

This is an in-depth introduction to the analysis of structured securities. It reviews all the essential methods used by rating agencies in appraising the credit of ABS and MBS, and takes the student through a realistic hands-on exercise leading to the assignment of credit ratings. Minimum requirements are an intermediate level of facility with Excel, and some knowledge of finance and statistics.

Asset Backed Securities: 4-Day Course Outline

Pre-course Work

1. Legal foundations of the analysis of structured securities
 - a. Three simultaneous conditions that define an asset sale vs. a secured financing:
 - i. True sale/Substantive consolidation
 - ii. Fair value
 - iii. Asset identification/Perfecting a security interest
 - b. Other issues related to changing a contract into a security:
 - i. Notification
 - ii. Netting
2. Financial foundations
 - a. The meaning of ratings
 - b. The meaning of credit ratings
 - c. The structured rating scale
 - i. Key financial variables
 - ii. Parity conditions

Day 1 Foundation Concepts/Tools and Applications

1. Lecture: How the analysis of structured and corporate securities differs (corresponds to Chapters 6-9)
2. Lecture: Market and operational structures
 - a. De-constructing and reconstructing a market
 - b. Market institutions: the third-party players
 - c. Risk transfer mechanisms
 - d. The periodic payment timeline
3. Case Study: reading and interpreting an Offering Memorandum
4. Lecture & demonstration: A static rating model for structured finance: the "BOTE" method (corresponds to Chapter 2)
 - a. The BOTE rating "scale"
 - b. Sizing risk and capital
 - c. The Average Life calculation
5. Case Study: piecing the credit together from public documents
6. Review of the Case Study
7. Lecture: Extrapolating losses from data (Corresponds to Chapter 3)
 - a. Static pools vs. servicer portfolios
 - b. The delinquency matrix
 - c. Recognizing and accounting for losses and recoveries
 - d. Loss curves: generic vs. asset-specific features
8. Lecture: Loss distributions vs. loss curves (Corresponds to Chapter 3)
 - a. Randomness and the expected loss
 - b. The functional form of a loss curve
 - c. Crafting a structure from a loss curve or distribution
9. Case Study: First SOB

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Day 2 Cash Flow Modeling (ABS - Loss Curve)

1. Lecture: Power and precision in credit modeling
2. Lecture: Cash flow modeling of asset pools (one-loan version)
 - a. Working with dollars and accounts
 - b. Calculating the Average Life of the pool given prepayment and default data
 - c. Preparing the asset side of the cash flow analysis
3. Lecture: Cash flow modeling of liabilities (two-class structure)
 - a. Modeling the payment waterfall
 - b. Correct implementation of principal payment regimes
4. Laboratory: Delegates will build a technically correct cash flow model for a plain vanilla transaction structure with two classes of securities.

Day 3 Cash Flow Analysis & Structural Complexity

1. Cash Flow Laboratory:
 - a. Delegates will apply asset-side stresses and consider the results
 - b. Delegates will look at variations on the principal payment structure at different pricing points and consider the nature of pro rata vs. sequential structures.
2. Case Study: Honda 2001
3. Lecture: Introduction to the main structural variations on the plain vanilla structure:
 - a. Reserve and spread accounts
 - b. Triggers (asset- and liability-based)
 - a. PACs (Principal Amortization Classes) & TACs (Targeted Amortization Classes)
 - b. Over-collateralization
 - c. Wraps (surety bonds)
4. Laboratory: Delegates will add a reserve account to the model
5. Lecture: Modeling the Risk of Structured Transactions
 - c. Defining uncertainty
 - d. Monte Carlo simulation
 - e. Time and change

Day 4 The Way of the Deal: A Series of Discussions

1. Lecture: Building a Vocabulary of Transaction Types (corresponds to Chapter 1)
 - a. Review of the main issuance types, associated risks, and the rationale for using them
 - b. Structured transactions that are not asset securitizations
 - c. Synthetic asset securitizations—are they or aren't they?
2. Exam II:
 - a. Delegates will read five deal write-ups, and they will be asked to answer basic questions such as "what is the asset, how does the structure work, what is the key risk(s), is it a good deal?"
 - b. Delegates will choose one of three corporate advisory cases and, working in teams, will recommend a course of action.