
HENRY A. DAVIS Editor

HARRY KATZ Content Production Director
DEBORAH BROUWER Production/Design

CATHY SCOTT Content Director

DESSI SCHACHNE Marketing Director
DENISE ALIVIZATOS Marketing Manager

DAVID MARKS Account Manager
ANTON BORISSOV Business Development Manager

WILLIAM LAW Regional Sales Manager

DEWEY PALMIERI Reprints Manager

VINCENT YESENOSKY Head of U.S. Fulfillment
CHERLY BONNY Customer Service Manager

MARJANA SARAC Finance Manager
NICOLE FIGUEROA Business Analyst

BHUVNA DOSHI Digital Advertising Operations

DAVID ANTIN CEO
DAVE BLIDE Publisher

In this issue, we have 11 articles covering a wide range of emerging asset classes, solar energy financing, securitization in China, current regulatory issues, and project and infrastructure finance.

We start this issue with articles on two new asset classes whose rapid emergence in the past several years has been facilitated by changes in the financial markets and technology. David Snitkof addresses marketplace lending, which has arisen from the difficulty of borrowers, particularly small businesses, in getting loans since the financial crisis; bank balance sheet constraints; investors' search for new, higher-yielding asset classes in the low-interest-rate environment; the growing popularity of other crowd-funding mechanisms; and the development of technology platforms to interface in real time with large numbers of borrowers, lenders, and intermediaries. Lorenz Schwarz and Laura Ferris cover single-family rental securitization, which arose from the large number of house foreclosures in the wake of the financial crisis and the recognition by institutional investors that bank "real estate owned" (REO) purchased at a discount represented a significant investment opportunity.

Next, we have two articles on clean energy. Ray Wood, Ravi Thuraisingham, John Joshi, Billy Parish, Ben Kallo, and Minh Le summarize their panel discussion on the decline in solar energy prices, competition from low oil and natural gas prices, and the solar industry's cost reduction, product packaging, and consumer-financing efforts. The biggest challenge to widespread retail penetration in the long run appears to be mainstream consumer acceptance of solar energy and its value proposition. Many individuals are qualified for solar panels but still are not installing them on their houses.

Jeffrey Schub explains how public or quasi-public "green banks" use limited public capital to leverage private investment in clean energy. As more and more clean energy projects become economically viable and the limitations of subsidies are recognized, green bank participation can help to surmount obstacles to project financing, such as inexperienced investors and lenders and their misperception of technology risks.

Complementing an article on securitization in China in the Spring 2015 issue of this journal by Jeffrey Chen and Say Goo, which emphasized the regulatory framework, Bonnie Buchanan covers recent related developments and assesses the associated risks. Issuance of securitized products has grown significantly since the financial crisis, boosted by enabling legislation and regulation. Amid slowing economic growth and a turbulent financial system, securitization is considered an instrument that can spur liquidity in the banking system.

There are still a number of impediments, including lack of data robustness; tarnished reputations of the rating agencies; such untested legal concepts as legal isolation, comingling, and bankruptcy remoteness; and the need for a comprehensive securitization statute.

The Federal Reserve Board's complementary Dodd-Frank stress testing (DFAST) and Comprehensive Capital Analysis and Review (CCAR) exercises are meant to assess whether large bank holding companies have sufficient capital to absorb losses through stressed economic conditions. Structured financial instruments, such as mortgage-backed securities (MBS), collateralized debt obligations (CDOs), and collateralized loan obligations, receive added scrutiny from regulators because of their complexity and the role they played in the financial crisis. Larry Lee provides us some guidance on navigating through these stress tests based on best industry practices, emphasizing expert risk quantification and predictive analytical models, supported by efficient processes, thorough documentation, and effective governance starting from the financial institution's top management.

Following Charles Sweet's comprehensive explanation of Regulation AB II from the legal point of view in the Winter 2015 issue of the journal, Hans Godfrey, Chandra Mohan, and Tejpal Singh focus in their article on the regulation's benefits for investors and data collection, calculation, and presentation requirements for issuers. The new rules are meant to boost investor confidence in the asset-backed securities (ABS) market through increasingly consistent and detailed disclosure. Significant systems investments will be required both for issuers to produce the data and for investors to analyze and interpret it.

An explanation by David Salerno, John Ruddy, and Murli Rajan of recent modifications to the treatment and use of repurchase (repo) transactions fits well within this journal's broad definition of structured finance. New accounting rules requiring on-balance-sheet recognition of repos as secured borrowings and increased capital requirements have made repo transactions more expensive, and

the total U.S. repo market has declined from an estimated \$7.0 trillion in 2008 to an estimated \$4.5 trillion at the end of 2013. That decline has some investors concerned about the resulting decrease in liquidity and inventory in the bond market.

In the second in a series of four articles on their "Value for Funding" (VfF) analytical approach to infrastructure projects, Julie Kim and John Ryan focus on project funding sources and the distinction between funding and financing. Building on the widely used "Value for Money" (VFM) framework for comparing public-private partnerships (P3s) with traditional public-sector procurement (which aims to determine which alternative requires to the least amount of overall resources from the public sector to deliver a similar outcome), the core of VfF analysis is a quantitative assessment of the differential impact of a P3 and comparable public-sector approach on the public sector's overall fiscal position, including fixed debt-service obligations and credit rating. In this context, "funding" refers to the ultimate long-term ways to pay for a project, such as taxes, user fees, and "brownfield leveraging," a new approach to address the magnitude of the infrastructure funding gap, and "financing" is defined as the leveraging of future funding, that is, revenue sources. The authors also discuss where funding and financing considerations intersect.

Atanu Mukherjee and Purnendu Chatterjee observe that in the current market, large international project finance transactions are primarily served by commercial banks and some multilateral institutions. They argue, however, that commercial banks are not best suited for financing large-scale, long-tenor project transactions. The project finance markets for infrastructure financing fit more comfortably with natural, long-term institutional investors, such as pension funds and insurance companies. But these investors typically require credit ratings at the A- level or above. Up until the financial crisis, their investment in large-scale projects was enabled through monoline insurers, which today no longer play a role in these markets. Institutional investors are facing increasing pressure in today's low-interest-

rate environment to find investment opportunities with attractive yields and are beginning to accept “deal breakers” of the past, such as construction risk and delayed draw-downs, but their biggest problem is the lack of expertise and analytic resources to evaluate project investment opportunities and participate in the market. The authors believe that institutional investors can get more comfortable with project investment opportunities with improved models for risk characterization, analysis, and monitoring, helping them understand the complex, interactive nature of market, execution, and institutional risks in large projects.

Vikas Srivastava addresses the problem of information asymmetry concerning risks and returns under a PPP (or P3) framework among a project’s four key stakeholders—the government, the corporate sector, the banks, and members of the public—which causes difficulty for banks in structuring perfect deals and monitoring loans once they have been made. In a symmetric information scenario, the key stakeholders all know and can account for a project’s risk and return. In contrast, in an asymmetric information scenario, some risks, such as regulatory, environmental, and political risks, are entirely known and controlled by the government and operation, equipment, and construction risks are controlled by the project company or sponsors, but bankers do not know the complete nature or magnitude of any of these risks.

Henry A. Davis
Editor