Credit and Risk Management	**Fin625**

Assignment No.1 **Marks: 15**

Solution:

1) A credit rating is being used to assess the credit worthiness of an individual, corporation, or even a country. The credit rating is based on the relevant financial information and it assesses the ability of a borrower to pay back a loan.

Pakistan Credit Rating Agency (PACRA) is Pakistan's first credit rating agency which was established in 1994. It is widely recognized for its integrity and Professionalism. The primary function of PACRA is to evaluate whether an entity has the capacity and willingness to meet its debt obligations. The ratings made by PACRA are based on impartial, independent and professional assessment of credit risk related to a particular debt instrument or a corporate entity. PACRA has completed so many ratings not only for debt instruments but also for financial institutions and industrial corporatations. PACRA also assigns individual and support ratings to commercial banks

The process of evaluating credit worthiness by PACRA involves the following steps:

- Careful analysis of an entity's published information
- Collecting any additional information required as decided by analysts by sending a detailed questionnaire to the client for collecting that additional information.
- A comprehensive meeting with company senior management is arranged covering wide issues like company's earning trends, financial position, competitive standing, operating practices, economic environment, future prospects, and some other issues that can influence PACRA's assessment.
- A rating proposal is prepared for determining the initial ratings for the entity and then presented to the rating committee.

- A draft rating report is developed and forwarded to the client so that the accuracy and confidentiality of the given information in the report can be verified by the client. After getting the approval from the client, the one-page summary of the report is made public with the issuance of a press release of the assigned rating.

Thus, the ratings made by PACRA provide a measurement of risk that makes it easy for investors to carry on investment decision after evaluating suitable return at the given level of risk.

2) The personal credit rating is credit evaluation of an individual maintained by credit rating agencies. The individual credit score can affect an individual’s ability to borrow loans from Banks or any other financial institution. The factors which may affect an individual credit rating is his ability to pay back a loan, his previous credit history, saving patterns, spending patterns etc. Whereas a corporate credit rating is the credit scores given to corporations such as Banks even are given credit ratings by credit rating agencies. The credit ratings given to corporations are **AAA, AA, A, BBB, BB, B, CCC, CC, C.**

3) The credit score is considered as a significant measure of credit worthiness of an individual or corporation. A possible reasons for a negative credit score may be:

- ✓ The credit history may not be good for them. A record of negative information can lower a consumer's credit rating or score such as charge offs, collections, late payments, repossessions, foreclosures, settlements, bankruptcies, liens etc.
- ✓ Individual or a corporation already has excessive debt burden or a negative profitability in case of a company.