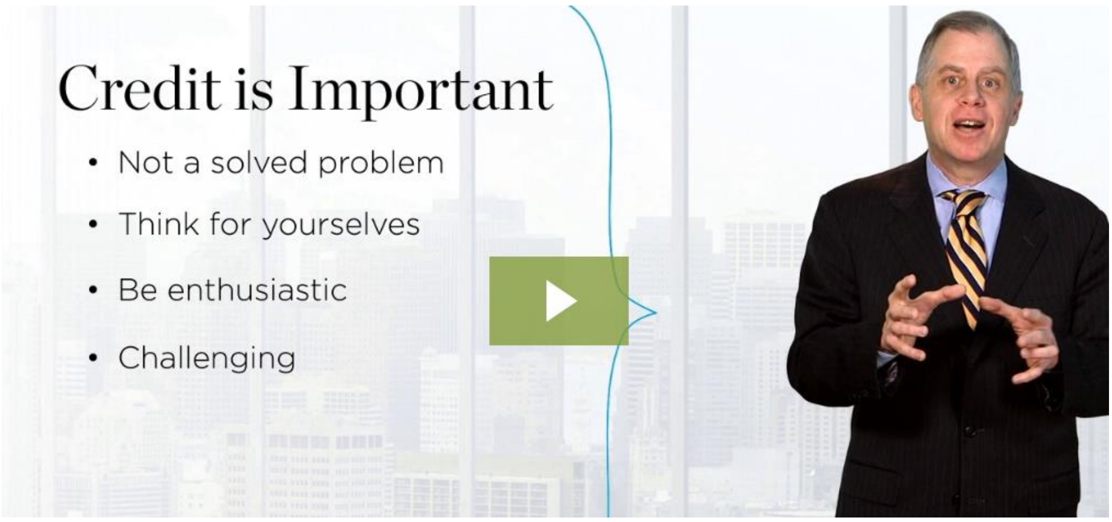
High leverage and maturity mismatch carry benefits and risks to lenders.

A big splash in today's financial risk management world is the failure of Third Avenue Focused Credit – a mutual fund consisting largely of high-yield distressed debt. It's not the investors' ultimate losses that matter most to risk managers. Rather, it's the mismatch in liquidity between the mutual fund assets (difficult-to-market distressed debt) and the fund's promise of "daily liquidity" to the investors.

This headline collision of *actual* versus *promised* liquidity deserves its own deep analysis. We defer such discussion since our point here is to share a new video series for teaching credit analysis. Liquidity mismatch between assets and liabilities is one prominent feature of a segment of this video series.

Motivational credit training

In collaboration with GARP, we've created the *Credit Risk Assessment and Measurement* video series. Please see this link to the short 3-minute Introduction.



We target the learning objectives to our younger colleagues: graduate students and early-career credit analysts. Yet we also encourage experienced professionals to review segments that pique their interests. The material covers literally all forms of debt (corporate, sovereign, structured, municipal and others, for example). Since many of us have far more exposure to some forms of debt than others, there is new information and "cross-learning" for almost everybody. Further, the content includes both fundamental (sometimes called "qualitative" or "judgmental") analysis and quantitative models and concepts. Most of us are strong in one of these areas and less so in the other.

Six segments in the video series

Through the GARP Video Library, we make this training freely available. There are six segments:

- *Introduction and Overview* (broken into Part 1 and Part 2)
  - Brief history of lending
  - Critical role of lending in human society
  - Loans as a form of money
- *Analysis of Individual Borrowers* (broken into Part 3, Part 4 and Part 5)
  - Borrower financial performance and business quality
  - Best use of agency credit ratings
  - Utility of the Merton model and logit / probit regression
- *Analysis of Lenders* (Part 6)
  - Impact of lender capital structure on the lending decision
  - Balance sheet leverage and maturity mismatch in lending
  - Default risk of lenders
- *Credit Portfolio Management* (Part 7)
  - Role of the lender's risk portfolio in lending decisions
  - Portfolio loss distribution and marginal capital
  - Role of credit derivatives in portfolio management
- *Data, Models & Systems* (Part 8)
  - Primary importance of data integrity in risk management
  - Best use of models and the mitigation of "model risk"
  - Data, models, and users of the lender's risk "system"
- *Managing Risk in the Real World* (Part 9)
  - Risk management effectiveness with limited authority

- Adding value in approval / rejection scenarios
- Key principle of ethical conduct in professional conflicts

We welcome comments! Feedback we receive will help determine whether we produce training for additional financial analysis topics. GARP's mission is to advance the risk profession through education, training and the promotion of best practices globally. Please tell us whether we're moving in the right direction with this video series and how we can improve.

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