



The alchemy of CDO credit ratings

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Abstract

Collateralized loan obligations (CLOs) were one of the largest and fastest growing segments of the structured finance market, fueling the 2003–2007 boom in syndicated loans and leveraged buyouts. The credit crisis brought CLO issuance to a halt, and as a result the leveraged loan market dried up. Similar to other structured finance products, investors in CLOs rely heavily on credit rating provided by the rating agencies, yet little is known about CLO rating practices. This paper attempts to fill the gap. Using novel hand-collected data on 3912 tranches of collateralized loan obligations we document the rating practices of CLOs and analyze their structures.

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JEL classification

G01; G12; G18; G24

Keywords

Collateralized loan obligations; Credit rating; Leveraged buyouts securitization

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