

# CDOs

**Rebecca J. Simmons**  
February 23, 2010

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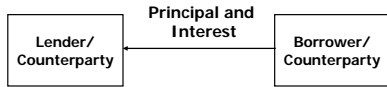
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## Transferring Credit Risk

- Banks and other lenders seek to reduce or eliminate some or all of the risks of credit exposures
- Exposures include those under traditional loans, swaps, credit card accounts, etc.



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## Traditional Credit Risk Reduction

- Traditional methods include:
  - Requiring collateral from the borrower
  - Obtaining a guarantee or letter of credit from a third party whose credit is better
  - For loans, selling assignments of, or participations in, the loans
  - Diversification, lending limits, etc.

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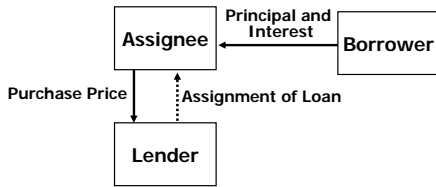
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## Assignment of Loan



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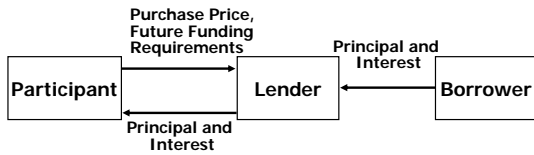
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## Loan Participation



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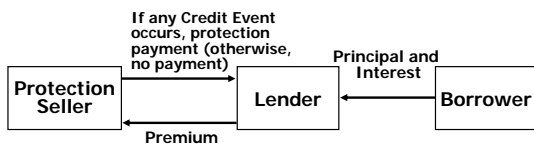
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## Credit Default Swap



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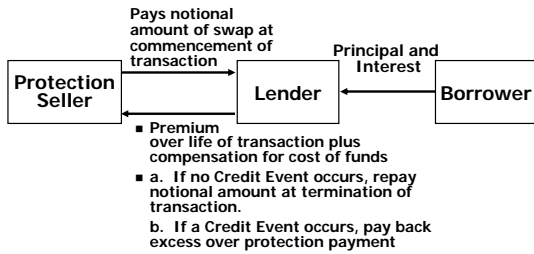
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## Prepaid Credit Default Swap



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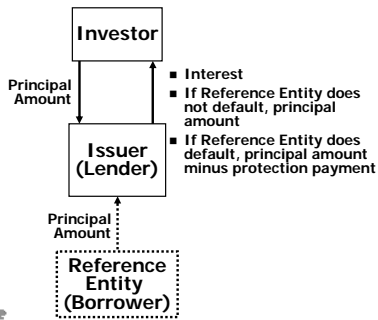
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## Credit-Linked Note



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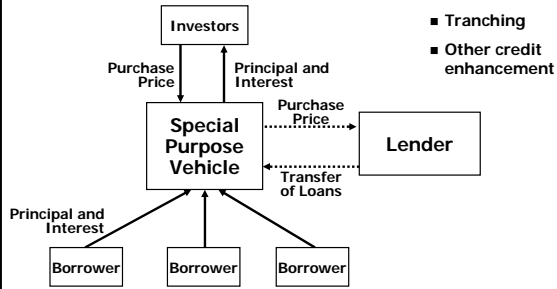
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## Collateralized Debt Obligation



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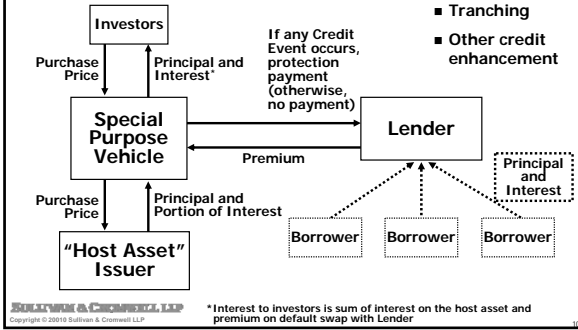
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# Synthetic CDO



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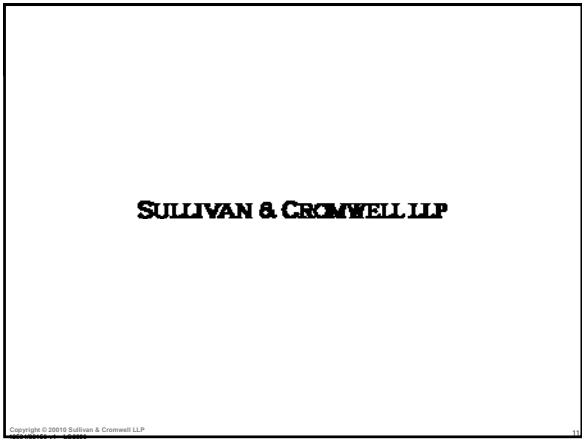
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