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We start with an explanation by Paul Forrester, Carol Hitselberger, Brad Keck, and David Sahr of how the final Volcker Rule will affect securitization transactions. The Volcker Rule generally prohibits any banking entity from engaging in proprietary trading and from acquiring or retaining an ownership interest in, sponsoring, or having certain other relationships with a hedge fund or private equity fund, subject to exemptions for certain permitted activities. Although securitization transactions generally do not utilize entities that would be regarded as private equity funds or hedge funds and the statutory text of the Volcker Rule expressly requires that the final regulation not prohibit the securitization of loans, the authors note that the final regulation will still impact securitizations in a material way due to the breadth of the definition of "covered funds."

Scott Anderson and Janet Jozwik outline an approach for developing a loan-level model to predict the credit events that trigger investor losses in Fannie Mae's and Freddie Mac's recent credit risk transfer (CRT) transactions, making use of the loan-level origination and performance data that Fannie and Freddie released in their historical books of business in 2013. Focusing strictly on investors' exposure to the defined credit event in the CRT transactions, a loan becoming 180-days delinquent, they find that a set of loan-level variables in a typical credit model explain much of the variation in credit performance across loans and over different stages of the economic cycle. But they find that the addition of factors to capture broader macroeconomic effects and the quality of underwriting significantly improves the performance of their credit model. They believe this type of model can be used for evaluating the recent and future CRT transactions issued by the GSEs.

Laurie Goodman and Jun Zhu observe that over the past eight months a broad consensus has been emerging on the future structure of housing finance. In the Corker–Warner bill and other proposals, private-sector entities would originate and service mortgages, other private-sector entities would provide credit enhancement to cover normal risks, and a federal government entity would act as the guarantor of last resort, absorbing catastrophic risk, while also providing regulatory oversight and a securitization platform for at least the government-guaranteed securities. The authors address how much capital should be required for the private-sector originator servicer. They find the proposed capital requirements in the reform proposals, ranging from 5% to 10%, to be on the high side. In their opinion,

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excessive capital requirements could result in higher mortgage rates and cause banks to hold more of the highest quality mortgages on their own balance sheets. The result could be adverse selection to government-guaranteed loans and potentially a smaller overall mortgage market.

Prakash Deo analyzes domestic leveraged leases using the displaced equity method, examining the financial and related issues a lessor needs to evaluate when financing an asset using domestic leveraged lease financing. In the displacement equity method, the annual debt amount associated with each project is treated as just replacing an equivalent amount of equity that otherwise would be tied up in the project. The author presents a spreadsheet model for evaluating and settling terms on leveraged leases using this method.

Noting the tremendous growth of the U.S. solar industry in recent years and successful issuance of the industry's first rated, asset-backed notes, Richard Matsui and Nicholas Malaya explain that this new asset class poses new challenges to underwriters and investors. They find traditional methods of borrower-related credit analysis to be insufficient for understanding solar asset-backed securities (ABS) cash flow characteristics. Solar ABS are backed by power purchase agreements (PPAs) with electricity users whose motivation to continue making monthly payments is largely tied to the savings offered by solar energy compared to traditional sources.

Salvador Espinosa and Jorge Moreno describe increased economic activity, population growth, and regional development opportunities along the U.S.–Mexico border following the enactment of NAFTA, but they also note a growing gap between infrastructure needs and available funding. Currently, once priorities for strategic border infrastructure projects are defined, it is the responsibility of each government to secure funding for the portion of the project located within its jurisdiction. This funding approach results in costly inefficiencies that could be mitigated if project sponsors from both countries could access international capital markets with jointly issued bonds. A bi-national mechanism of bond financing for infrastructure projects shared by the U.S. and Mexico does not appear to be a near-term possibility but the authors analyze the developments that would be required to make such financing possible. They do not consider overall financial market integration to be a necessary condition for the design of cross-border funding mechanisms, but they believe that greater bond yield convergence would be an important step. They analyze and compare the risk factors affecting the yield spreads of sub-sovereign bonds in the two countries.

Ron D'Vari and Asim Ali point to many processes financial institutions need to redesign to meet the rigors of today's markets, such as origination, underwriting, due diligence, securitization, surveillance, credit transparency, risk management, capital and liquidity management, and internal and external reporting. Given the interdisciplinary nature of the solutions as well as the high degree of domain knowledge required, they make a case for market practitioners and industry professionals who serve as financial market advisors in highly technical areas, such complex asset underwriting, model validation, valuation, quality assurance, stress testing, internal process audits, and regulatory reporting.

In the first of 11 panel discussion summaries, Lewis Cohen and Rebecca Hoskins address global regulatory developments affecting the global securitization market since the 2008 financial crisis. Although the battle has been won in convincing policy makers and regulators of the essential role securitization plays in the world financial markets, the inconsistency of regulations across different large securitization markets is causing difficulties for issuers and investors, and there are still some aspects of "punishment" that are coming through in regulations.

Summarizing remarks made in a panel on improving bondholder communications, representing the issuer, vendor, investor, and trustee points of view, Paul Burke and Sara Elizabeth Beckmeier describe broad agreement on the need to convey thorough information in a timely manner to all parties. The panelists discussed the strengths and weaknesses of some of the tools available for improving

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information flow, such as trustee reports, trustee websites, issuer telephone contact numbers, deal bulletins, the services of the Depository Trust Company, and independent information platforms and data services. The trustee is in a good position to get involved at the development stage of a deal to ensure there will be proper information flow throughout the life of that deal.

In their two respective panel discussion summaries on asset-backed commercial paper (ABCP), Michael Himmel and Steven Ceurvorst cover the origins and basic functions of the market, how the ABCP market was inflated by structured investment vehicles (SIVs) in the years leading to financial crisis, how the market has returned to its real-economy roots since the financial crisis, and how the market today is affected by numerous regulatory issues, including rules pertaining to consolidation of ABCP conduits under GAAP, permissible money market fund investments under the Investment Company Act of 1940, the liquidity coverage ratio under Basel III, risk retention rules, and the Volcker Rule.

In the first of three panel discussion summaries focused on mortgage-backed securities, Vishy Tirupattur and Laurie Goodman address the macroeconomic outlook. The panel generally agreed we are not in a housing bubble, projected housing price growth in the 6% to 8% range for 2014, and was split over whether single-family rental securitization is just a trade based on the rally in home prices or a business here to stay and whether credit availability will improve or decline given the prospect of Fed tapering, the move to the Qualified Mortgage (QM), and the change in Federal Housing Finance Agency (FHFA) leadership. The panel discussed some demographic shifts that are expected to affect the homeownership rate over the next several years, including a greater portion of new household formations by minorities, who have a relatively low homeownership rate; an increasing number of households burdened by student debt; and stagnant real income growth.

In the panel on GSE reform policy issues chaired by Jason Kravitt, four experts, Lawrence White, Adam LaVier, Laurie Goodman, and Andy Davidson, offered their points of view on where housing finance reform stands now. While a general consensus is slowly emerging on the role of private capital and the government, numerous structural issues remain to be resolved. Housing finance reform is very unlikely to be completed before the 2016 election.

Stacey Berger notes that while the single-family rental business has a long history, the aggregation of large portfolios of properties by institutional investors and utilization of capital markets financing is a recent development. This panel expects the single-family rental securitization market to grow with issuance of structured securities by sponsors of very large institutionally owned and managed portfolios.

Bill Goddard and Geoff Sweitzer describe an insurance-linked securities market that is expanding in terms of both breadth of products and geography. Catastrophe bonds are putting pressure on traditional catastrophic reinsurance pricing. The mortality risk market is nascent but growing. The structured settlements market is stable, backed by annuity payments from carriers with reasonably strong credit ratings.

Lewis Cohen and Boris Ryvkin explain that relatively low-margin commodity trade financing has shifted from banks to capital markets as banks have been subject to increasingly stringent leverage and liquidity coverage ratios. When the financing takes place, the commodities have already been sold and letters of credit and hedging contracts have already been arranged, so the lender or note holder is taking logistical risk related to the trade but not commodity price risk.

In their panel on legal and regulatory issues facing esoteric ABS, Steve Whelan, Chris DiAngelo, and Chuck Weilamann discussed SEC Rules 17g-5 and 17g-7, the National Research Energy Laboratory's Solar Access to Public Capital (SAPC) initiative, the emergence of "REO to rental" securitization, and property assessed clean energy (PACE) securitization. They observe that in some instances regulatory changes can be supportive of new esoteric ABS, but that some regulatory initiatives in fact provide headwinds to

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esoterics. An example of regulatory tailwinds is the indirect effect of the Consumer Financial Protection Bureau's Qualified Mortgage (QM) rule on REO-to-rental securitization. As a result of tighter mortgage lending standards, many consumers continue to be renters rather buying houses, thereby increasing rental demand, increasing the appeal of rental properties to institutional investors, and increasing those investors' demand for financing those properties at the commercial level.

Finally, Mike Mascia's panel discussion summary provides a thorough explanation and update on subscription credit facilities, a type of structured finance that does not involve securitization or the use of a special purpose vehicle but rather is typically structured in the form of a loan directly to a comingled private equity fund, secured by that fund's unfunded commitments and the rights of the general partner of the fund to make capital calls. From a credit standpoint, subscription credit facilities performed well through the financial crisis and through 2013, although lenders recently have started to be more cautious and are expected to pay increasing attention to the quality of the underlying assets and to incorporate additional protections in their lending agreements to make up for shortcomings in investor diversity, less-than-ideal partnership agreements, and other perceived credit weaknesses.

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