NOVA SCHOOL OF BUSINESS & ECONOMICS

Banking – Autumn semester 2024-2025

Case 2: Blackstone and the Sale of Citigroup's Loan Portfolio

Support questions

1. Discuss why this transaction makes sense for Citi and for Blackstone. Address the change in risk at Citi with the transaction.
2. What is a credit default swap? Explain its basic mechanics, what is a protection buyer, what is a protection seller, a credit event, and the actual settlement mechanisms.
3. Discuss the factors that led to the leveraged credit boom that ended in 2007.
4. Using the data in the case on default and recovery rates, what is the value of the deal for private equity firms on a discounted cash flow basis? What is the implied IRR?
5. Assess the purchase price using information on CDS spreads.
    a. Using historical recovery rates, what is the implied probability of default? What is the implied IRR?
    b. It is useful to note that buying the loan in combination with a CDS on the loan makes an investor's payoff essentially riskless. What are the annual cash flows from such an investment? How would you discount those cash flows? What is the value of such an investment?
6. Discuss in the which valuation approach do you have more confidence.
7. Based on your calculations, how attractive is this deal for Blackstone?

Note: for your calculations, assume the beta of the portfolio is 0.2, and the investment is exited in 5 years. Do the calculations per $100 of portfolio face value.