**Fixed Income Securities and Analysis – I**

**June 2023 Examination**

1. “**The Indian unit of credit rating agency Moody's, ICRA, said on Wednesday that nearly 100 companies with debt totaling 350 billion rupees ($4.40 billion) are likely to be downgraded after the central bank tightened rating methodologies.**

**The companies likely to be affected are mostly in the power, healthcare, engineering, construction and roads sectors.”**

**Source: Mint**

**Briefly discuss the Four Cs of Credit Analysis framework used by credit rating agencies.**

**Ans:**

**Introduction:**

Credit score groups are agencies that assign credit score rankings to individuals, businesses, and other entities primarily based on their economic performance and creditworthiness. They use a variety of analytical frameworks to evaluate the credit risk of debtors and issuers, including the 4 Cs of the credit analysis framework. The 4 Cs frameworks includes four key elements to assess borrowers' creditworthiness: capacity, collateral, capital, and character. This essay will discuss every aspect and their It is only half solved

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2. **It is commonly said that investors and portfolio managers like convexity. Explain in detail the rationale behind the convexity being desired by the investors and portfolio managers. (10 marks)**

**Ans:**

**Introduction:**

Convexity is a financial term that refers to the curvature of a bond's price-yield relationship. It's usually used to describe how the price of bond adjustments responds to modifications in interest fees. Investors and portfolio managers like convexity because it provides them with the opportunity to earn greater returns even as minimizing threats. In this essay, we can discuss the concept of convexity, its software, and the pros and cons of convexity desired by

**3. According to one of the statements, it is said that:**

**“Securitization, specifically the packaging of mortgage debt into bond-like financial instruments, was a key driver of the 2007-08 global financial crises. Securitization fueled excessive risk-taking that brought many major financial institutions on Wall Street and around the world to their knees when the U.S. real estate bubble burst.”**

**Source: Investopedia**

**A) Please discuss the working of securitization along with how the irrational use of it by financial institutions such as banks led to the bubble in the housing market. (5 marks)**

**Ans:**

**Introduction:**

Securitization is a process in which properties such as mortgages, loans, or different debt duties are pooled together, and the cash flows from these assets are used to create new financial units called securities. These securities are then sold to buyers in the market, imparting a source of investment to the

**B) In the above statement, securitization is considered the major reason for the Global Financial Crisis of 2007-08. Elaborate on how the securitization led to the crisis and what role it played. (5 marks)**

**Ans:**

**Introduction:**

The global financial crisis of 2007-08 became one of the most devastating economic crises of modern times. The disaster had its roots in the securitization of mortgage debt, a system wherein creditor’s package deal together man or woman mortgages and sell them as bonds to investors. This process caused a proliferation of unstable mortgage loans, which eventually