

## Text Lecture 1.4 – Sofa session

Hi, welcome to the first sofa session of this course.

What is the sofa session?

The sofa session is a special occasion. It's an opportunity for me to enjoy my sofa, to have some coffee, but it's also a place for us to discuss about the topics that we are considering together in this course, from a different perspective.

We will discuss those topics from the everyday life perspective, or we will consider the way in which these techniques, these tools, are criticized by scholars and practitioners.

So, the sofa session is a way of making this course less formal and more practical.

The sofa session will be also used for another purpose. During the course, on the course forum, you will have the opportunity of asking questions about the topics of the course.

Obviously I cannot answer personally all those questions...you can imagine, you are thousands.

And that is also why I cannot invite you all in my sofa, and so I just hope that you are sitting somewhere in your places.

Ehm...ok, I will use the sofa session to answer your questions. So, every week, I will pick, together with my assistants Mitchell and Tamara, some of your questions and I will try to answer personally.

Now, during the last week, we have considered credit risk. And, if you are attending this course, you are probably agreeing with me on the fact that credit risk is a really important type of risk.

Not only for banks, but for us, for all companies out there. Surely, if you are a bank, credit risk is very important, because one of the most important activities of a bank is to lend money, and with credit risk...what you want to do is to try to minimize credit risk, in order to have a safer business.

But credit risk...it's really important for all of us. Every time you use your credit card, every time you ask for a loan in order to buy the wonderful new car that you want to possess, or when you are asking for financing in buying your new computer, when you are going to a bank and you ask for a mortgage in order to buy that wonderful house, you have ever dreamed of; in all those cases, credit risk is just behind the corner.

And, even when you are investing (and it is not important that you are a huge investor, that you are an investment fund), when you just buy a bond, when you are investing some little money in something, credit risk is always there.

Obviously, together with market risk! But when you buy a bond, the fact that the issuer may default, and so you are losing your money - at least partially, it is something that you always have to keep in mind.

Now, my first question for you - and this is also an opportunity for us to know each other, and for you as students to know you on the course forum - is the following question.

So... when was the last time you faced credit risk directly?

So, you can tell us what was the last time you faced credit risk. It can be also the last time you just gave some money to your best friend. So, it's nice to discuss about that as well.

During the last week, we have also considered - even if very briefly - the impact of the 2007-2008 crisis, and in particular, we have seen how credit risk has shown its strength, its power in the 2007-2008 world crisis.

Obviously this is a topic that we will stress a lot during the course, so this is not the first and the last time we will discuss about the crisis. We will have special sessions during the course to discuss about that.

But in any case we have seen that credit risk has manifested its power very strongly, and major financial players, major financial institutions, just disappeared from one day to the other, because of credit risk. Major banks were obliged to merge, in order to survive.

And not only banks, many people, millions of people, essentially lost a lot of money and went bankrupt because of credit risk.

Or, to be more exact, because of a combination of credit risk and market risk.

So, my second question for you is: how did the last crisis hit you? If that happened obviously...

So that was the first sofa session. Obviously this is not a real sofa session, because we are still at the very beginning.

So I am waiting for your questions, I am waiting for more structured topics during the course, in order to have a larger and broader discussion of credit risk.

But, in any case, it's always good to start.

So, I will keep enjoying my Italian espresso, and I hope you are enjoying some coffee or some tea as well.

So... goodbye.