



Lincoln University

BA 467 – Credit Risk Management

COURSE SYLLABUS Spring 2021

- Instructor:** Professor Themis D. Pantos
Lecture Schedule: Wednesday, 3:30 - 6:15 PM
Credits: 4 units (3 units/45 lecture hours + 1 unit individual research project)
Level: Mastery 2 / Research (M2R)
Office Hours: Monday, 1:00- 4:00 PM, or by appointment
E-mail: tpantos@licolnuca.edu
Phone: (510) 250-6113
- Textbook:** The Handbook of Credit Risk Management: Originating, Assessing, and Managing Credit Exposures, by Bouteillé and Coogan-Pushner. December 2012. ISBN-13: 978-111830-0206 ISBN-10: 978-111830-0203.
- Tools:** A basic handheld calculator is required. **Mobile device calculator will not be allowed.** Supplemental materials (such as periodical, article, or case study) will be provided in class.
- Prerequisite:** BA 303
Last Revision: January 18, 2021

CATALOG DESCRIPTION:

Credit risk is the risk of financial loss in the event of a default. Default arises from an inability to meet timely financial obligations. This course introduces students to what credit risk management is, from origination to assessment to mitigation to recovery of credit financing, what the lending and credit selection process is, how to measure and manage credit risk, and what the common risk management models are.

EDUCATIONAL OBJECTIVES:

This is an introductory course to credit risk management, and it is not designed to teach programming skills. The asset side of the balance sheet is supported by a capital structure consisting of both liabilities and equity. Each industry will have a unique composition of debt and equity based on nature of the industry business. In this course, we will focus on the management of credit risk, which arises from the use of short- and long-term debt. The management of credit risk portfolio encompasses 4 sequential steps. The first step is origination, which is then followed by assessment and portfolio management. The final step is mitigation and transfer of credit risks. At the end of the course, you would understand the fundamentals of credit risk and learn the tools available to manage it.

COURSE LEARNING OUTCOMES¹

Course LO	Program LO	Institution LO	Assessment activities
An understanding of the elements of credit risk.	PLOs 1, 2, 5	ILO 1c, 2c	Assignments, Project and Closed-book midterm and final examinations.
Theory and tools of credit risk management.	PLOs 1, 2	ILO 1c, 2c	Assignments, Project and Closed-book midterm and final examinations.
Credit risk measurement and consumer credit scoring system.	PLOs 1, 2	ILO 1c, 2c	Assignments, Project and Closed-book midterm and final examinations.
Credit portfolio management and value at risk	PLOs 1, 2	ILO 1c, 2c	Assignments, Project and Closed-book midterm and final examinations.
Application of ratio analysis to predict financial distress.	PLOs 1, 2	ILO 1c, 2c	Assignments, Project presentations and Closed-book midterm and final examinations.
Exposure mitigation and credit derivatives.	PLOs 1, 2	ILO 1c, 2c	Assignments, Project presentations and Closed-book midterm and final examinations.

INSTRUCTIONAL METHODS:

The course will be conducted in the form of lectures and discussions on each topic shown in the class schedule below. Assignments and projects require students to actively use resources of the library. Detailed guide to business *resources of the library* as well as the description of Lincoln University approach to *information literacy* are available at the [Center for Teaching and Learning](http://ctl.lincolnuca.edu) website (ctl.lincolnuca.edu).

COURSE REQUIREMENTS AND EVALUATION:

While in class, students are expected to conduct themselves in a professional manner. Professionalism includes regular attendance, participation in class discussions, civil conduct, and ethical behavior, etc. If a student is observed coming to class late often, being disrespectful to peers, texting or using mobile devices, or carrying on personal conversations during lecture, the professionalism portion of the grade will be reduced based on a demerit system. The course begins with each student having the full 50 points. Any absence after the last day to drop a class and/or tardiness without valid reasons greater than 3 times will result in 5 points deduction, respectively. Behavioral offenses such as texting, using of mobile devices, or engaging in disorderly conduct despite reminder or warning will result in 10 points deduction.

¹ Detailed description of learning outcomes and information about the assessment procedure are available at the [Center for Teaching and Learning](http://ctl.lincolnuca.edu) website (ctl.lincolnuca.edu).

Homework Assignments:

Every student needs to read the PowerPoint Slides according to the syllabus timetable in preparation for the upcoming class session. Higher education is about learning how to learn. So, in acquiring new knowledge, always pay attention to the learning objectives of each chapter or topic. In addition, you will enhance your understanding by solving the chapter problems to be assigned in class. Of course, you are welcome to bring questions to class for discussion by reading ahead of each classroom lecture. Achievement is assured when done repetitively.

GRADING POLICY:

Your performance in this course will be evaluated under the following Grading Scale Model:

Midterm Exam:	25%	A = 94-100
Final Examination:	30%	A- = 90-93
Assignments:	20%	B+ = 85-89
Research Project:	25%	B = 80-84
Total:	100%	B- = 75-79
		C+ = 70-74
		C = 65-69
		C- = 60-64
		D+ = 55-59
		D = 50-54
		F = Below 50
COURSE ASSESSMENT METHODS		GRADING SCALE

The mid-term and final exams will include both types of theoretical and empirical questions and problems that are like the term assignments. They are designed to test both theory and problem solving. There will be NO “make-up credit” or “extra credit” work during and after the semester. The instructor reserves the right to modify the grading system based on class performance and notification to the students about any change during the semester. You are responsible for keeping apprised of any change in syllabus. If you plan to be sick on exam days, please do the exam a day earlier before getting sick.

The key to success in this course is communication and interaction. Thus, we will have to work as a team. First, we will create a positive learning environment where everyone can participate without fear. Second, relevant reading and problem assignments will be presented and discussed in class. When in doubt, ask.

Scholastic Dishonesty

Scholastic dishonesty will not be tolerated. Students who violate rules of academic dishonesty are subject to disciplinary penalties, including failure in the course and/or other actions from the University.

CLASS SCHEDULE

Date	Topics
Week 1	Instructor's Notes: Financial Statements and Ratio Analysis.
Week 2	Chapter 1: Fundamentals of Credit Risk and FICO Exposure.
Week 3	Instructor's Notes: Futures, Forwards and Derivative Securities.
Week 4	Chapters 2 & 3: Governance and Origination of Credit Risk.
Week 5	Chapter 4 & 5: Credit Risk Measurement and Dynamic Exposure.
Week 6	Chapters 6 & 7: Fundamental of Credit Analysis and Alternative Estimations.
Week 7	Chapters 7 & 8: Securitization and RAROC Valuation.
Week 8	Instructor's Notes: Implied Volatility and VAR Measures.
Week 9	Midterm Examination
Week10	Chapter 9 & 10: Credit Portfolio Management, EVA, Capital Adequacy Measures and Accounting Implications for Credit Risk Firm's Exposure.
Week11	Chapter 13 & 14: Credit Risk Mitigation Techniques.
Week12	Instructor's Notes: Delta Hedging and the Greeks of the Options.
Week13	Instructor's Notes and Chapter 15: Altman's Z-Score Analysis, Credit Default Swap, Letter of Credit, and Surety Bond as Credit Insurance Instruments.
Week14	Chapter 18: Capital Structure Valuation and Bankruptcy Effects.
Week15	Final Examination

Addendum: Supplementary Course Materials

The PowerPoint slides are designed to give students a head start in learning course materials in a concise and coherent fashion. They are not intended to substitute, but complement, the textbook and classroom lectures. Do not just read; you need to absorb and understand the body of knowledge through a synthesis of critical thinking and problem-solving skills. Thus, attending classroom lectures and completing exercises and assignments are critical to your success.

INDIVIDUAL RESEARCH PROJECT (1 unit)

Each student registered for a 400-level course must complete a one-unit research project in addition to the coursework described in this syllabus. The specific topic will be assigned by the instructor. The project requires 45 hours of independent study with regular consultations in accordance with the schedule determined by the instructor. The project work results in a written report (not less than 15 pages; APA style) and an oral presentation during the class session. The Rubric below will be employed to evaluate the student's work.

WRITTEN REPORT				
	<i>Exceeds Standards</i>	<i>Meets Standards</i>	<i>Does Not Meet Standards</i>	<i>Not Present</i>
<i>Research Problem Statement</i>	The statement of a research problem is crystal clear, novel, and thought provoking	Clearly and concisely identifies a research problem	The statement of a research problem is incomplete, lacking precision.	The statement of a research problem is absent.
<i>Organization</i>	The report is logically organized; ideas are exceptionally well-developed and support a thoughtful and engaging conclusion.	The development of ideas is present; the conclusion is effective and directly addresses the original thesis.	Organization is confusing, disjointed, and inconsistent; ideas, if present, are not developed; the conclusion is vague and/or does not address the original thesis.	The report lacks organization
<i>Sources and formatting</i>	A variety of high-quality sources is used; all factual claims are supported with citations. The report follows the APA style guidelines.	A few high-quality sources are used; majority of factual claims are supported with citations. The report mostly follows the APA style guidelines.	Sources used are of a questionable quality; factual claims are not supported. Use of APA style is inconsistent.	Sources are not identified or of a poor quality; factual claims are unsubstantiated. The report is poorly formatted

PRESENTATION			
	<i>Exceeds Standards</i>	<i>Meets Standards</i>	<i>Does Not Meet Standards</i>
<i>Style and Organization</i>	Presentation is clear, confident, and fully engaging; the use of visual aids enhances its effectiveness; the presentation is well timed and structured.	Presentation is clear; the use of visual aids is not detrimental to audience engagement; all necessary components are given appropriate time.	Presentation lacks clarity, no attempt is made to engage the audience; visual aids are haphazard and distracting; lack of structure results in an inefficient use of time.
<i>Questions and Answers</i>	Student demonstrates extensive knowledge of the topic by providing confident, precise, and appropriate responses to all audience questions.	Student demonstrates knowledge of the topic by responding adequately to questions of the audience.	Student demonstrates lack of knowledge of the topic by responding inaccurately and inappropriately to audience questions.

