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On the cover and table of contents for this issue, you will notice that we have started to group articles by category such as “new products,” “analysis,” “legal and regulatory,” “international,” and “case studies.” We also plan regular sections such as “product primers,” “traditional asset classes,” and “specialized asset classes,” and will use additional categories as needed. Over the past several months, we have been interviewing readers of the journal by telephone—an effort we will continue on a regular basis. We have found that many of our readers have specialized interests and look primarily for certain types of articles. We hope grouping of articles by category will facilitate that process. Based on these discussions, we believe we have reader support for striking a balance among quantitative analysis from technical experts, more qualitative discussion of structured products as we have seen from attorneys in recent issues, and more introductory material that should be understandable and instructive for anyone generally familiar with finance who wants to know more about structured finance—and of course we still want those introductory articles to be useful reviews for the experts. With our more complex articles, we are working with authors to define any term and explain any analytical technique that some of our readers may not yet understand. As we continue to talk to our readers, we hope you will contact us as well (see contact information below) for suggestions about the journal as well as proposed articles.

This issue begins in the “new product” category with an article by Frank Fabozzi, Laurie Goodman, and Douglas Lucas that describes the advantages and challenges of hybrid ABS CDOs, which are comprised of both cash bonds and CDS. The implementation of “pay as you go” or “floating interest payments” settlement in June 2005 increased the interest in ABS CDS and made hybrid CDS and cash bonds easier to manage. Because of flexibility and other advantages described in the article, the use of such hybrids took off immediately, and they are now far more popular than pure cash bond ABS. In the “analysis” category, Richard Hrvatin, Matthias Neugebauer, and Gareth Stoye provide an analysis of short-term rating migration of synthetic CDOs that provides the foundation for ratings stability scores recently introduced by Fitch Ratings. Those stability scores measure the propensity for the rating of a CDO tranche to change over time. Brian Eales and Radu Tunaru follow with an analysis of some risk management problems that can arise with forward start options that are used to provide downside risk protection for index-linked securities. In the first of two articles in the “legal and regulatory” section, Anthony Nolan addresses regulatory issues related to banks’ synthetic securitization and derivatives transactions. He observes that it is only

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in the last five years that banks have been able to use derivatives as well as actual sales to transfer credit risk on their loan assets to other parties. In a sale of assets, a bank is concerned with whether the sale is a true sale and whether the special-purpose vehicle is bankruptcy-remote. With a synthetic transaction, the legal issues are similar but the technology is different. Bankruptcy remoteness depends largely on specific bankruptcy rules such as whether the terms of a swap provide for meaningful credit protection. Mr. Nolan notes that Basel II addresses credit derivatives in a very forthright manner, setting standards for when a credit derivative will and will not be deemed a real transfer of credit risk. Stephen Ornstein, David Tallman, and John Holahan follow with an article on predatory lending in the secondary market. It is the third in a series of articles with a common theme that those who securitize or purchase ABS or MBS have to be cognizant of the significant laws that apply to primary lenders. When those laws are violated, intermediaries and investors run the risk of monetary liabilities, unwinding underlying loans, and—perhaps most important—reputational damage. (Please see “Massachusetts Predatory Home Loan Practices Act and Other Amendments to Massachusetts Law” in the Winter 2005 issue, and “The Fair and Accurate Credit Transactions Act of 2003” in the Spring 2005 issue.) Andreas Jobst follows in the “international” category with an article that shows how governments and public sector agencies in emerging market countries can use securitization as an expedient asset-liability management tool as budget deficits and fiscal constraints limit financing options. The article also informs a more specific debate about the attendant infrastructural, legal and regulatory challenges in these countries. We conclude with two case studies of recent transactions. Jonathan Manley and Lapo Guadagnuolo provide a rating-agency view of Depfa Bank’s EPIC II securitization of PPP loans, a synthetic, partially funded CLO, which provides regulatory capital relief and increases the bank’s capacity to generate similar loans in the infrastructure arena. Then Laurent Tournaud describes the challenges of putting together Vallauris II, a CLO of LBOs, in the current continental European market. The issue concludes with Samantha Rowan’s usual summary of highlights from recent issues of *Securitization News* and brief summaries of books received.

We hope this winter issue provides you with a stimulating and informative variety of material. Again, we always welcome your comments and look to you, the practitioner, as our best source of articles. Please contact us at any time.

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