STATISTICS COLLOQUIUM

MONDAY, APRIL 23, 2007
TALK: 4:00 PM — SCIENCE CENTER RM. B-10
RECEPTION: 5:15 PM — SCIENCE CENTER, 7TH FLOOR

“Frailty Correlated Default”

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ABSTRACT

We analyze portfolio credit risk with a stochastic intensity model involving dynamic frailty, by which the credit qualities of different firms depend on common unobservable time-varying default covariates. Frailty is estimated to have a large impact on estimated conditional mean default rates, above and beyond those predicted by observable factors, and to cause a large increase in the likelihood of large default losses for portfolios of U.S. corporate bonds during 1980-2004.