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A Dynamic Hazard Rate Approach to Loan Loss Distributions

Simple asymptotic loan loss distributions are widely used by banks and regulators for a variety of purposes including valuing portfolios, modelling structured products and calculating economic capital. This paper describes a new class of hazard-rate-based loan loss distributions. These are more tractable than the standard Vasicek distribution and may be extended to dynamic loss processes which are much easier to benchmark to data in a convincing fashion.