JSF the Journal of STRUCTURED FINANCE

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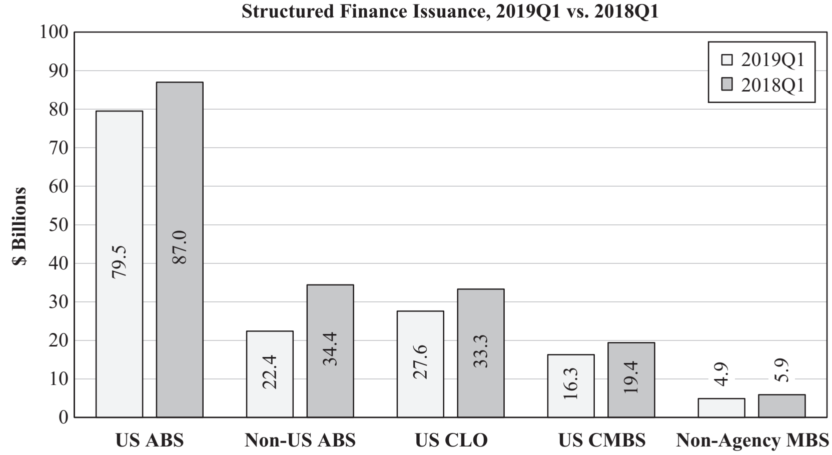
Welcome to the Spring 2019 residential mortgage-themed issue of *The Journal of Structured Finance*. Through the first quarter of the year, structured finance issuance is running slightly behind the levels of a year ago.

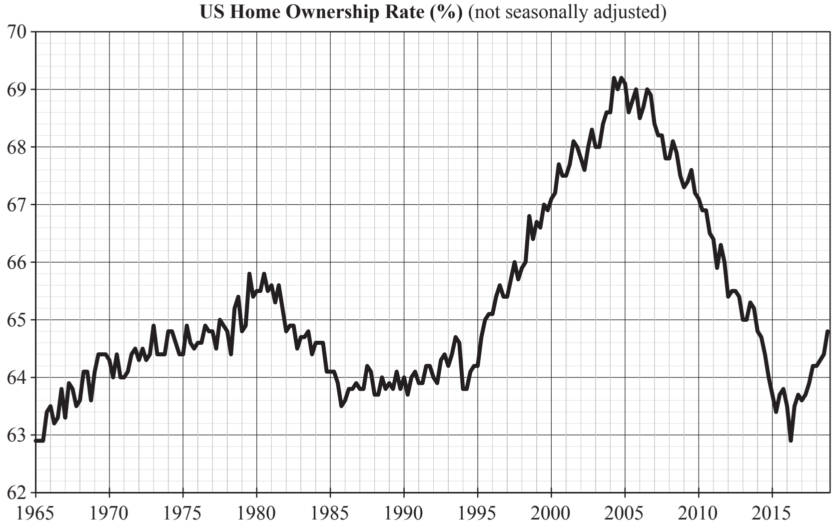
Structured Finance Issuance, 2019Q1 vs. 2018Q1



Sources: Asset-Backed Alert, Commercial Mortgage Alert.

Meanwhile, the US homeownership rate appears to be recovering toward its long-term ballpark level around 65% after having experienced a roughly 10-year slide from a peak slightly above 69% in the mid-2000s. With the benefit of hindsight—including the experience of more than five million mortgage loan foreclosures in the post-bubble years—it now seems reasonable to question the wisdom of policies and practices aimed at pushing homeownership above roughly 66.5%.

US Home Ownership Rate (%) (not seasonally adjusted)



Source: Federal Reserve Bank of St. Louis, data series RHORUSQ156N.

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This issue's lineup of articles begins with a hard-hitting piece by Janet Tavakoli of Tavakoli Structured Finance. She asserts that structured finance investors have been far too lax in scrutinizing investments for potential fraud. She encourages investors to apply the traditional modes of credit analysis and to avoid excessive reliance on quantitative analyses that can suffer from the "garbage in, garbage out" phenomenon. She argues that investors could have avoided a meaningful portion of their losses on 2005–2007 RMBS and CDOs had they applied traditional credit analysis and performed traditional due diligence.

Next, Sylvain Raynes of CreditSpectrum Corp. presents a model for banks to use in allocating their capital across business units. Raynes argues that the key drivers of capital allocation should be the relative risk-adjusted returns of different business units and the size of their potential markets. He offers an approach that is objective and avoids arbitrary reliance on "instinct" or "gut feelings."

The issue's third article is by Mario Lupoli of Fitch Ratings. Lupoli discusses so-called "mini-bonds," which are the creation of recent legislation in Italy and are intended to provide financing for small businesses. Lupoli provides a thorough background on the product and focuses on a specific transaction as a case study.

Next, Jeffrey Chen of Dentons in Hong Kong writes about the expanding appetite for nontraditional deals among Asian investors. He explains that the quest for higher yields is the key motivation behind investors' growing attraction to novel asset classes. He notes, however, that restrictions on both cross-border capital movements and currency conversions remain key challenges for investors in the region.

The fifth piece in the Spring issue is a report on the ABS East 2018 conference from last fall. The report covers 17 sessions from the event, including the general sessions on the overview of the market, regulatory reform, and replacing LIBOR. Coverage also includes the traders' and researchers' roundtable and multiple sessions on residential MBS and CLOs, as well as sessions on blockchain technology, FICO scores, consumer ABS, student loan ABS, and equipment finance. The report was published ahead of print on the journal's website in late October.

The issue also includes highlights from GlobalCapital and a selection of industry news items from the Structured Finance Industry Group (SFIG), in both cases covering Q1 2019.

In addition, concurrently with the distribution of this issue, we are publishing three more articles online. They will appear in print in the Summer 2019 JSF.

The first online article is by Larry Cordell (Federal Reserve Bank of Philadelphia), Greg Feldberg (Yale University), and Danielle Sass (University of Illinois). They discuss the role of ABS CDOs (i.e., CDOs backed by MBS) in the 2008 financial crisis. Based on their review of extensive performance data, they estimate that total losses on ABS CDOs were a whopping $410 billion, of which $325 billion was borne by holders of triple-A-rated and "super senior" securities.

The second online article is by David Zhang (MSCI) and Lihua Zhang (Zhejiang University of Technology). They present a model of home price appreciation (HPA) volatility. The authors essentially contend that the volatility component causes HPA to oscillate, cycling above and below its long-term trend. The period of oscillation is different for different MSAs. Significantly, their HPA volatility model is analytically tractable.

The third online article is by Gireesh Shrimali (Stanford University), Vinit Atal (University of Chicago), and Vaibhav Pratap Singh (Climate Policy Initiative). They propose a mechanism to reduce the funding costs for renewable energy projects in India. In broad terms, they propose establishing cash reserves to cover the risks of payment delays and defaults by state-owned electricity distribution companies that have contractually agreed to purchase electric power from renewable energy projects. They conclude that it should be possible to substantially boost the credit quality of many such projects by providing payment security support covering twelve months of payments.

If you are not already a regular visitor to the JSF website, I encourage you to examine it. In addition to being able to read the articles that we publish ahead of print, you can get a taste of the wide range of content

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for investment professionals in the whole IPR Journals family of publications.

As always, we welcome your submissions. Please encourage those you know who have good papers or who 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.iijournals.com/authors. If you have comments or suggestions, you can e-mail me directly at M.Adelson@PageantMedia.com.

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