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In our first article, Ron D’Vari, Andrea Bryan, Asim Ali, and Michael Grogan point to the essential role of the trustee in protecting investors’ interests in any bond offering and particularly in a complex securitization. But the very complexity of a securitization creates many responsibilities for detailed monitoring that trustees are generally not equipped to fulfill. The authors believe trustees should delegate many of those responsibilities to independent credit risk managers who have the required specialized, technical knowledge and experience.

Anthony Sepci, Peter Heim, and Arsen Babayan note the difficulty lenders and investors have had in rebuilding the non-agency residential mortgage-backed securities (RMBS) business since the credit crisis. They believe that designing a successful non-agency RMBS business model will require a review of lessons learned from the credit crisis and opportunities for improvement in underwriting procedures, servicing operations, securitization structures, and related business practices.

In the Spring 2014 issue of this journal, authors Scott Anderson and Janet Jozwik outlined an approach for developing a loan-level model to predict the probability and timing of credit events that trigger investor losses in Fannie Mae’s and Freddie Mac’s recent credit risk transfer (CRT) transactions, which were designed to bring in private capital to share the government-sponsored enterprises’ (GSEs’) credit losses. In this issue, Anderson and Jozwik follow up with an analysis of the CRT transactions issued over the past year to see whether the cost of insuring the mortgage pools underlying these transactions, measured in the level of spread paid to investors, exceeds a reasonable projection of credit losses, using a set of scenarios that range from normal economic conditions to a repeat of the Great Recession. In their scenarios for the Freddie Mac Structured Agency Credit Risk (STACR) transactions, the 10-year cumulative default rate in a Great Recession repeat scenario just approaches the default rate at which the reference pool would start to lose money without the risk-sharing protection of those transactions. So, Freddie Mac could be perceived as paying more than necessary for protection from a pure expected value perspective, but given the uncertain future of the GSEs in today’s economic and political environment, the agency apparently prefers to show taxpayers that the risk-sharing transactions will protect the mortgage portfolios under the worst conceivable scenario. If the GSEs are paying a little more than necessary to be safe, that is potentially good news for investors.

Further pursuing a theme addressed by Rob Couch in the Winter 2014 issue, Laurie Goodman, Jun Zhu, and Taz George comment on the tight credit availability for mortgage purchases in the post-crisis period. In their analysis, they estimate the number of “missing loans” that would have been made if credit availability were at normal levels.

They find that minority borrowers have been disproportionately shut out of the market and that some states such as Florida have been particularly impacted. The authors see severe consequences in terms of lost economic opportunities for prospective first-time home buyers and reduced economic growth as a result of fewer new house sales and related consumer purchases. Matt Scully addresses a related theme, how institutional buyers have bid up the prices of houses at the lower end, in the *Global Capital* highlights at the end of this issue.

Bradley Sohl and John Bella, Jr. give us a current picture of the container ABS asset class from the rating agency perspective, explaining the reasons securitization transactions have grown since the credit crisis, such as reduced funding from alternative sources, and risk factors that place an upper limit on container ABS credit ratings, including cyclicalities of container utilization rates, lease rates and asset values, and a high degree of concentration among lessees (the shipping companies that lease the containers from the container owners/lessors that issue the ABS) raising the risk of a single, large-scale lessee default. Short of a shipping company/lessee default, container owners/lessors can actually benefit from a weakened shipping industry as shippers lease rather than buy containers and thereby boost lessors' container utilization rates.

Since Scott Stengel's article in the Summer 2011 issue, based on his Congressional testimony to make a case for comprehensive covered bond legislation in the U.S., there has been no further progress in moving such legislation beyond the proposal stage. But Luca Bertalot's article reminds us that covered bonds have long been widely used in the European capital markets and are growing, with legislative frameworks in place, in Canada, Australia, New Zealand, South Korea, and Singapore. To support the covered bond market, to protect the European banking sector from over-reliance on sovereign debt, and to help delink the sovereign from the banking sector, Luca argues for the classification of covered bonds as Level 1 "extremely highly liquid" assets in the numerator of the Basel III Liquidity Coverage Ratio.

Leonid Gavrilov, Natalia Gavrilova, Charles Stone, and Anne Zissu discuss new findings that mortality rates for people above age 80 do not decelerate, as has been widely

believed, but rather increase at an increasing rate, making life insurance policies on people who are over 80 more valuable. The authors believe increasingly accurate pricing of longevity risk will help in the development of the market for life settlements and other longevity-linked securities and derivatives.

Tahmoures Afshar and Majed Muhtaseb compare conventional bond financing with Islamic sukuk financing in clear, easy-to-understand terms. They recommend that all kinds of conventional bond issuers around the world consider sukuk as an additional method and source among their overall funding mixes.

Vikas Srivastava points to the critical need for infrastructure financing in India and the vital role bank loans play, given the lack of other long-term funding alternatives. Bank project loans have relatively high marginal default rates related to construction-phase risk during their first three years, but 10-year cumulative default rates, taking project operating phases into account, are consistent with 10-year cumulative default rates for corporate issuers of low-investment-grade/high-speculative-grade debt. To facilitate the approval of bank project finance loans, there needs to be better understanding of risks and default rates throughout the life of infrastructure projects.

Vicente Alcaraz observes that some sectors of academia argue for the use of multiple discount rates—different discount rates for different phases of a project—in discounted-cash-flow project valuation, but practitioners most often consider the use of single discount rates to be simpler and more straightforward. Despite the theoretical logic of using multiple discount rates, there is no consensus as to how to implement them in practice. The practical use of multiple discount rates could be the subject of future research.

Matt Scully provides our usual highlights of articles from *GlobalCapital*. He starts off with his interview with U.S. Representative Mark Takano (D-CA) concerning the securitization of single-family rental properties. Rep. Takano fears that institutional investors are bidding up prices and pushing out first-time homebuyers at the same time those prospective buyers are having difficulty in getting mortgages.

**Henry A. Davis**  
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