The Future of Securitization

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Fed Funds Target Rate, NASDAQ Composite Index, and Annual Rate of U.S. Home Price Appreciation

Source: Federal Reserve, Yahoo
U.S. Public Home Equity ABS Issuance

Source: Moody's, Bloomberg, Asset Securitization Report

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Insured Portion of U.S. Home Equity ABS Issuance

Sources: Asset-Backed Alert Database (insured portion), Moody's, Bloomberg, Asset Securitization Report

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Home Equity ABS Yield Spreads over Swaps/LIBOR and Annual Structured Finance CDO Funded Issuance Volume

Source: JPMorgan

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Sub-prime Performance (12/2007)

Figure 11
Subprime Serious Delinquencies by Vintage of Securitization

Figure 12
Subprime Cumulative Losses by Vintage of Securitization

Source: Moody's
Sub-prime Downgrades in 2007

Exhibit 15: US HEL Downgrades in 2007

Exhibit 15A: Downgrades by Vintage

Exhibit 15B: Downgrades by Original Rating

Source: Moody's
Basic HEL ABS Structure – Tranching

Loans

Underlying Assets

Securities

AAA

AA

A

BBB

Residual
CDO Downgrades in 2007

Exhibit 26: US CDO Downgrades in 2007

Exhibit 26A: Downgrades by Vintage

Exhibit 26B: Downgrades by Original Rating

Source: Moody's
The Current Situation

- Defaults are likely for *most* 2006-07 sub-prime mortgage ABS tranches initially rated triple-B
- Defaults are likely for *many* 2006-07 sub-prime mortgage ABS tranches initially rated single-A
- These defaults are not surprising in an environment of declining home prices
- SF CDO tranches rated triple-A are likely to default because of concentrated exposure the triple-B and single-A layers of sub-prime mortgage deals
- CDO professionals did not expect so many securities rated at the triple-B and single-A levels to default at the same time because they had not observed it in the recent past