

RMBS: Assessing Value & Risk (US)

This two-day course will equip market participants with the knowledge and skills to evaluate prime, Alt-A and subprime RMBS portfolios in order to assess their value and understand inherent risks.

TARGET AUDIENCE

Regulators, credit risk managers, investors, hedge funds and other market participants wanting to expand their knowledge of RMBS in context of the current market environment.

COURSE OBJECTIVES

Participants will be equipped to:

- Use a structured approach to evaluate the risk profile of RMBS by assessing collateral characteristics, recent loan performance, credit enhancement available, and anticipated cash-flow from underlying assets
- Understand the Fitch default model focusing on stress scenarios utilised by the rating agency given the current housing environment
- Unravel credit enhancement mechanisms in prime, alt-a, and subprime transactions including loss allocation and the potential for loan modifications
- Assess the risks to each tranche by unravelling its position in the cash-flow waterfall and the value of any remaining credit enhancement given different loss scenarios
- Identify any risks arising from the servicer's capabilities and business model
- Review various government programs including HAMP to assess their likely impact on security performance and ultimate valuation.

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CONTENT

INTRODUCTION

Analytic approach to credit

- A structured four-step approach to security specific analysis: purpose, payback, risks and structure
- Applying the approach to prime, alt-a, and subprime RMBS securitizations
- Originator motivations and sources of repayment
- Current challenges including the lack of liquidity and difficulty predicting performance
- Understanding the government's continued role in thawing credit markets.

RISKS TO REPAYMENT

Collateral analysis

- Key variables which impact the likelihood of default and severity of loss
- Understanding RMBS collateral features: comparing prime, alt-a, and subprime
- Utilising the revised Fitch Mortgage Default Model: loan by loan analysis
- Applying stresses to default probability and loss severity assumptions
- Changes to assumptions given 2006/2007 performance.

Servicer evaluation

- Types of servicers and their roles: primary, master and special
- Servicer creditworthiness: challenges for servicers in the current environment
- Servicer ratings: why, how and impact on credit enhancement
- Servicer advance obligations
- Loss mitigation: capabilities, strategy and procedures
- Loan modification programs – types and impact across the capital structure
- Assessing replacement risk.

STRUCTURE

Credit enhancement (CE)

- Understanding and evaluating different types of CE
- Credit enhancement and loss allocation in prime, alt-a, and subprime structures
- Clarifying excess spread, over collateralisation and subordination.

Note Profile

- Waterfall structures: protecting priority of payments
- Unravelling payment flows: sources and applications of funds
- The mechanics of loss allocation when internal credit enhancement is inadequate
- Amortisation pre and post step down
- Triggers and their impact on the CF waterfall
- Loan modifications and the cash-flow waterfall.

Cash-flow modelling

- Valuing excess spread as credit enhancement in subprime RMBS
- Stressing the impact of defaults, prepaids, and basis risk
- Deriving final credit enhancement levels by rating category
- Evaluating residual cash-flows from an investor and issuer perspective.

Structural safeguards

- Using swaps to mitigate interest rate risk
- Assessing available funds caps risk and impact on investors.

Legal safeguards

- Isolation of assets- securitization structures survive originator bankruptcy
- Reps and warranties – reliability / risks when the originator is not solvent.

Market Conditions

- The state of the housing market and the consumer recession
- Illiquidity and the impact on spreads
- The government's efforts to thaw the credit markets.

MONITORING PERFORMANCE

- Surveillance: evaluating and predicting collateral performance for prime, alt-a, and subprime transactions.
- The role of the servicer in mitigating losses
- Understanding the CF waterfall: loss allocation and the impact on tranche performance
- Credit trends: assessing migration risk
- Rating Agency downgrades vs. assessment of loss/recovery.
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