Consider three identical loans, each of which pays $1 if it does not default and $0 if it does default. The ten year default probability for each loan is 15%. Assume the default risks are independent. Suppose these loans are pooled and three tranches of CDOs (Senior, Mezzanine and Equity) are issued.

(a) Based on the table in Coval, Jurek and Stafford, what is the rating of the individual loans?
(b) For each tranche, (i) what is the default risk and (ii) what is the rating?