The Journal of Structured Finance

VOLUME 16, NUMBER 4 WINTER 2011

HENRY A. DAVIS Editor

HARRY KATZ Production and Technology Director

ANDREW O'DONNELL Director of Marketing
JOANN LIN Associate Marketing Manager

SEGAL BENGIGI Global Digital Sales Manager

PETER JUNCAJ Head of Subscription Sales Account Manager
CHARLIE BUXTON Account Manager
TRISTAN EFREMENKO Account Manager
JENIFER HILL Account Manager

DEWEY PALMIERI Reprints Manager

KELVIN LOUIE Senior Fulfillment Manager
EMPERATRIZ MIGNONE Fulfillment Manager

STEVE KURTZ Director, Finance & Operations
ALINA LEONOVA Business Manager

DAVE BLIDE Associate Publisher
SAMANTHA RALPH Group Graphic Designer

JANE WILKINSON President & CEO
ERIC HALL Publisher
ALLISON ADAMS Group Publisher

Downloaded from https://jsf.pm-research.com by guest on April 11, 2021. Copyright 2011 Pageant Media Ltd.

In the wake of the financial crisis, the securitization market is rebuilding itself gradually and with a degree of uncertainty. How securitization will look in the future will be shaped significantly by the Dodd-Frank Act and the extensive follow-up and related legislation and regulations such SEC Rule 17(g) (more transparency of information), the repeal of SEC Rule 436(g) (less exemption from liability for credit rating agencies), the FDIC safe harbor rule change, and proposed amendments to SEC Reg AB, including the requirement for more "skin in the game." How securitization is evolving in this regulation-intensive environment is the subject of our first two articles by Ann Kenyon and Shi Yuan Chen, Michael Wilberton, and Philip Schockling.

In this journal's coverage of the causes of and the cleanup after the financial crisis, no theme has been more important than the failure of risk management disciplines. In his article, Michael Rodgers focuses on models that were based too much on statistical variances and not enough on commonsense observation and evaluation of what was going on in the real world of residential mortgage origination and securitization. Then Michael Bykhovsky comments on the equally well known phenomenon in the largest financial services firms of compensation structures that motivated people to take significant risks to boost performance in the short term with insufficient regard for longer-term consequences.

In the wake of problems caused by excessive reliance on credit ratings that didn't sufficiently anticipate the collapse of the residential mortgage-backed securities (RMBS) market, Mahesh Kotecha, Roy Weinberger, and Sharon Ryan point to the weaknesses of the issuer-pays model and suggest an alternative model that would spread the costs among both investors and issuers. Then Noemi Blumberg, Johanna Wirth, and Nikita Litsoukov discuss recent changes and the possible future direction of the law concerning the liability of credit rating agencies for their ratings. In the past, the credit rating agencies have enjoyed First Amendment rights similar to those of journalists; in the future they may face greater threat of liability.

Among the problems RMBS investors have faced over the course of the financial crisis have been ineffective treatment of distressed borrowers, poor loss mitigation strategies, and difficulty in valuing these securities, largely because of insufficient access to and ability to analyze detailed information on the underlying individual mortgages. In his article, Thomas Showalter shows how behavior-based analytic methods can support improved loss-mitigation and borrower-retention strategies, and then Ned Myers discusses the recent enhancement of databases and behavioral models to analyze the granular data underlying RMBS.

The Journal of Structured Finance

In the first of two articles on life settlements, Brian Casey and Jeffrey Lowe bring us up to date on the continuing evolution of the life settlements asset class toward legal status as "securities," a journey that still has a way to go. Then Charles Stone and Anne Zissu help us with our analytic understanding of life settlements, explaining how the "longevity gap," the difference between the present values of the asset (death benefits) and liability (required premium payments) components, can be used to value pools of life settlements and to quantify how those values are affected by changes in the longevity of the insured pool.

Finally, in the project finance sector, John Ryan looks at government programs to facilitate infrastructure financing over the course of the financial crisis and examines the continuing need for such programs going forward. In an analysis focused on partial sovereign guarantees, he concludes that a partial guarantee is likely to be more cost effective for the same benefit than a government subsidy in the form of a direct transfer; such cost is small relative to project cost and can be estimated with reasonable accuracy.

Henry A. Davis
Editor

Downloaded from https://jsf.pm-research.com by guest on April 11, 2021. Copyright 2011 Pageant Media Ltd.