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Welcome to the Fall 2016 issue of *The Journal of Structured Finance*. I'm writing this Editor's Letter about two weeks after the ABS East conference in Miami Beach. The conference was an important gathering of structured finance professionals, as it has been for more than two decades. It makes one think about how much the securitization industry has changed over that time and how much practices have evolved to improve and strengthen the market.

Disclosure practices were very different in 1996. For example, there was no static pool performance disclosure in prospectuses, and investors had little data for analyzing the credit dimension of the securities that they bought. The U.S. SEC's first proposal for Regulation AB (the disclosure rules for securitizations) was still eight years in the future. Some market participants highlighted the lack of transparency (Conner [1996], Noe [1996]), but it still took years for practices to evolve to an improved state. The securitization industry was resistant to change, and ultimately it took regulations from the SEC to make practices improve. Along the way, securitization took an undeserved black eye in the aftermath of the Enron scandal (Adelson and Jacob [2002]), but that too may have been part of the impetus for change.

The first important move toward improving disclosure came in 2003, when the government released a key report on improving disclosures for mortgage-backed securities (Treasury Department et al. [2003]). Among other things, the report called for improved disclosures of loan terms, property information, and borrower information. In April 2004, the SEC voted to release its initial proposal for Regulation AB. Reflecting the norms of the time, a number of market participants argued that static pool data should not be required if they were not "material" (American Bar Association [2004, p. 42], American Securitization Forum [2004, p. 3]).

In December 2004, the SEC voted to release the final rule, which defined structured finance disclosure requirements for most of the following decade. The SEC proposed a major update in 2010 and adopted a modified version of the update in 2014. Most recently, the last phase of the 2014 rule goes into effect later this year, and a few items remain outstanding as proposals.

The essential lesson from the evolution of securitization disclosure practices is that it has taken too long. The experience of the 2008 financial crisis continues to weigh heavily on the securitization industry. Bank credit card securitization has declined markedly, partly because of accounting changes that eliminated a regulatory arbitrage. Student loan securitization activity has waned following the replacement of the Federal Family Education Loan Program (FFELP) with direct government lending. The hardest story, however, is the ongoing malaise of the private-label mortgage-backed securities (MBS) sector. The securitization industry does not have the luxury of 20 years to revive private-label MBS. It must happen faster.

On the one hand, Congress must stop allowing the Federal Housing Administration (FHA) and government-sponsored enterprises (GSEs) to monopolize housing finance in America. Regardless of differing views about promoting homeownership through various FHA and GSE programs, there seems to be little policy justification for directing the federal housing subsidy to expensive homes purchased by households at the top rungs of the economic ladder. A reasonable—and relatively noncontroversial approach—would be to set the GSE conforming loan limit at a level that would cover up to the 90th percentile, excluding loans on the most expensive 10% of homes. Private-label MBS could then serve that segment of the market as a funding source. Something along those lines had better happen sooner rather than later, while the infrastructure for private-label securitization still exists.

On the other hand, the structured finance industry needs to complete the job of embracing change to assure that investors will be willing to buy private-label MBS when they return in significant volumes. This means adopting effective measures to assure investors that they will not get stuck holding securities backed by pools of defective loans (i.e., loans that breach applicable representations and warranties). Investors need to have confidence that the risk they think they're taking is the risk that they *actually are* taking.

Investors have not fully forgotten the experience of the financial crisis. They remember that private-label MBS issuers consistently refused to repurchase defective loans in accordance with the governing contracts of the deals. Then, when investors tried to enforce their rights with lawsuits, they encountered obstacles. The federal securities laws gave them virtually no protection because of the very short deadlines for bringing claims. When they sought remedies for breaches of representations and warranties, they also ran into challenges with deadlines; they could bring those claims only within six years of a deal's closing date. In the end, investors were compensated for only a fraction of the losses that they suffered on defective loans. Issuers and originators were able to largely escape responsibility for having included defective loans in their deals. Accordingly, it seems reasonable to expect that investors will remain wary of the private-label MBS sector unless they see real changes that protect them from suffering the same fate a second time. The ball is in the court of issuers and originators to embrace such changes.

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The Fall issue of the JSF returns to the traditional *pot pourri* format after our recent special theme issues (residential mortgages in the Spring and CLOs in the Summer). The Fall issue starts with an article by Gene Phillips of PF2 Securities Evaluations. Phillips addresses inefficiencies in the pricing of structured finance instruments. He closely examines the factors that impede reliable valuations of many structured finance securities. There are no easy solutions to the issues, but understanding them can help investors frame realistic expectations for how trading may be affected during periods of stress.

This issue's second article is by Ali Rezaee, of the faculty of law and political science at Shiraz University in Iran. The article discusses risks and their mitigants in project financings. Rezaee approaches the subject from a very broad perspective, providing an examination that transcends the details of the legal systems of particular jurisdictions.

The third article is by Robbin Conner, an ABS consultant based in Chappaqua, New York. Conner writes about the subprime auto loan ABS sector and examines the conflicting evidence of stress building in the sector. Conner concludes that although there is no bubble in the sector, credit performance is deteriorating, both in terms of delinquency rates and in terms of realized losses.

The fourth article is by Carlos Ortiz of Arcadia University, Charles Stone of Brooklyn College, and Anne Zissu of the Polytechnic Institute of NYU and the New York City College of Technology. Ortiz, Stone, and Zissu reverse engineer mortgage prepayment

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functions of different dealers using their point-in-time prepayment speed projections under various scenarios defined by parallel shifts of the yield curve. They illustrate that, at a given point in time, a prepayment function can be defined by a five parameters. They argue that reducing a prepayment function to such a bare bones specification can aid in valuing interest-only securities and mortgage servicing rights.

The fifth article is by Amira Mustafa, a director at Menara Analytics in London. Mustafa examines the potential use of public–private partnerships as a means of revitalizing the British steel industry in a post-Brexit environment. The core issue is reviving the industry's competitiveness. British steel production peaked at roughly 28 million tons in 1972, but it had declined to roughly 11 million tons by 2015. Moreover, as Mustafa discusses, one producer recently announced the closure of a major plant and another announced that it may sell its U.K. steel operations.

The sixth article is by Jeffrey Chen, a partner at Dentons Hong Kong who heads the firm's structured finance practice in Asia and co-chair at the China Securitization Forum in Beijing. The article discusses acquisitions and dispositions of non-performing loans (NPLs) in China. Chen explains that a foreign investor might achieve certain advantages by investing in Chinese NPLs through a privately negotiated transaction with a Chinese bank rather than through a Chinese asset management company.

The seventh article is by Arsalan Ali Farooquee, an associate at the Climate Policy Initiative and Global Innovation Lab for Climate Finance in New Delhi. Farooquee examines two methods for pricing a partial guarantee on the financing of a renewable energy project in India. He concludes that the fair price would be in the ballpark of a point to a point and a half. At that level, it becomes a potentially attractive device for financing the project.

Following the articles, the issue includes highlights from *GlobalCapital* and a selection of industry news items from the Structured Finance Industry Group (SFIG), in both cases covering Q3 2016.

As always, we welcome your submissions. Please encourage those you know who have good articles or have made good presentations on structured finance or project finance–related subjects to submit them to us. Submission guidelines can be found at http://www.iijournals.com/page/jsf/submitanarticle. If you have comments or suggestions, you can e-mail me directly at markadelson@nyc.rr.com.

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