

On Credit Spread Slopes and Predictability of Bank Risk.

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ABSTRACT: We examine whether bank credit-spread curves, engendered by subordinated-debt, would help predict bank risk. We extract credit-spread curves for each bank each quarter, and analyze the predictive properties of credit-spread slopes. We find that credit-spread slopes are significant predictors of future credit spreads. We also find that credit-spread slopes provide significant additional information on future bank risk variables, over and above other bank-specific and market-wide information.