



**PENHALLOW ASSOCIATES LIMITED**  
A Financial Knowledge Company



**Securitisation/Asset Backed  
Securities (ABS)**  
Virtual Learning: Duration 6 Hours,  
2 Periods over 2 Days,  
Course Price: £580 plus VAT  
*20.4.22 (9:00-12:00),  
21.4.22 (13:00-16:00)*

Location: (UK) Virtual Learning Live Environment via Video Communication.

*To book, or, require more information. Please contact Alan Penhallow;*

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*This programme may be of interest to your colleagues.*

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#### **Overview:**

This course is designed so that participants with no or limited knowledge of this large and important area of the capital markets can understand what securitisation is, how it is done and its pros and cons for both issuers and investors. It initially focuses on Residential Mortgage-Backed Securities (RMBS), both outside the US and then the structurally different US market, before moving on to examine the other main sectors - Commercial Mortgage-Backed Securities (CMBS) and Retail Asset-Backed Securities (ABS - e.g. credit card, auto). Cash and synthetic structures are both covered.

#### **Required existing knowledge:**

None, except that with a couple of specialist areas, US RMBS and synthetic securitisation, some knowledge of respectively fixed income and Credit Default Swaps (CDSs) would be helpful.

#### **Methodology:**

Will include case studies and exercises based on actual examples. Given sufficient preparation time and client input these would ideally include examples from the client.

- **Key learning objectives:** to understand
  - How securitization is done
  - The role of the SPV
  - Why credit enhancement is required
  - How credit enhancement is mainly provided via subordination/tranching
  - How the subordination levels/tranche widths are determined
  - The key role of the rating agencies
  - How subordination determines the cash flow waterfall
  - The importance of Excess spread
  - Who usually holds the 'Equity' and why
  - The impact of regulation
  - The pros and cons for issuers and investors
  - The alternative methods of credit enhancement to subordination
  - The interaction between the varying characteristics of the different underlying assets and the structure - e.g. prepayment patterns
  - How interest rate and other risks can arise and how they are hedged
  - How synthetic securitisation compares to cash and their respective pros and cons for issuers and investors
  - The role of securitisation in the credit crisis

## Agenda

- **Session One: Overview**
  - The size and development of the market
  - The drawbacks of standard on-balance sheet bonds for investors
  - Outline of a securitisation
  - Its potential advantages over standard funding methods for issuers and investors
  - The role of the SPV and its pros and cons for investors and the originator
  - Why subordination is required and the resultant principal and interest cash flow waterfalls - who usually holds the 'Equity' and why, excess spread
  - Capital adequacy regulation (Basel) and its impact on structures
  - Originator motivations: funding, Return on Equity before and after securitisation, others
  - The investment case
  - Securitisation compared and contrasted to covered bonds
  - Alternative methods of credit enhancement: Reserves and their pros and cons, 'external' credit enhancement ('wraps')
- **Case study:** Outline example of an RMBS issue
- **Session Two: In more detail - Credit issues**
  - The main structuring areas: credit, asset-liability management (ALM), legal, tax, accounting and regulatory
  - Credit: how rating agencies decide the tranching for a mortgage securitisation - determining the required credit enhancement levels for each tranche from loan-by-loan expected loss

- Is there arbitrage between individual corporate ratings and securitisation ratings?
- **Case study:** Example of a rating agency RMBS methodology
- **Session Three: Asset-Liability Management (ALM) and other issues.**
  - The impact of prepayment (non-US issues) on investors and the issuer, Weighted Average Lives (WALs)
  - Mitigating the impact of prepayment on investors and the issuer: fast-pay tranches, revolving/substitution periods, Step up and Clean up calls and the Regulator, Master Trusts
  - Servicers, by the Originator and third party
  - The roles of Liquidity facilities and Guaranteed Investment Contracts (GICs)
  - How interest rate and FX exposures arise and how they are hedged - swaps
  - Stressed cash flow modelling the impact of varying the timing of losses on the level of credit support from excess spread-trapping
  - Legal: 'true sale' to the SPV
  - Tax: the use of offshore tax-efficient locations for SPVs
  - Accounting: SPVs and the Originator
  - **Case study:** Collateralised Loan Obligation (CLO) example
- **Session Four: Other sectors - US RMBS, CMBS, Retail ABS and ABCP**
  - US RMBS - the main structures: pass-throughs and CMOs, the Agencies and private label
  - The impact when yields change of a free call on a fixed rate mortgage on prepayment and valuation; negative convexity, OAS spreads
  - Other structures: PACs, TACs, Interest-Only (IO), Principal-Only (IO) etc.
  - CMBS: the key differences with RMBS - lack of granularity, the importance of lease tenor and consequent balloon refinancing risk
  - UK CMBS and investor preferences - longer leases so longer maturities, fixed rate tranches
  - Credit card ABS: structuring differences
  - Auto ABS: structuring differences
  - Asset-Backed Commercial Paper (ABCP) - e.g. Trade Receivables conduits
  - Other areas
  - Case study: CMBS and Retail ABS examples

## Trainer Profile



### **Mike Stafferton**

Mike has over eight years' in-house experience in Derivatives and Origination with what was a top Japanese Securities house and over 16 years' experience as an independent consultant in the capital markets and related areas. He has a particular focus on Securitisation and Basel/CRD. He is also an Associate of Moody's.

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