the Journal of STRUCTURED FINANCE

VOLUME 24, NUMBER 2 SUMMER 2018

Welcome to the Summer 2018 issue of *The Journal of Structured Finance*.

The structured finance market is on track to exceed the activity levels of 2017:

Structured Finance Issuance Volumes ($ billions)

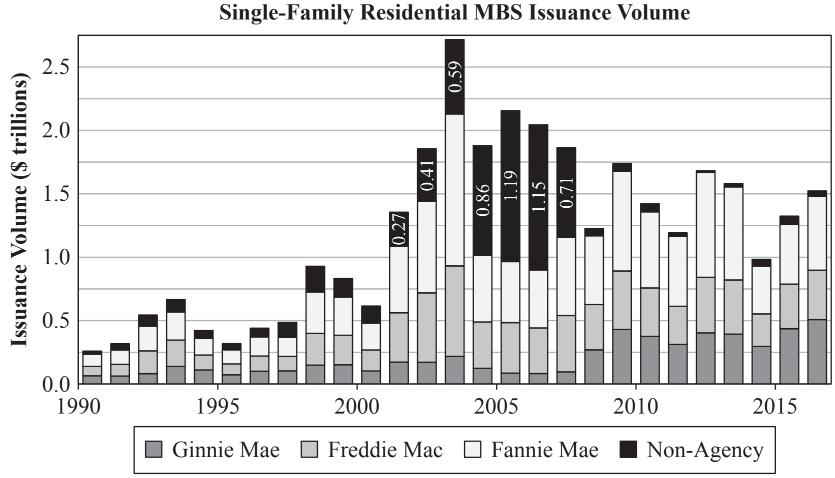
	2018 (Jan–Jun)	2017 (Jan–Jun)	2017 (Full Year)
U.S. ABS	169.4	143.5	282.3
U.S. CLOs	68.6	51.9	118.0
U.S. CMBS	40.5	35.7	87.8
Non-agency MBS	14.4	8.2	16.4
Non-U.S. ABS	75.2	71.8	148.1
Non-U.S. CMBS	2.6	0.4	1.1

Source: Asset-Backed Alert and Commercial Mortgage Alert websites.

Although the non-agency MBS activity has increased relative to a year ago, the level remains quite small compared to the pre-crisis years. Almost 10 years have passed since the onset of the financial crisis and the non-agency MBS sector has still not recovered.

I readily admit that I did not expect things to unfold as they have. Although I did not have a specific expectation about when the non-agency MBS sector would recover after the crisis, if anyone had asked me in 2010 whether I thought the sector would still be languishing in 2018 I would have said "absolutely not." I think most structured finance professionals expected that all the working groups,

Single-Family Residential MBS Issuance Volume



Sources: Mortgage Market Statistical Annual 2017, SIFMA.

initiatives, and lobbying efforts would have borne fruit by now. In retrospect, it seems very disappointing that the tremendous expenditures of time and effort by scores of industry professionals have not had positive results.

In my view, the future revival of non-agency MBS will require the same things it has needed all along. First, the GSEs must have a smaller footprint. This means both a smaller conforming loan limit and stricter underwriting standards. The conforming loan limit ought to set at the 80th percentile of home values in each MSA.[1] The underwriting standard for GSE should embody traditional criteria: 80% LTV, 28/36 DTI, plus a clean credit report.

Second, structural and documentation problems in pre-crisis deals must be fixed once and for all. This means strong representations and warranties backed-up by strong enforcement and oversight mechanisms. Investors must be able have confidence that they're getting what they've bargained for and that transaction parties will be held to their agreements. Otherwise, investors may demand yields that are too high to make deals viable.

This issue's lineup of articles begins with an article by Ann Rutledge, CEO of CreditSpectrum Corp. She examines whether the divergence between academic finance and real-world markets was a cause of the financial crisis. She argues that the academic community largely ignored structured finance before the financial crisis and, in doing so, failed to understand how real-world markets and the financial system work.

Laurie Goodman, the director of the Urban Institute's Housing Finance Policy Center, writes about the prospects for continued growth in the area of credit risk transfer deals by Fannie Mae, Freddie Mac, and others. She concludes that although the flow of such transactions from Fannie Mae and Freddie Mac is likely to remain strong, additional growth will have to come from other entities.

Leonardo Alvarenga of Quantum Finance and Gyorgy Varga of FCE Brazil examine credit ratings of Brazilian ABS. They conclude that locally sourced ratings are less expensive and of roughly equal quality to ratings from the international rating agencies.

Tracy Chen, head of structured credit at Brandywine Global Investment Management, writes about the commercial real estate credit cycles and cautions that the extreme length of the post-crisis recovery suggests that the current cycle is likely in its later stages.

Prof. Smita Tripathi of Doon University and Prof. Jitendra Kumar Sharma of University of Lucknow analyze the exit strategies used by venture capital and private equity investors in the Indian infrastructure sector. They find that investors tend to favor an IPO form of exit when the size of the investment is large and the time horizon relatively short.

Gene Phillips of PF2 Securities Evaluations tackles the thorny question of whether credit ratings should be entitled to the highest level of protection under the First Amendment, or only a lower level of protection as "commercial speech." He concludes that the answer for structured finance rating may be different from the answer for corporate ratings.

Andrea Mordini, a recent MBA graduate from the Warwick Business School in the UK, compares the risk-return proposition of project financings funded through conventional instruments and those that adhere to the principles of Islamic Finance. He finds that using instruments that do conform to such principles significantly alters the allocation of risk and rewards among a project's various classes of stakeholders.

In addition, the issue includes highlights from GlobalCapital and a selection of industry news items from the Structured Finance Industry Group (SFIG), in both cases covering Q2 2018.

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://jsf.iprjournals.com/authors. If you have comments or suggestions, you can e-mail me directly at M.Adelson@PageantMedia.com.

Mark Adelson
Editor

[1] For loans secured by properties not located with an MSA, the conforming loan limit should be the 80th percentile of home values in the state or territory where the property is located.