Credit (Risk) Analyst Interview Questions And Answers Guide.

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Credit (Risk) Analyst Job Interview Preparation Guide.

Question # 1
Explain me what Is a Good Debt-to-Equity Ratio?

Answer:-
You should definitely have a good, solid answer ready for this question, since the debt-to-equity (D/E) ratio is a key, if not the primary, financial ratio considered in evaluating a company's ability to handle its debt financing obligations. The D/E ratio indicates a company's total debt in relation to its total equity, and it reveals what percentage of a company's financing is being provided by debt and what percentage by equity. Your answer should show you understand the ratio and know that, generally speaking, ratios lower than 1.0 indicate a more financially sound firm, while ratios higher than 1.0 indicate an increasing level of credit risk.
Beyond that, it should be noted that average D/E ratios vary significantly between sectors and industries. A more solid credit risk analysis includes an examination of the current state of the industry and the company's position within the industry, as well as consideration of other key financial ratios such as the interest coverage ratio or current ratio.

Read More Answers.

Question # 2
Do you know what is 'Macroeconomics'?

Answer:-
Macroeconomics is a branch of the economics field that studies how the aggregate economy behaves. In macroeconomics, a variety of economy-wide phenomena is thoroughly examined such as, inflation, price levels, rate of growth, national income, gross domestic product and changes in unemployment.
It focuses on trends in the economy and how the economy moves as a whole.

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Question # 3
Tell me what is 'Gross Domestic Product - GDP'?

Answer:-
Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well. GDP includes all private and public consumption, government outlays, investments and exports minus imports that occur within a defined territory. Put simply, GDP is a broad measurement of a nation's overall economic activity.

Read More Answers.

Question # 4
Explain me what is 'Inflation'?

Answer:-
Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling. Central banks attempt to limit inflation, and avoid deflation, in order to keep the economy running smoothly.

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Question # 5
Do you know what is the 'Prime Rate'?

Answer:-
The prime rate is the interest rate that commercial banks charge their most credit-worthy customers. Generally, a bank's best customers consist of large corporations. The prime interest rate, or prime lending rate, is largely determined by the federal funds rate, which is the overnight rate that banks use to lend to one another; the prime rate is also important for individual borrowers, as the prime rate directly affects the lending rates available for a mortgage, small business loan or personal loan.

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Question # 6
Do you know what is a 'Municipal Bond'?

Answer:-
A municipal bond is a debt security issued by a state, municipality or county to finance its capital expenditures, including the construction of highways, bridges or

schools. Municipal bonds are exempt from federal taxes and from most state and local taxes, making them especially attractive to people in high income tax brackets.
Read More Answers.

Question # 7
Tell me what is 'Interest Rate'?

Answer:-
Interest rate is the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets. Interest rates are typically noted on an annual basis, known as the annual percentage rate (APR). The assets borrowed could include, cash, consumer goods, large assets, such as a vehicle or building. Interest is essentially a rental, or leasing charge to the borrower, for the asset's use. In the case of a large asset, like a vehicle or building, the interest rate is sometimes known as the "lease rate". When the borrower is a low-risk party, they will usually be charged a low interest rate; if the borrower is considered high risk, the interest rate that they are charged will be higher.
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Question # 8
Explain me what is a 'Derivative'?

Answer:-
A derivative is a security with a price that is dependent upon or derived from one or more underlying assets. The derivative itself is a contract between two or more parties based upon the asset or assets. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes.
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Question # 9
Explain me what are 'Profitability Ratios'?

Answer:-
Profitability ratios are a class of financial metrics that are used to assess a business's ability to generate earnings compared to its expenses and other relevant costs incurred during a specific period of time. For most of these ratios, having a higher value relative to a competitor's ratio or relative to the same ratio from a previous period indicates that the company is doing well.
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Question # 10
Tell me what is a 'Market Index'?

Answer:-
A market index is an aggregate value produced by combining several stocks or other investment vehicles together and expressing their total values against a base value from a specific date. Market indexes are intended to represent an entire stock market and thus track the market's changes over time.
Read More Answers.

Question # 11
Tell me are you familiar with this company?

Answer:-
Every work environment has a unique culture. Furthermore, each financial company will have its own way of completing important tasks. If you want to be immediately effective in your prospective position, it helps to understand what you are jumping into. As such, the hiring manager wants to gauge your background knowledge. Whether you gathered your own information or had the help of a recruiter, now is the time to give a snapshot of what you already know.
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Question # 12
Explain your programming and modeling experience?

Answer:-
Credit analysts should have modeling skills. It pays to be proficient in MATLAB, SAS, C++, Moody's KMV, VB/VBA, and SQL. Individuals with systems development expertise are sure to get snatched up.
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Question # 13
Explain me how do you value a company?

Answer:-
The most common methods are DCF valuation / financial modeling and relative valuation methods using comparable public companies ("Comps") and precedent transactions ("Precedents").
Read More Answers.

Question # 14
Tell me what Are the Most Important Characteristics of a Credit Analyst?

Answer:-
This question will allow your interviewer to discover the ways in which you will perform the tasks at hand. Although you can feel free to relay information about your best qualities, you should always include some information about your analytical skills in your answer. After all, it will be your duty to study your clients and customers as well as the market in order to determine whether the extension of credit is feasible. "I feel that analytical skills, the ability to communicate effectively

and solid decision-making skills are all very important to be a successful credit analyst" is a great answer. Be sure to elaborate a little on each characteristic.

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Question # 15
Do you know what is Free Cash Flow?

Answer:-
Free cash is equal to cash from operation less capital expenditures.

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Question # 16
Explain me about your technical expertise in credit analysis?

Answer:-
This is when you need to bring up your specific skills in credit analysis, risk and valuation. A quantitative background is a great thing to have. Show that you also have a strong understanding of VAR, CVaR, PFE and portfolio analysis tools.

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Question # 17
Tell me are you a capable of sound financial analysis?

Answer:-
It is only logical that a credit analyst should be proficient with financial analysis. As a result, some credit analyst interview questions and answers will revolve around your financial capabilities. You be expected to have a working knowledge of cash flow, market shares, income growth, calculating debt to income ratios and more. Brush up on these skills before your interview appointment to make sure you are adequately prepared for this question.

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Question # 18
Tell me what is 'Debt Security'?

Answer:-
Debt security refers to a debt instrument, such as a government bond, corporate bond, certificate of deposit (CD), municipal bond or preferred stock, that can be bought or sold between two parties and has basic terms defined, such as notional amount (amount borrowed), interest rate, and maturity and renewal date. It also includes collateralized securities, such as collateralized debt obligations (CDOs), collateralized mortgage obligations (CMOs), mortgage-backed securities issued by the Government National Mortgage Association (GNMAs) and zero-coupon securities.

Read More Answers.

Question # 19
Explain me what is 'Currency'?

Answer:-
Currency is a generally accepted form of money, including coins and paper notes, which is issued by a government and circulated within an economy. Used as a medium of exchange for goods and services, currency is the basis for trade.

Read More Answers.

Question # 20
Tell me what is 'Debt Financing'?

Answer:-
Debt financing occurs when a firm raises money for working capital or capital expenditures by selling bonds, bills or notes to individuals and/or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise the principal and interest on the debt will be repaid. The other way to raise capital in the debt markets is to issue shares of stock in a public offering; this is called equity financing.

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Question # 21
Do you know what is a 'Dividend'?

Answer:-
A dividend is a distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. Dividends can be issued as cash payments, as shares of stock, or other property.

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Question # 22
Explain me what is 'Debt Security'?

Answer:-
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Question # 23
What is marginable?

Answer:-
A security is marginable if it can be traded on margin through a brokerage or other financial institution. Securities with high liquidity and market capitalization are more likely to be marginable. Other securities, such as stocks priced below $5/share, are not marginable.
The rules governing which securities are marginable and which are not are set out in Regulation T and Regulation U of the Federal Reserve. Self-regulatory organizations such as the NYSE and FINRA are also involved in the regulatory process. Although individual brokers can adopt their own requirements, they must be at least as strict as those prescribed by law.
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Question # 24
Do you know what is 'Value'?

Answer:-
The monetary, material or assessed worth of an asset, good or service. In accounting, value describes what something is worth in terms of something else. For example, the value of a loaf of bread might be $3; the $3 for the loaf of bread would represent the generally accepted worth of the bread.
In economics, value describes the merit of the benefits of ownership. The benefits of ownership include utility, the pleasure or satisfaction gained by consumption of a particular good or service; and power, the ability of a good or service to be exchanged for other goods, services or money.
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Question # 25
Explain me what is 'Fiscal Policy'?

Answer:-
Government spending policies that influence macroeconomic conditions. Through fiscal policy, regulators attempt to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy. Fiscal policy is largely based on the ideas of British economist John Maynard Keynes (1883-1946), who believed governments could change economic performance by adjusting tax rates and government spending.
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Question # 26
Explain me are you skilled in financial analysis?

Answer:-
Financial analysis is part of the job. Analysts must understand things like financial and cash-flow statements, market share, management accounts, income growth, etc. They are required to generate financial ratios to understand a customer's financial situation.
Read More Answers.

Question # 27
Tell me what are the steps and processes you follow for considering credit to a customer?

Answer:-
The analyst's job is to analyze customers, as well as the market. The analyst must know how safe the playing habits of the client are. The analyst studies customer records and meets customers regarding various issues.
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Question # 28
What is the 'Debt/Equity Ratio'?

Answer:-
Debt/Equity Ratio is a debt ratio used to measure a company's financial leverage, calculated by dividing a company's total liabilities by its stockholders' equity. The D/E ratio indicates how much debt a company is using to finance its assets relative to the amount of value represented in shareholders' equity.
The formula for calculating D/E ratios can be represented in the following way:
Debt - Equity Ratio = Total Liabilities / Shareholders' Equity
The result may often be expressed as a number or as a percentage.
This form of D/E may often be referred to as risk or gearing.
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Question # 29
Do you know what is 'Real Income'?

Answer:-
Real income refers to the income of an individual or group after taking into consideration the effects of inflation on purchasing power. For example, if you receive a 2% salary increase over the previous year and inflation for the year is 1%, then your real income only increases by 1%. Conversely, if you receive a 2% raise in salary and inflation is at 3%, then your real income shrinks by 1%.
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Question # 30
Explain me what is 'Personal Income'?

Answer:-
Personal income refers to all of the income collectively received by all of the individuals or households in a country. Personal income includes compensation from a number of sources including salaries, wages and bonuses received from employment or self-employment; dividends and distributions received from investments;

rental receipts from real estate investments and profit-sharing from businesses.
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Question # 31
Explain me what is a 'Tax Bracket'?
Answer:-
A tax bracket refers to a range of incomes that are subject to a certain income tax rate. In most income tax systems, low incomes fall into tax brackets with relatively low income tax rates, while higher earnings fall into brackets with higher rates. Tax brackets help create progressive income tax schedules.
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Question # 32
Explain me what is 'Risk Analysis'?
Answer:-
Risk analysis is the study of the underlying uncertainty of a given course of action. Risk analysis refers to the uncertainty of forecasted future cash flows streams, variance of portfolio/stock returns, statistical analysis to determine the probability of a project's success or failure, and possible future economic states. Risk analysts often work in tandem with forecasting professionals to minimize future negative unforseen effects.
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Question # 33
Do you know what is 'Interest Rate'?
Answer:-
Interest rate is the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets. Interest rates are typically noted on an annual basis, known as the annual percentage rate (APR). The assets borrowed could include, cash, consumer goods, large assets, such as a vehicle or building. Interest is essentially a rental, or leasing charge to the borrower, for the asset's use. In the case of a large asset, like a vehicle or building, the interest rate is sometimes known as the "lease rate". When the borrower is a low-risk party, they will usually be charged a low interest rate; if the borrower is considered high risk, the interest rate that they are charged will be higher.
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Question # 34
Tell me what are the most valuable traits of a successful credit analyst?
Answer:-
This question will give the hiring manger insight into how you might handle certain job responsibilities. If you think organization and computer knowledge is most important, the interviewer now understands that you are particularly dedicated to maintaining an organized work space and improving your programming knowledge. If this aligns with the company's practices and methods, you have just made yourself a more appealing candidate.
Read More Answers.

Question # 35
Do you know what is a 'Financial Instrument'?
Answer:-
Financial instruments are assets that can be traded. They can also be seen as packages of capital that may be traded. Most types of financial instruments provide an efficient flow and transfer of capital all throughout the world's investors. These assets can be cash, a contractual right to deliver or receive cash or another type of financial instrument, or evidence of one's ownership of an entity.
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Question # 36
Explain me what is the 'Federal Funds Rate'?
Answer:-
The interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. The federal funds rate is generally only applicable to the most creditworthy institutions when they borrow and lend overnight funds to each other. The federal funds rate is one of the most influential interest rates in the U.S. economy, since it affects monetary and financial conditions, which in turn have a bearing on key aspects of the broad economy including employment, growth and inflation. The Federal Open Market Committee (FOMC), which is the Federal Reserve's primary monetary policymaking body, telegraphs its desired target for the federal funds rate through open market operations. Also known as the "fed funds rate".
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Question # 37
Tell me what is a 'Mortgage'?
Answer:-
A mortgage is a debt instrument, secured by the collateral of specified real estate property, that the borrower is obliged to pay back with a predetermined set of payments. Mortgages are used by individuals and businesses to make large real estate purchases without paying the entire value of the purchase up front. Over a period of many years, the borrower repays the loan, plus interest, until he/she eventually owns the property free and clear. Mortgages are also known as "liens against property" or "claims on property." If the borrower stops paying the mortgage, the bank can foreclose.
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Question # 38
Explain me what is 'Purchasing Power'?

Answer:-

Purchasing power is the value of a currency expressed in terms of the amount of goods or services that one unit of money can buy. Purchasing power is important because, all else being equal, inflation decreases the amount of goods or services you would be able to purchase.
In investment terms, purchasing power is the dollar amount of credit available to a customer to buy additional securities against the existing marginable securities in the brokerage account. (For further insights, see: Buying Power)

Read More Answers.

Question # 39

Explain what Is a Credit Default Swap?

Answer:-

This question is more likely to be thrown at someone with previous experience in the field who is applying for a senior credit risk analyst position, but it still might show up in an interview for an entry-level credit risk analyst position with a bank. A good answer demonstrates you understand the concept, and a better answer likely includes an example. A credit default swap (CDS) is a frequently used method of mitigating risk in fixed-income, debt security instruments such as bonds, and it is one of the most common financial derivatives. A CDS is essentially a type of investment insurance that allows the buyer to mitigate his investment risk by shifting risk to the seller of a CDS in exchange for a fee. The seller of the CDS stands in the position of guaranteeing the debt security in which the buyer has invested.
Other questions likely to be encountered in a credit risk analyst position interview are general questions about your problem-solving abilities, your ability to work as a part of a team and your understanding of basic macroeconomics concepts such as fiscal policies and the prime rate.

Read More Answers.

Question # 40

Tell me what is the role of interpersonal and communication skills in the career of a credit analyst?

Answer:-

Interpersonal communication is crucial to realizing your full potential as a credit analyst. A credit analyst communicates regularly with internal and external business representatives regarding credit information. He/she also meets clients in person to answer queries, solve problems, respond to complaints, etc.

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Question # 41

Explain me how Would You Handle an Important, Long-Time Business Client Seeking a Loan Your Risk Assessment Tells You Is not Safe for the Bank to Make?

Answer:-

This can be a key issue, since maintaining good client relationships with important corporate clients is essential to a bank's success. A bank does not want to risk losing a multimillion dollar client over one loan application, but neither does it wish to make loans it does not believe can reasonably be paid back. How you answer this type of question will display your ability to handle customer relations well and offer creative solutions for clients, while not endangering the bank's position as a lender. Therefore, a good answer might be something like, "I would offer a smaller loan amount I believe the bank could safely extend, and then let the client know the exact steps it could take to allow me to extend it further credit, and offer to meet with it to review the situation at some appropriate point in the future to consider a larger loan."

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Question # 42

Explain me what are your areas of technical expertise? Do you have any programming experience?

Answer:-

As a credit analyst, you will be better off if you have expertise and experience with computer software and programming. You first want to cover you deep knowledge of PFE, CVaR and VAR analysis tools. These are the most widely used software. Additionally, mention any proficiency with MATLAB, C++, SQL, VB/VBA, SAS and Moody's KMV. If you are familiar with any other programs or languages, share this with your interviewer so he or she can get a better idea of what you could do for the company.

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Question # 43

Tell us do you have any other particular skill sets that make you ideally suited for this position?

Answer:-

This is a good time to highlight specific accounting, corporate finance, and financial research expertise. If you've worked with the products the firm has traded, make sure to work it into the conversation a number of times. Basel II implementation experience is also a selling point. Problem solving skills are a major requirement for the job, so be prepared to discuss them.

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Question # 44

Explain me what methods do you use to compare the liquidity, profitability, and credit history of a company?

Answer:-

The Current Ratio, ROE, ROA, Debt/Capital, Debt/Equity, and Interest Coverage Ratio.

Read More Answers.

Question # 45

Explain me do You Have Technical Expertise? How about Programming Experience?

Answer:-

The more technical expertise and programming experience you have, the better off you will be. You should first prove to your interviewer that you have a strong understanding of PFE, CVaR and VAR analysis tools. These are the ones that are most commonly used, so a strong understanding of all of them is critical. Similarly, if you have programming experience, you are much more likely to be hired. Tell your interviewer if you are proficient with C++, MATLAB, SAS, SQL, VB/VBA and Moody's KMV. The more of these you understand, the better off you will be and the more likely that your interviewer will be impressed with your abilities.

Read More Answers.

Question # 46

Explain me are you proficient with relevant financially-oriented software and technology?

Answer:-

Professionals are typically required to use specialized software to perform things like generating financial ratios and developing statistical models to assess and predict information. Mentioning your ability to use computers in general for related activities such as market research is also relevant.

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Question # 47

Credit control Job Interview Questions:

Answer:-

* What experience do you have in a credit control role?
* How would you deal with a client who was refusing to pay?
* What are your interpersonal skills like?
* How would you address a difficult subject with a customer?
* How effective are you in negotiation situations?
* How would you handle a customer forcefully disagreeing with your decision?
* How would you feel about rejecting or sanctioning desperate customers?
* Are you a good team player?
* Do you have any credit management qualifications?
* Would you be willing to work overtime during busy periods?

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Question # 48

Behavioral Credit (Risk) Analyst Job Interview Questions:

Answer:-

* Tell me about a time your judgement on a case was proven incorrect. What should you have done differently?
* Recall a time you used your communication skills to resolve an issue at work
* Tell me about a time you developed an effective method or model to assess profitability

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Question # 49

Operational and Situational Credit (Risk) Analyst Interview Questions:

Answer:-

* How does a balance sheet or cash flow statement help you in determining credit risk?
* Walk me through the process of determining whether we should loan $5 million to a company
* If an important long-time customer applied for a loan, but after your analysis you found the risk was too high, how would you handle it?
* Imagine one of the company's salespeople strongly wants to acquire a particular customer, but you've found their creditworthiness is lacking. How do you resolve this?

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Question # 50

Role-specific Credit (Risk) Analyst Interview Questions:

Answer:-

* What's your quantitative analysis experience?
* What financial software have you used in the past?
* Which financial ratios do you use more often? Which is the most important and why?
* What types of customers have you dealt with in the past?
* Can you explain the meaning of Credit Default Swap (CDS)?
* What's different with Basel III?
* Do you like working in a team?

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Question # 51

Tell me what's your experience in managing a team or leading junior employees?

Answer:-

Credit analysts work hand-in-hand with traders, bank management, risk specialists and/or IT people. So, it's a given that you'll need to be a people person, a team player, and a go-getter. For instance, you'll need to demonstrate how you can effectively deal with the inherent challenges of a trading environment. If you have specific examples of management experience, this is the time to emphasize them.

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Question # 52

Explain me are You Proficient in Financial Analysis?

Answer:-

In order to be a successful credit analyst, it is important that you are proficient in financial analysis, as well. Your interviewer may ask you if you understand things such as cash-flow and other financial statements, income growth, market shares and much more. You may also be asked if you can correctly calculate debt to income ratios in order to discover a client's dispensable income. All of this information is necessary for developing a client's credit portfolio. You can answer with "I am very familiar with using various tools and methods to perform financial analyses. I am capable of determining a client's credit situation quickly and accurately."

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Question # 53

Tell me how would you decide if you can lend $100 million to a company?

Answer:-

Review all three financial statements for the past five years and perform a financial analysis. Determine what assets can be used as collateral, how much cash flow there is, and what the trends of the business are. Then look at metrics like debt to capital, debt to EBITDA, and interest coverage. If all of these metrics are within the bank's parameters it may be possible to lend the money, but will still depend on qualitative factors as well.

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Question # 54

Explain me what is a 'Bond'?

Answer:-

A bond is a debt investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds are used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities. Owners of bonds are debtholders, or creditors, of the issuer.

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Question # 55

Explain me what Is a Credit Default Swap?

Answer:-

This question is more likely to be thrown at someone with previous experience in the field who is applying for a senior credit risk analyst position, but it still might show up in an interview for an entry-level credit risk analyst position with a bank. A good answer demonstrates you understand the concept, and a better answer likely includes an example. A credit default swap (CDS) is a frequently used method of mitigating risk in fixed-income, debt security instruments such as bonds, and it is one of the most common financial derivatives. A CDS is essentially a type of investment insurance that allows the buyer to mitigate his investment risk by shifting risk to the seller of a CDS in exchange for a fee. The seller of the CDS stands in the position of guaranteeing the debt security in which the buyer has invested.

Other questions likely to be encountered in a credit risk analyst position interview are general questions about your problem-solving abilities, your ability to work as a part of a team and your understanding of basic macroeconomics concepts such as fiscal policies and the prime rate.

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Question # 56

Explain me what is a 'Recession'?

Answer:-

A recession is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP), although the National Bureau of Economic Research (NBER) does not necessarily need to see this occur to call a recession.

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Question # 57

Explain what is 'Capital Expenditure (CAPEX)'?

Answer:-

Capital expenditure, or CapEx, are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. It is often used to undertake new projects or investments by the firm. This type of outlay is also made by companies to maintain or increase the scope of their operations. These expenditures can include everything from repairing a roof to building, to purchasing a piece of equipment, or building a brand new factory.

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Question # 58

Tell me what is the 'Business Cycle'?

Answer:-

The business cycle is the fluctuation in economic activity that an economy experiences over a period of time. A business cycle is basically defined in terms of periods of expansion or recession. During expansions, the economy is growing in real terms (i.e. excluding inflation), as evidenced by increases in indicators like employment, industrial production, sales and personal incomes. During recessions, the economy is contracting, as measured by decreases in the above indicators. Expansion is measured from the trough (or bottom) of the previous business cycle to the peak of the current cycle, while recession is measured from the peak to the trough. In the United States, the National Bureau of Economic Research (NBER) determines the official dates for business cycles.

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Question # 59

Explain me what characteristics are most important to be successful as a credit analyst?

Answer:-

It may sound obvious, but it must be stressed: analytical thinking is vital to one's success as a credit analyst. Professionals in this field do a lot of evaluating; they study customer records, meet clients in person, and become familiar with their history and habits. Analysts must be able to put all these together and decide if it is productive for the company to extend credit in this case.

Read More Answers.

Question # 60
Tell me what is a 'Commodity'?

Answer:-
A commodity is a basic good used in commerce that is interchangeable with other commodities of the same type; commodities are most often used as inputs in the production of other goods or services. The quality of a given commodity may differ slightly, but it is essentially uniform across producers. When they are traded on an exchange, commodities must also meet specified minimum standards, also known as a basis grade.

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Question # 61
Tell me what do the credit rating agencies do?

Answer:-
Rating agencies are supposed to help provide trust and confidence in financial markets by rating borrowers on their creditworthiness of outstanding debt obligations. They can, however, run into conflicts of interest and cannot be blindly relied on for assessing a borrower's risk profile.

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Question # 62
Tell me how do you calculate the terminal value in a DCF valuation?

Answer:-
Terminal value is either use an exit multiple or the Gordon Growth (growing perpetuity) method.

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Question # 63
Please explain what is a 'Stock'?

Answer:-
A stock is a type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings.
There are two main types of stock: common and preferred. Common stock usually entitles the owner to vote at shareholders' meetings and to receive dividends. Preferred stock generally does not have voting rights, but has a higher claim on assets and earnings than the common shares. For example, owners of preferred stock receive dividends before common shareholders and have priority in the event that a company goes bankrupt and is liquidated.

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Question # 64
Explain me what is a reasonable Debt/Capital ratio?

Answer:-
It completely depends on the industry. Some industries can sustain very low debt to capital ratios, typically cyclical industries like commodities, or early stage companies like startups. So these would have 0-20% debt to capital. Other industries like banking and insurance can have up to 90% debt to capital ratios.

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Question # 65
Tell me what do you use for the discount rate in a DCF valuation?

Answer:-
If you are forecasting free cash flows to the firm, you normally use the Weighted Average Cost of Capital (WACC) as the discount rate. If you are forecasting free cash flows to equity, you use the cost of equity.

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Question # 66
Do you know what is 'Over-The-Counter - OTC'?

Answer:-
Over-the-counter (OTC) is a security traded in some context other than on a formal exchange such as the New York Stock Exchange (NYSE), Toronto Stock Exchange or the NYSE MKT, formerly known as the American Stock Exchange (AMEX). The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments, such as derivatives, which are traded through a dealer network.

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Question # 67
Do you know about National Bureau of Economic Research - NBER?

Answer:-
This private, non-profit, non-partisan research organization's main aim is to promote greater understanding of how the economy works. It disseminates economic research among public policymakers, business professionals and the academic community.

Read More Answers.

Question # 68

Explain me what you know about this division?

Answer:-

Your interviewers will want to know that you're familiar with their firm, bank or hedge fund. McKelvie says that if you're using a recruiter, use him for all he's worth. He'll most likely help you to understand the company culture, as well as the products traded, portfolio managed, or loan vehicles offered. But do your own homework, too.

Read More Answers.

Question # 69

Please explain what is a 'Preferred Stock'?

Answer:-

A preferred stock is a class of ownership in a corporation that has a higher claim on its assets and earnings than common stock. Preferred shares generally have a dividend that must be paid out before dividends to common shareholders, and the shares usually do not carry voting rights.
Preferred stock combines features of debt, in that it pays fixed dividends, and equity, in that it has the potential to appreciate in price. The details of each preferred stock depend on the issue.

Read More Answers.

Question # 70

Explain me what type of person makes a good credit analyst?

Answer:-

Someone who's detail oriented, good with numbers, enjoys research and analysis, likes working independently and is good at financial modeling and financial analysis with strong Excel skills.

Read More Answers.

Question # 71

Explain me what is a 'Debt Instrument'?

Answer:-

A debt instrument is a paper or electronic obligation that enables the issuing party to raise funds by promising to repay a lender in accordance with terms of a contract. Types of debt instruments include notes, bonds, debentures, certificates, mortgages, leases or other agreements between a lender and a borrower. These instruments provide a way for market participants to easily transfer the ownership of debt obligations from one party to another.

Read More Answers.

Question # 72

Tell me what is the current LIBOR rate?

Answer:-

Quote the current LIBOR rate.

Read More Answers.

Question # 73

Explain what is the 'Overnight Rate'?

Answer:-

The interest rate at which a depository institution lends funds to another depository institution (short-term), or the interest rate the central bank charges a financial institution to borrow money overnight. The overnight rate is the lowest available interest rate, and as such, it is only available to the most creditworthy institutions.

Read More Answers.

Question # 74

Tell me what is the interest coverage ratio?

Answer:-

This is commonly considered EBIT divided by interest expense. This is also referred to as "times interest earned".

Read More Answers.

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