

Brain teaser

Problem:

- There are a total of 14 bicycles and tricycles. If the total number of wheels is 34, how many tricycles are there?

Announcements

Upcoming Events

- E-Board Interest Meeting Tonight:
 - 6:30PM – UC07
 - If you cannot make it, you must email us by the end of the day today
- QFS Social pushed to Tuesday after spring break
- Mentorship update
- Reminder of Expectations
 - Feel free to interrupt with questions about anything and everything
 - Don't hesitate to tell me I am wrong
 - Will gloss over a few technical things, but if you are interested in how they work, let me know and we can set up a time to discuss

Credit 201

More Credit Analysis

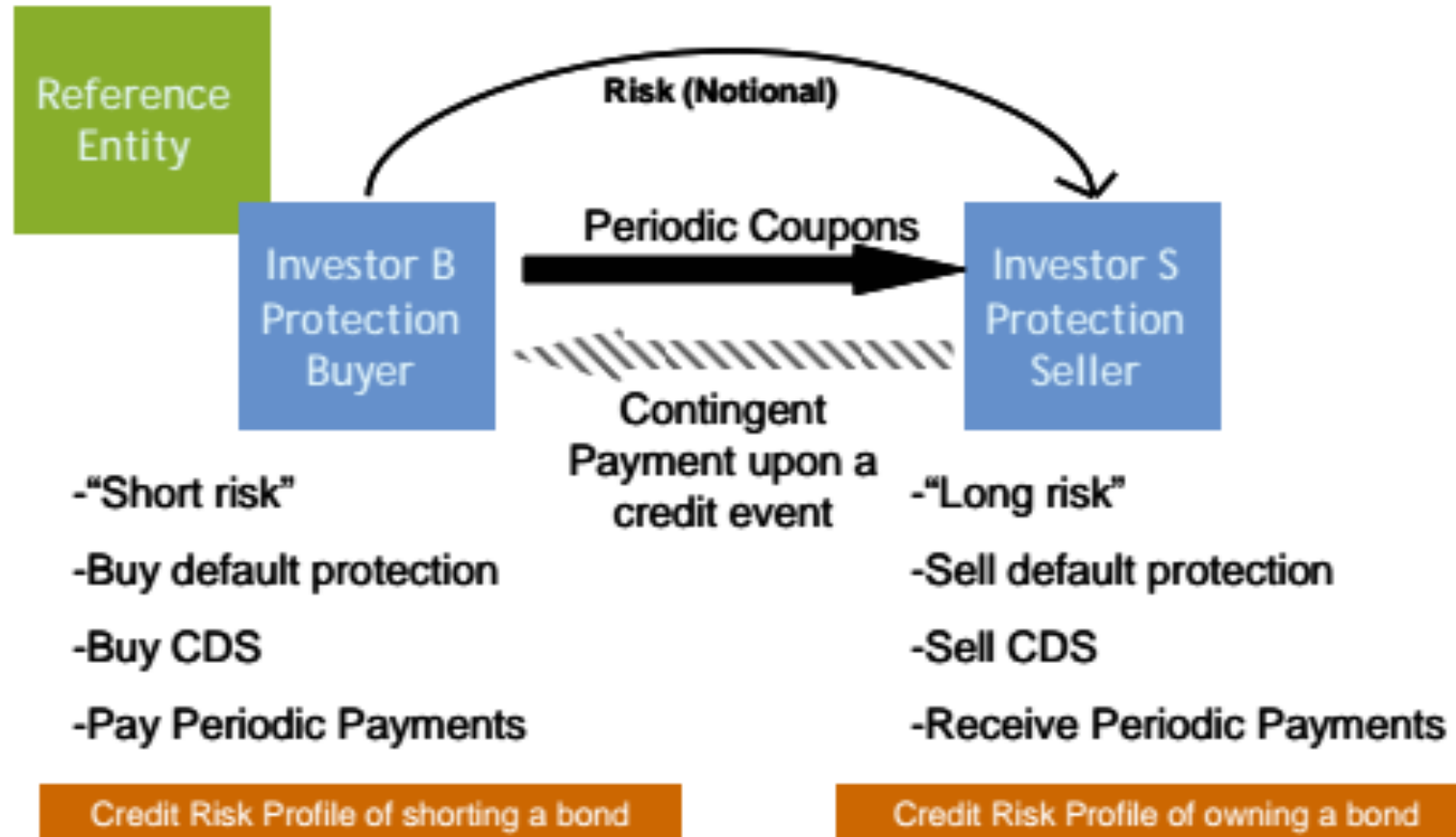
Credit Default Swaps

Derivatives ain't so scary!

- What are CDS? How do they work?
 - When would you want to trade CDS vs. bonds? Why?
 - Is there a difference between CDS spreads and bond spreads?
- Terminology / Market Quotes
- “Points up front” vs. spread quotes
- CDS Curve Interpretations – how does this differ from a bond yield curve?
- IG vs. HY CDS

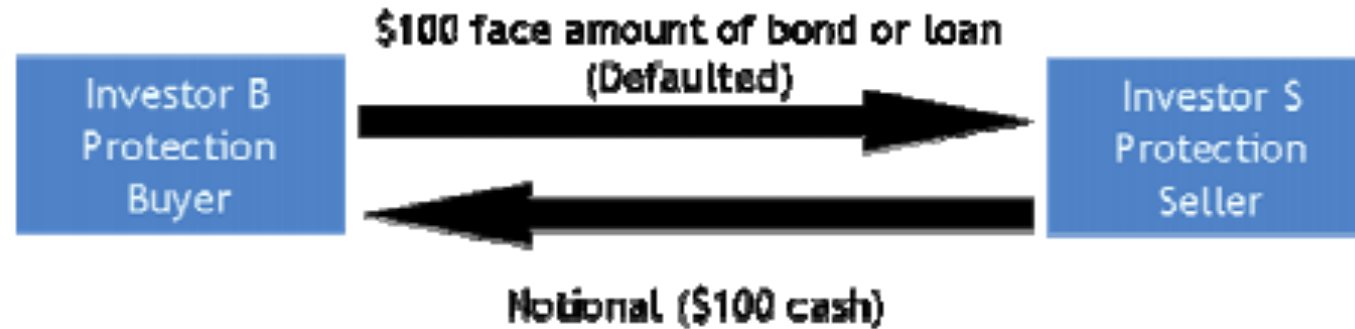
Mechanics of CDS

Exhibit 2.1: Single name credit default swaps



Settlement

Exhibit 2.2: If the Reference Entity has a credit event, the CDS Buyer delivers a bond or loan issued by the reference entity to the Seller. The Seller then delivers the Notional value of the CDS contract to the Buyer.



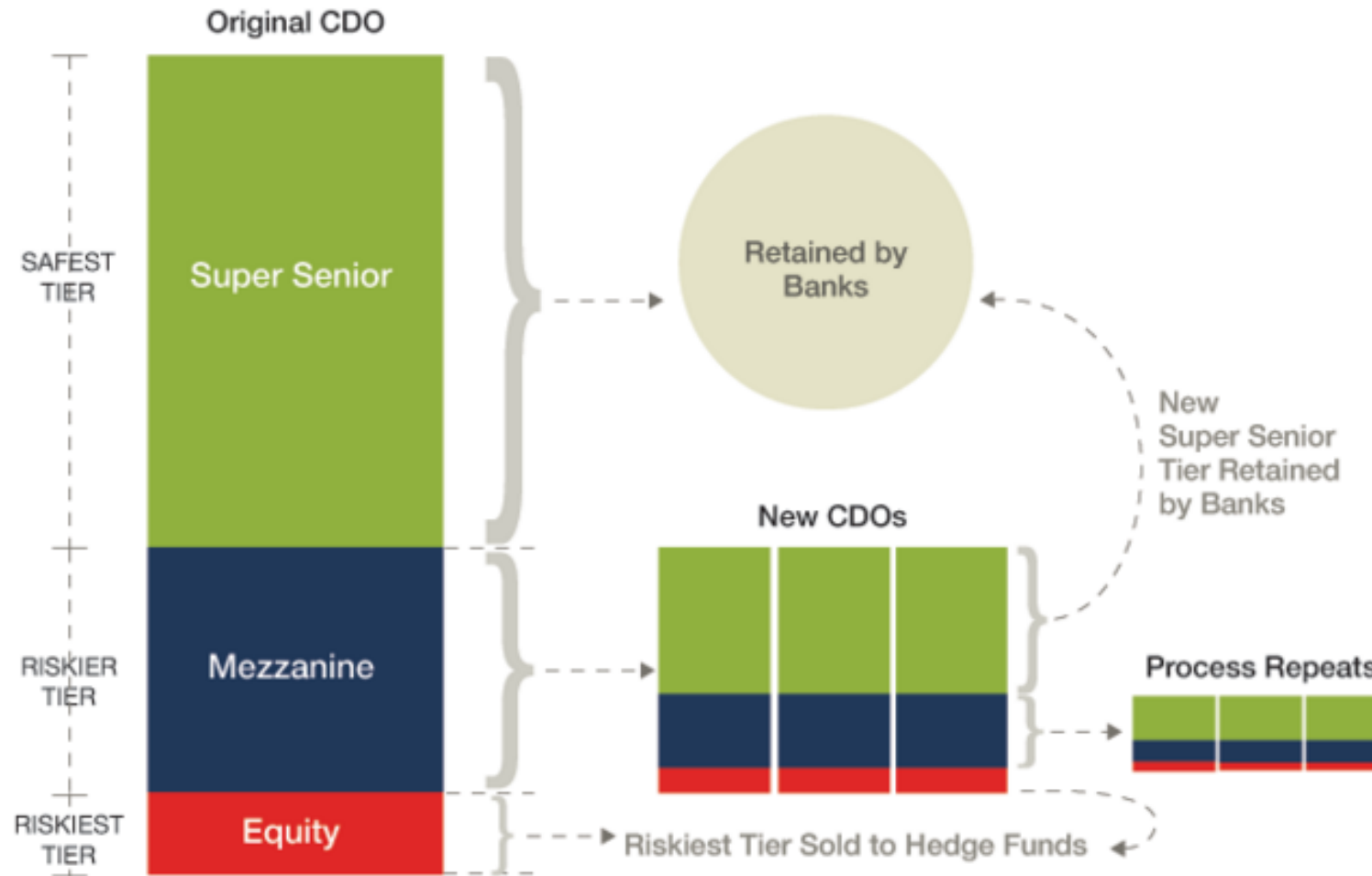
- Couple Notes:
 - Reference Entity, not Issue
 - Notional Amount of Bonds Underlying
 - Quotes in Spreads or Points Upfront
 - Maturity / Liquidity
- Credit Events
- CDS Curves, Basis (why is there a difference?)
 - No Cash Upfront?

Structured Products

Acronyms Everywhere

- MBS
 - CMBS
 - RMBS
- ABS
- CDOs / CLOs
- <https://www.youtube.com/watch?v=anSPG0TPf84>
- <https://www.youtube.com/watch?v=z2o81aJSEAM>
- <https://www.youtube.com/watch?v=xbiDrzTd8fE>

How CDOs (And Everything Else Work)



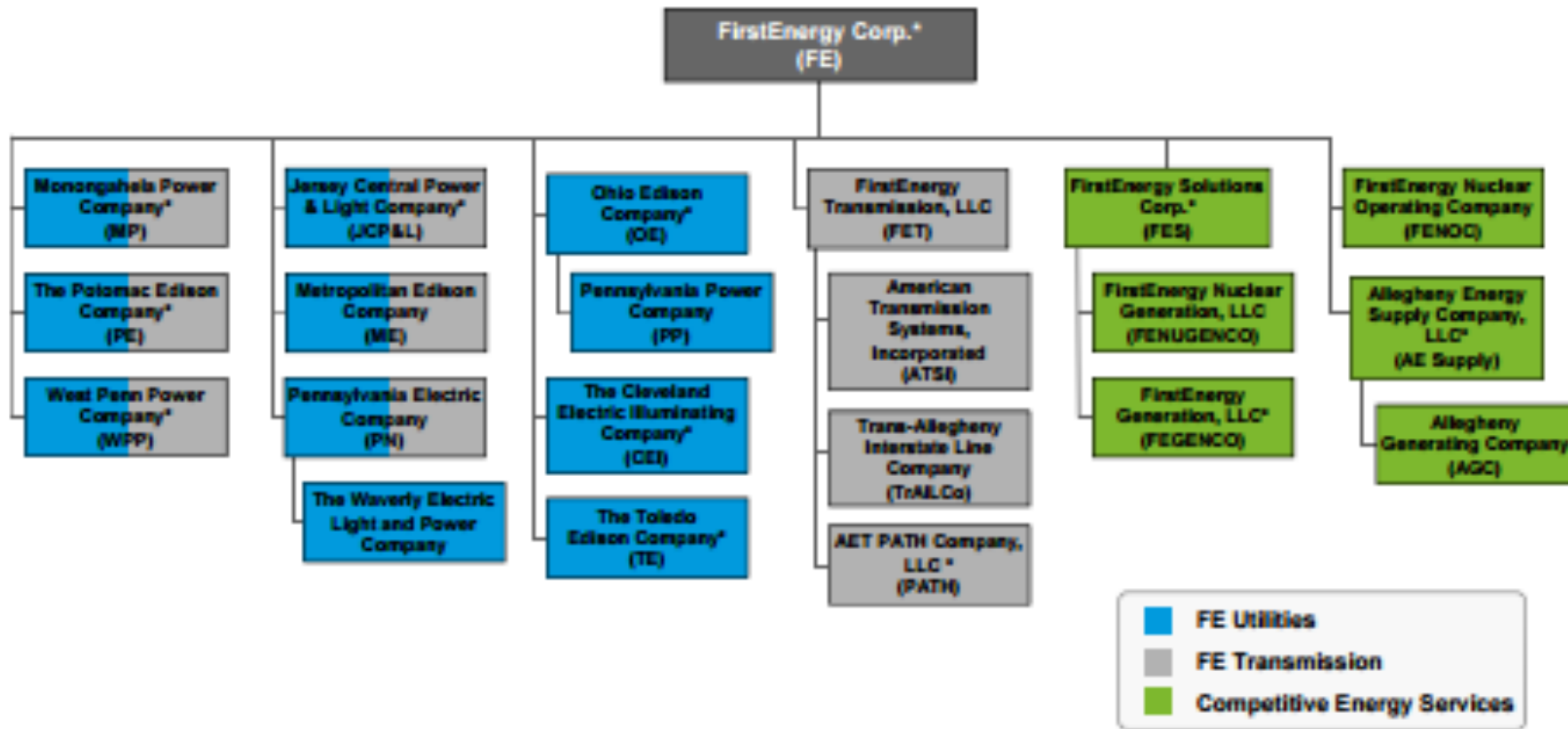
Bankruptcy

When Shit Really Hits the Fan

- What is “distressed?” How do companies go about avoiding bankruptcy? How should you think about distressed credit investing?
- Can a good business have distressed credits?
- How does a Ch. 11 Reorg Work?
- Examples of Distressed Companies? Why did they end up the way they did?
- Brief discussion of the process
- Remember the Covenants and Seniority! This stuff matters.
 - What is a fulcrum security
- Case Studies?

FirstEnergy Pitch

- FET and FES bonds



Questions?

