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Instructor Information

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Course Description

The course examines credit ratings systems and methodologies used by rating agencies, institutional investors and financial institutions. It will provide a comprehensive overview of the methodologies used for analyzing the creditworthiness of corporate obligations, government and municipal obligations, and structured finance securities. It also addresses the purpose and use of credit ratings, including the impact of ratings on capital market access and on a firm’s cost of capital. It will examine rating agencies’ “issuer-pay” business model as well as possible alternatives and explore the regulatory environment that applies to credit ratings.

The course is designed to cover a range of content that would be pertinent to future financial managers as well as to analysts. It is intended for those who wish to pursue careers in investment banking, corporate finance, fixed-income investment management, mergers and acquisitions, corporate treasury or the credit rating industry. The course will include lectures, assigned readings, homework assignments, and class discussions. It will include also presentations of guest practitioners.

Pre-requisites: COR1-GB.1306 - FIN ACCOUNTING & REPORTNG

Goals

By the end of the course, you should (1) be fully comfortable with the vocabulary of credit and ratings, (2) understand the main factors relevant in analyzing the credit risk
in different types of fixed income securities, (3) understand the role of rating agencies as third-party providers of credit opinions, (4) be able to perform basic credit analysis of certain types of credits, and (5) be comfortable with using rating agency resources including, in particular, analytic methodologies.

Teaching Philosophy

We believe the most efficient use of class time aims at reinforcing what the student has tried to achieve on an individual basis prior to class. In-the-classroom learning is achieved by (a) whole-hearted and serious studying of the assigned readings and completion of the homework assignments; (b) discussions of the material by the students and teacher in class; and (c) underscoring of important points via short lectures. In light of this, adequate preparation for the class and participation are essential.

Pre-class Reading Assignments

Each class meeting will be preceded by a pre-class reading assignment and accompanying questions. To complete the assignment for each class session you will need to read the assigned materials and then answer the assigned questions. The goal is to prepare adequately for class; you are not expected to have complete mastery of the material prior to coming to class. Consequently, pre-class reading assignments will be graded on preparation effort and not necessarily on the correctness of your answers. What counts is demonstrating that you have read the text and you are ready to apply the information in a coherent manner.

Homework Problems

Homework assignments due dates are indicated in the course schedule. Late homework will not be accepted. However, we will make an exception to this policy for reasons of religious observance or civic obligation only when the homework cannot reasonably be completed prior to the due date and you make arrangements for late submission in advance. Your homework should be neat and orderly.

Credit Analysis Project (tentative)

Each student is required to prepare or participate in preparing a credit analysis of an assigned issuer. We will assign issuers on November 20 and the completed written reports will be due on December 11. Students are encouraged (but not required) to work on the project in groups of two or three individuals. If you want to work on the project with others, please form your group before the November 20 class session.
Final Exam

There will be a final exam. The exam will be closed book. However, you are allowed to bring into the exam one double sided 8 ½" x 11" page of your own notes (cheat sheet). You can use a calculator for the exam. However, laptops, cell phones and other hand-held devices that have internet connections will not be permitted.

Class Attendance and Participation

Class attendance is required and part of your course grade. You are encouraged to participate in class and we may invite you to contribute to the discussion even when you don’t volunteer. In-class participation is essential in getting a good grade in the course.

Absences may be excused only in the case of documented serious illness, family emergency, religious observance, civic or important work obligation. If you anticipate having to miss class for religious observance or civic obligation, you must inform us no later than the first week of class. Recruiting activities and business trips are not acceptable reasons for absence. In the event of an excused absence, you are responsible for knowing what goes on in class and obtaining the missing information. Class content often will not be covered in the assigned reading materials. Also, it is your responsibility to check the NYU Classes course web site regularly.

Arriving Late, Leaving Early, Coming & Going

Students are expected to arrive to class on time and stay to the end of the class period. Arriving late or leaving class early will have impact on your grade. Students may enter class late only if given permission by us and if they can do so without disrupting the class. If you are going to be late, please enter as unobtrusively as possible.

You are permitted to use a laptop computer for taking notes during class, but you must refrain from using the Internet and from sending or receiving messages while class is in session. The use of other electronic devices during class is prohibited.

Academic Integrity

Integrity is critical to the learning process and to all that we do here at NYU Stern. As members of our community, all students agree to abide by the NYU Stern Student Code of Conduct, which includes a commitment to:
• Exercise integrity in all aspects of one’s academic work including, but not limited to, the preparation and completion of exams, papers and all other course requirements by not engaging in any method or means that provides an unfair advantage.
• Clearly acknowledge the work and efforts of others when submitting written work as one’s own. Ideas, data, direct quotations (which should be designated with quotation marks), paraphrasing, creative expression, or any other incorporation of the work of others should be fully referenced.
• Refrain from behaving in ways that knowingly support, assist, or in any way attempt to enable another person to engage in any violation of this Code of Conduct. Our support also includes reporting any observed violations of this Code of Conduct or other School and University policies that are deemed to adversely affect the NYU Stern community.

General Conduct and Behavior

Students are also expected to maintain and abide by the highest standards of professional conduct and behavior. Please familiarize yourself with Stern’s policy in regard to In-Class Behavior & Expectations and the NYU Disruptive Behavior Policy (http://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines/bullying--threatening--and-other-disruptive-behavior-guidelines.html).

Disability Access

If you have a qualified disability and will require academic accommodation of any kind during this course, you must notify us at the beginning of the course and provide a letter from the Moses Center for Students with Disabilities (CSD, (212) 998-4980, http://www.nyu.edu/csd) verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the CSD, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.

Course Readings

See class schedule for a listing of readings associated with each session.
Grading Policy (tentative)

Attendance and class participation 20%
Weekly homework assignments 15%
Credit analysis project 20%
Final exam 45%

Registration on Rating Agency Websites

You must register for free access to methodology/criteria articles on the websites of Moody’s, Fitch, and Standard & Poor’s. The rating agency websites will require you to logon with your free registration in order to download methodology/criteria articles.

Class Schedule (tentative)

<table>
<thead>
<tr>
<th>Session 1:</th>
<th>Intro to Credit, Credit Analysis, and Credit Ratings</th>
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<td></td>
<td>Uses of Credit Analysis and Ratings 6 Nov. 2014</td>
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Presenters: Mark Adelson and Neri Bukspan – intro to credit analysis and ratings
John Morriss (TIAA–CREF) – uses of credit analysis and ratings

Readings:

- Moody’s rating definitions (Aug 2014) (pages 4-11)
- S&P: Principles of Credit Ratings (16 Feb 2011)
  [http://www.standardandpoors.com/spf/upload/Ratings_EMEA/PrinciplesofCreditRatings.pdf](http://www.standardandpoors.com/spf/upload/Ratings_EMEA/PrinciplesofCreditRatings.pdf)
- S&P: The Time Dimension of Standard & Poor’s Credit Ratings (22 Sep 2010)
- S&P: The Role of Credit Ratings in the Financial System (17 May 2012) (optional)

Optional Readings & Reference:

- Moody’s: Recalibration of Moody’s U.S. Municipal Ratings to its Global Rating Scale (16 Mar 2010) (optional, pages 1-8) [★★★]
- SEC: Rating Standardization Study (Sep 2012) (optional, pages 1-25)
- Other readings TBD (from John Morriss)
Session 2: Credit Analysis and Rating of Corporate Credits
Credit Analysis and Rating of Banks

13 Nov. 2014

Presenters: John Billardello (S&P) – corporate credit analysis
Tom Foley (BoFA) – credit analysis of banks

Readings:

- S&P: Corporate Methodology (19 Nov 2013) (tables 7-10 and 17)
  http://www.standardandpoors.com/prot/ratings/articles/en/us/?articleType=HTML&assetID=1245367512383
- S&P: Key Credit Factors for the Retail and Restaurant Industries (13 Nov 2013)
  http://www.standardandpoors.com/prot/ratings/articles/en/us/?articleType=HTML&assetID=1245371955569
- S&P: Liquidity Descriptors For Global Corporate Issuers (3 Jan 2014)
  http://www.standardandpoors.com/prot/ratings/articles/en/us/?articleType=HTML&assetID=1245363389149
- S&P: Banks: Rating Methodology and Assumptions (19 Nov 2011) (skim)
- S&P: Regions Financial Corp. (26 Nov 2013) [★★]
- Moody’s: Global Banks (16 Jul 2014) (skim)
- Moody’s: Credit Opinion: Regions Financial Corporation (17 Jun 2014) [★★]

Optional Readings & Reference:

- Ganguin, B. and Bilardello, J., FUNDAMENTALS OF CORPORATE CREDIT ANALYSIS (2005)
- Hickman, W.B., CORPORATE BOND QUALITY AND INVESTOR EXPERIENCE, NBER (1958)
  http://papers.nber.org/books/hick58-1
Session 3: Regulation of Credit Ratings Credit Analysis and Rating of Insurance Companies 20 Nov. 2014

Presenters: Neri Bukspan & Mark Adelson – regulation of credit ratings
Duncan McColl, A.M. Best – credit analysis of insurance companies

Readings:

- SEC rating agency regulations: 17 C.F.R. §§ 240.17g-5 and 240.17g-6 (skim)
- SEC 2014 amendments to rating agency regulations (pages 55107-55111 (part II.B.1))
- IOSCO: Code of Conduct Fundamentals for Credit Rating Agencies (May 2008)
- A.M. Best: Understanding BCAR for U.S. Property/Casualty Insurers (2 Apr 2014)
- Other readings TBD (from AM Best)

Session 4: Credit Analysis and Rating of Government Credits 4 Dec. 2014

Presenters: Beth Smayda (BondFactor) – credit analysis of municipalities
John Chambers (S&P) – credit analysis of sovereigns

Readings:

- Moody’s: U.S. Local Government General Obligation Debt (15 Jan 2014)
- Moody’s: Moody’s Affirms Aa1 Rating on City of White Plains (NY); Outlook Revised to Stable (10 May 2013) [★★]
- Moody’s: Moody’s Assigns Aa1 Rating and Negative Outlook to White Plains’ (NY) $10.1 Million Public Improvement (Serial) Bonds, 2010 (18 Dec 2009) [★★]
- S&P: How We Rate Sovereigns (12 Nov 2013) [★★]
Optional Readings & Reference:

- S&P: Standard & Poor’s Sovereign Ratings Criteria (24 June 2013)
  [Link](http://www.standardandpoors.com/prot/ratings/articles/en/us/?articleType=HTML&assetID=1245372798276)
  [Link](https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1183887&SctArtId=224665&from=CM&nsl_code=LIME)
  [Link](http://papers.nber.org/books/hemp71-1)

| Session 5: Credit Analysis and Rating of Structured Financings: Actuarial and Monte Carlo Simulation Approaches — Residential Mortgage-Backed Securities (RMBS) and Collateralized Debt Obligations (CDOs) | 11 Dec. 2014 |

Presenters: Mark Adelson

Readings:

- Adelson, MBS Basics, Nomura research report (31 Mar 20016)
  [Link](http://www.markadelson.com/pubs/MBS_Basics.pdf)
- Adelson & Whetten, CDOs in Plain English, Nomura research report (13 Sep 2004)
  [Link](http://www.markadelson.com/pubs/CDOs_in_Plain_English.pdf)
  [Link](http://www.markadelson.com/pubs/CDO_Approach_to_Portfolio_Analysis.pdf)
  (pages 1-8) [Link](http://www.markadelson.com/pubs/Subprime_Surprise_NOT.pdf)
- Adelson & Jacob, The Sub-prime Problem: Causes and Lessons, J. of Structured Finance, 14:1, pp 12-17 (Spring 2008) [★★]  
  [Link](http://www.standardandpoors.com/spf/upload/Ratings_EMEA/2009-09-10_RMBSMethodologyAndAssumptionsForRatingUS.pdf)
- S&P: Update to Global Methodologies And Assumptions for Corporate Cash Flow and Synthetic CDOs (17 Sep 2009) (skim)
  [Link](https://www.wholesale.nabgroup.com/Funding/loansyndications/Documents/20090917%20Update%20to%20CDO%20criteria.pdf)
Optional Readings & Reference:

- Behrens, C.F., COMMERCIAL BANK ACTIVITIES IN URBAN MORTGAGE FINANCING, NBER (1952) [http://papers.nber.org/books/beh52-1](http://papers.nber.org/books/beh52-1)
- Saulnier, R.J., URBAN MORTGAGE LENDING BY LIFE INSURANCE COMPANIES, NBER (1950) [http://papers.nber.org/books/saul50-1](http://papers.nber.org/books/saul50-1)
- Herzog, J.P., & Early, J.S., HOME MORTGAGE DELINQUENCY AND FORECLOSURE, NBER (1970) [http://papers.nber.org/books/herz70-1](http://papers.nber.org/books/herz70-1)

| Session 6: | Future of Credit Ratings, Final Exam, Closing Discussion | 18 Dec. 2014 |

Presenters: Mark Adelson and Neri Bukspan

Readings:

- Other readings TBD
Student Biographical Information

Your name (please print): ____________________________________________

Please also supply its phonetic pronunciation: ____________________________

Your home country: _________________________________________________

Major area of study and your career goals at this point:

__________________________________________________________________

__________________________________________________________________

What do you expect to learn from the course? __________________________

__________________________________________________________________

__________________________________________________________________

Please tell us something about your knowledge and experiences that may be relevant to credit analysis: _________________________________

__________________________________________________________________

__________________________________________________________________

What other information do you think it might be helpful for the instructors to know?
Are there any areas where you might appreciate special assistance or insights? _____

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