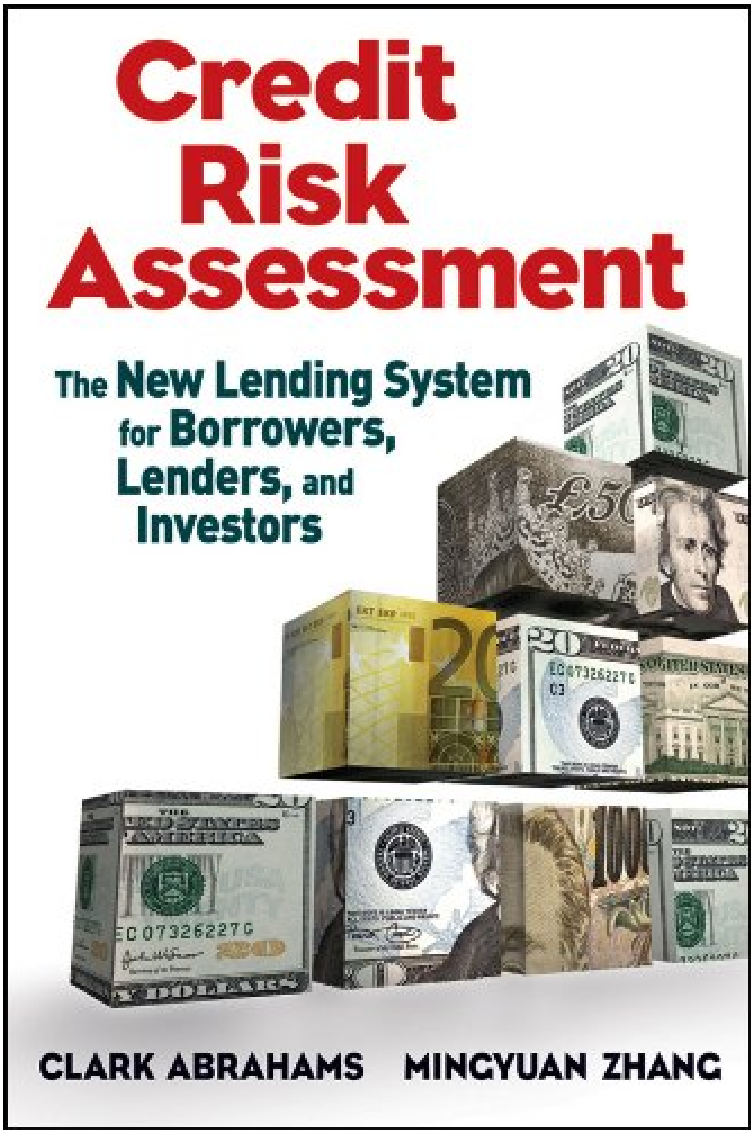
Credit Risk Assessment: The New Lending System for Borrowers, Lenders, and Investors (Wiley and SAS Business Series)

Clark R. Abrahams, Mingyuan Zhang



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Clark R. Abrahams, Mingyuan Zhang : Credit Risk Assessment: The New Lending System for Borrowers, Lenders, and Investors (Wiley and SAS Business Series) before purchasing it in order to gage whether or not it would be worth my time, and all praised Credit Risk Assessment: The New Lending System for Borrowers, Lenders, and Investors (Wiley and SAS Business Series):

1 of 2 people found the following review helpful. As good as its premisesBy Mary Ann CareagaI got as far as page 64,

where I read their idea of how to compute an improved loan-to-value ratio for use in their metric"defined as the ratio of the remaining principal amount to the quantity equal to the current market value of the property minus two standard deviations of the value of the property over the past five years."The term "standard deviation" is much easier to calculate than to use properly.In their example, the authors describe a property worth $100,000 originally, that has appreciated by 50% over five years with an average price of $120,000 and a standard deviation of $14,000. The CCAF adjusted loan value takes the $150,000 appreciated value and knocks it down by $28,000, two standard deviations, to $122,000.Standard deviations are wonderful things if you have a normal distribution. If the values of the home over the five year period truly described a bell shaped curve, we should have the comfort of knowing that any randomly selected value was within two standard deviations of the mean of those values at the 95% confidence level.Impressive. So, how do we know that those values are normally distributed?They aren't. That's what the bubble was all about. Even if prices over a lender's horizon were normally distributed, there's no way of knowing whether an individual property is a member of the population with that characteristic. And there is no practical way of observing values of an individual property so as to be able to draw statistical inferences on the probability that an unobserved value will fall into a range. No lender is going to commission property appraisals on an individual loan with the frequency required to collect a statistically valid sample.This is "value at risk" without even the pretentions of rigor.0 of 0 people found the following review helpful. Five StarsBy Nguyen Hong DucGood writing0 of 0 people found the following review helpful. Five StarsBy CarlosHappy customer

"Clark and Mingyuan start with an insightful and comprehensive description of how market participants contributed to the current crisis in the residential mortgage markets and the root causes of the crisis. They then proceed to develop a new residential mortgage lending system that can fix our broken markets because it addresses the root causes. The most impressive attributes of their new system is its commonsense return to the basics of traditional underwriting, combined with factors based on expert judgment and statistics and forward-looking attributes, all of which can be updated as markets change. The whole process is transparent to the borrower, lender, and investor." mdash;Dean Schultz, President and CEO, Federal Home Loan Bank of San Francisco "The credit market crisis of 2008 has deeply affected the economic lives of every American. Yet, its underlying causes and its surface features are so complex that many observers and even policymakers barely understand them. This timely book will help guide nonspecialists through the workings of financial markets, particularly how they value, price, and distribute risk." mdash;Professor William Greene, Stern School of Business, New York University "This book is a well-timed departure from much of what is being written today regarding the current foreclosure and credit crisis. Rather than attempting to blame lenders, borrowers, and/or federal regulators for the mortgage meltdown and the subsequent impacts on the financial markets, Clark and Mingyuan have proposed a groundbreaking new framework to revolutionize our current lending system. The book is built on the authors' deep understanding of risk and the models used for credit analysis, and reflects their commitment to solve the problem. What I find most profound is their passion to develop a system that will facilitate new and better investment, especially in underserved urban markets that have been disproportionately impacted in the current crisis. I applaud the authors for this important work, and urge practitioners and theorists alike to investigate this new approach." mdash;John Talmage, President and CEO, Social Compact "In the wake of the credit crisis, it is clear that transparency is the key to not repeating history. In Credit Risk Assessment: The New Lending System for Borrowers, Lenders and Investors, Clark Abrahams and Mingyuan Zhang describe a new lending framework that seeks to connect all the players in the lending chain and provide a more holistic view of customers' risk potential. As the financial services industry recovers from the mortgage meltdown, the Abrahams/Zhang lending model certainly offers some new food for thought to laymen and professionals alike." mdash;Maria Bruno-Britz, Senior Editor, Bank Systems Technology magazine

From the Inside FlapExisting credit risk assessment methods have put too much of an emphasis on past loan performance and historical market conditions and not enough on borrower capacity, new mortgage product risk characteristics, and economic cycles. According to industry practitioners Clark Abrahams and Mingyuan Zhang, the housing market bubble boom and burst and the subsequent financial crisis could have been prevented had these underwriting gaps been properly addressed. Credit Risk Assessment: The New Lending System for Borrowers, Lenders, and Investors equips you with an effective comprehensive credit assessment framework (CCAF) that can provide early warning of risk, thanks to its forward-looking analyses that do not rely on the premise that the past determines the future. Revealing how an existing credit underwriting system can be extended to embrace all relevant factors and business contexts in order to accurately classify credit risk and drive all transactions in a transparent manner, Credit Risk Assessment clearly lays out the facts. This well-timed book explores how your company can improve its current credit assessment system to balance risk and return and prevent future financial disruptions. Describing how a new and comprehensive lending framework can achieve more complete and accurate credit risk assessment while improving loan transparency, affordability, and performance, Credit Risk Assess-ment addresses: How a CCAF connects borrowers, lenders, and investorsmdash;with greater transparency The current financial crisis and its implications The root cause to weaknesses in loan underwriting practices and lending systems The main drivers that undermine borrowers, lenders, and investors Why a new generation of lending systems is needed Market requirements and how a comprehensive risk assessment framework can meet them The notion of an underwriting gap and how it affects the lenders' underwriting practices Typical issues associated with credit scoring models How improper use of credit scoring in under-writing underestimates the borrower's credit risk The ways in which the current lending system fails to address loan affordability How mortgage and capital market financial innovation relates to the crisis Whether you are a borrower, a lender, or an investor, Credit Risk Assessment enables you to better understand the weaknesses in today's loan underwriting and to better cope with financial weaknesses toward fostering a new generation of credit models that possess greater transparency.About the AuthorCLARK ABRAHAMS is Chief Financial Architect at SAS, where he leads business and product development. He has over thirty years of experience in the financial services industry with corporations including Bank of America and Fair Isaac Corporation. MINGYUAN ZHANG, PhD, is Principal Consultant at SAS. He has over ten years of experience in developing and implementing economic forecasting, data mining, and financial risk management solutions for thefinancial services industry.