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Abstract

In credit portfolio modeling the asset correlation parameter is used to describe the degree of default rates fluctuations. In this article we estimate the asset correlation parameter for banks and other industry sectors from default data. We find that estimates of the asset correlation vary substantially among the different segments and that banks exhibit a much larger asset correlation parameter, larger also than the regulatory value of the Basel Accord. For pooled data the asset correlation parameter shrinks due to diversification effects.

Keywords: Basel Accord, Asset correlation, Banks, Financial Crisis, Default rates

JEL Classification: G21, G24, G28, C11, C12

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