Syllabus

fintech analytics- credit risk - 55790

Last update 19-03-2019

HU Credits: 1

Degree/Cycle: 2nd degree (Master)

Responsible Department: Business Administration

Academic year: 0

Semester: 2nd Semester

Teaching Languages: English

Campus: Mt. Scopus

Course/Module Coordinator: Prof ROGER STEIN

Coordinator Email: steinr@mit.edu

Coordinator Office Hours:

Teaching Staff:
Prof ROGER STEIN
Course/Module description:

Data-driven credit analytics have become increasingly prevalent among both traditional banks and new lending platform companies. However, machine learning and statistical algorithms are only a small part of what is involved in building robust risk analytics. This short seminar focuses on the practical challenges that arise in implementing a variety of data-driven credit models (e.g., bankruptcy and default models retail and commercial entities). With a focus on large data sets, we explore a number of data-driven approaches to modeling the likelihood that credit-risky borrowers will default on their obligations. I will draw heavily on my experiences building and evaluating some of the most widely used and commercially successful data-driven credit evaluation tools in the industry. This seminar will tend heavily towards discussions of practical model implementations and the frictions that make these implementations difficult in real-world settings. We pay special attention to validating discrete-choice models in real-world settings. We will not focus as heavily on the structure of credit markets or the details of pricing a broad variety of credit risky instruments.

We will take the view that an effective, practical credit modeling framework will be rough around the edges with the odd inconsistency (usually to deal with available data or the lack thereof). This implies that seemingly incompatible models can each have value in specific contexts, resulting in retention of several models despite their theoretical inconsistency. Because the focus is applied, we will discuss model validation and calibration in detail and highlight data issues in estimation and validation. Since credit models for corporate debt are most well developed, we will deal most extensively with these models.

Lectures will focus on conceptual themes and practical issues, with much of the technical detail underlying these to be found in the readings.

I will also provide suggested mini-projects for those students who are more technically inclined. These projects serve to provide motivation and, if you do them, you will leave the seminar with some very useful tools for applying this subject matter in practice.
Course/Module aims:
To expose students to the practical challenges associated with building and testing single-borrower credit risk models, such as those used by banks, as well as to the types of modeling techniques that can be used to build them. These mini-projects are described using R syntax, though they may be implemented in any language in which you work (Python, SAS, Matlab, etc.). I will go over a solution to at least one of these during the seminar.

Learning outcomes - On successful completion of this module, students should be able to:
build and test single-borrower credit risk models, such as those used by banks.

Attendance requirements(%):

Teaching arrangement and method of instruction:

Course/Module Content:
Day 1
Introduction to credit risk modeling concepts, the challenge of data analytics and the nature of FinTech platforms
- How can we add value in developing data-driven analytics
- The features of successful of FinTech platforms
- Data problems and resolutions
- Key components of credit risk — PD, LGD, (EAD), correlation, size
- Differing modeling paradigms
- Diversification
ACPMIP: Chapter 1, pp. 2-16; 19-23; 32-34; 38; 42-43. Chapter 2, pp. 60-62; 72-74.
Supplemental readings:
- Dhar, V. and R. Stein (1997), Seven Methods for Transforming Corporate Data into Business Intelligence, Prentice Hall, NJ. Chapter 3.
Day 2
Introduction to PD model validation
Validating model power using ROC curves
Validating model calibration using probability-based measures
ACPMIP: Chapter 7, pp. 361-397.
For those interested, see if you can write this tool: Function to calculate the AUC ROC for two different subsets of a single data set.
Definition: subROC