Common interview questions: credit risk analysts

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One specialized position within the banking industry is that of a credit risk analyst. The job of assessing credit risk is crucial to the profitability of a bank, since loans are the primary source of revenues for these institutions. A credit risk analyst's job is to assess creditworthiness, either of individuals or companies and, more specifically, determine the amount of credit the bank should extend to the client. Credit risk analysts review financial statements, credit history and economic conditions to determine a potential borrower's likely ability to meet interest payment obligations and ultimately pay back a loan.

Credit risk analysts must be experts at deciphering financial statements and evaluation metrics such as leverage and profitability ratios. Most of the job-specific questions an interviewee is likely to encounter revolve around these areas of knowledge.

"How would you handle an important, long-time business client seeking a loan your risk assessment tells you is not safe for the bank to make?"

This can be a key issue, since maintaining good client relationships with important corporate clients is essential to a bank's success. A bank does not want to risk losing a multimillion-dollar client over one loan application, but neither does it wish to make loans it does not believe can reasonably be paid back.

How you answer this type of question will display your ability to handle customer relations well and offer creative solutions for clients, while not endangering the bank's position as a lender. A good answer might be
something like, "I would offer a smaller loan amount I believe the bank could safely extend, and then let the client know the exact steps they could take to allow me to extend further credit, and offer to meet with them to review the situation at some appropriate point in the future to consider a larger loan."

"What is a good debt-to-equity ratio?"

You should definitely have a solid answer ready for this question, since the debt-to-equity (D/E) ratio is a key, if not the primary, financial ratio considered in evaluating a company's ability to handle its debt financing obligations. The D/E ratio indicates a company’s total debt in relation to its total equity, and it reveals what percentage of a company's financing is being provided by debt and what percentage by equity. Your answer should show you understand the ratio and know that, generally speaking, ratios lower than 1.0 indicate a more financially sound firm, while ratios higher than 1.0 indicate an increasing level of credit risk.

Beyond that, it should be noted that average D/E ratios vary significantly between sectors and industries. A more solid credit risk analysis includes an examination of the current state of the industry and the company's position within the industry, as well as consideration of other key financial ratios such as the interest coverage ratio or current ratio.

"What is a credit default swap?"

This question is more likely to be thrown at someone with previous experience in the field who is applying for a senior credit risk analyst position, but it still might show up in an interview for an entry-level credit risk analyst position with a bank. A good answer demonstrates you understand the concept. A better answer includes an example. A credit default swap (CDS) is a frequently used method of mitigating risk in fixed-income, debt security instruments such as bonds, and it is one of the most common financial derivatives.
A CDS is essentially a type of investment insurance that allows the buyer to mitigate his investment risk by shifting risk to the seller of a CDS in exchange for a fee. The seller of the CDS stands in the position of guaranteeing the debt security in which the buyer has invested.

Other questions likely to be encountered in a credit risk analyst position interview are general questions about your problem-solving abilities, your ability to work as a part of a team and your understanding of basic macroeconomics concepts such as fiscal policies and the prime rate.