

LATEST EVOLUTIONS OF THE SECURITIZATION MARKET – INCL. ROUND TABLE WITH REGULATORS

Context & Goals

- Major international Investment banks in Europe and the US organizing a training for its Securitization specialists
- Also invited some key clients and representatives of major European central banks

Benefits

- Built on the basis of tailored surveys organized for the purpose of this training
- Best updated review of market practices and trends
- State-of-the art assessment of best practices
- Concluded by a round table with regulators on best way forward

Agenda

- Overview of latest key securitization transactions in Europe (incl. Asset types, volume, pricing and structuring).
- Impact on the originating banks under Basel III
- Which investors for which instruments – an analysis of order books (Market appetite, consequences of new regulatory framework)
- Recent market evolution: Comparison between US & Europe (incl. Standardization & simplification trends)
- Focus on the specificities of the « shadow banking » market (insurers as lenders, Hedge funds, sovereign funds, other).
- Expected market evolution
- Round Table: Priorities for regulators and arrangers

Deliverables

- Onsite presentation
- Clear documentation & Portfolio assessment tools
- Follow-up time for Q&A's for several weeks after the workshops

PF/insurer's view on the loan books universe

	RETAIL	SMALL CORP	MID-CORP	ENTERPRISE	PUBLIC
Typical types of loans	Mortgages, Consumer Finance, Credit Cards, etc.	Commercial R2, Senior secured & unsecured, Credit Facilities, etc.	Commercial R2, Senior Secured & unsecured, Project Finance, Trade Finance, etc.	Commercial R2, Senior Secured & unsecured, Project Finance, Trade Finance, etc.	Project Finance, Unsecured Lending.
Pro's	Granular Potential market access via brokers SPD: Possibility to subdivide SO open	Granular Some "naturally" secured	Strong "secured" standards Long Term less attractive for banks	Some IG ratings Specific notes in secured loans	Some state guarantees Long maturities
Con's	Highly competitive in some markets (e.g. America)	Some assimilated to "Retail" in SBC	Sub-IG Ratings	Limited liquidity premium	Very specific skills & infrastructure required No direct market access Co-Origination, Funds

Market appetite for Mortgage books

- Increasing interest from institutional investors (especially PF) for European RMBS's.
- In Europe "larger" demand remains concentrated on the larger RMBS markets such as Prime Dutch and UK mortgages. However, recent public e.g. CDOs in 2014 and private deals seems to indicate that the market appetite for other forms of prime mortgages is also important.
- Not enough Supply
- Expected increase in activity
 - US: Since RMBS, we are expert to see on rise. The two main we see issuance from banks (source: Barclays CA)
- Increasing demand drive
 - With expected review of fund also work on development
 - Spreads typically some
 - Investors indeed typical transaction, the asset
 - This additional risk premium rapidly decreasing

Investors opportunities in European Leverage Loans or too late?

- Excess value in loans: typically lower LGD's through better covenants, contractual spread for secured & unsecured, origination: criteria, etc.
- Leveraged loans (L+ loans): commercial loan provided by a group of lenders (on- or syndicated) to other banks or institutional investors, typically for the purpose of:
 - Supporting an M&A-related transaction
 - Supporting a company's business plan
 - Refinancing existing debt
 - Funding a portion of long term project finance
- European L+ loans market still material: large US and getting exposure to European loans through CDO's remain challenging as on like what is starting to happen in the US new issuance remain limited.
- European loan market still working through quite outdated paper based settlement process
- Lacking contractual specifications standardization
- Limited to no external scrutiny
- How do US manage better standardization - Banks working hand in hand with no institutional investors to bring awareness and educate the regulators (in cooperation with Regulators 2011 & 2012, ongoing efforts, National Regulatory 2013)

Solvency II Standard formula for Risk Adjusted Value of Mortgage

Article 191 - Mortgage loans

1. Total loans secured by mortgage, counterparty default risk provided

Article 190 - Risk adjusted value of mortgages

1. [...] equal to the difference between the value of the residential property held as mortgage, valued in accordance with paragraph 2, and the adjustment for market risk as referred to in paragraph 3.

3. The adjustment for market risk [...] the hypothetical capital requirement for market risk of the insurance or reinsurance undertaking that would apply if the residential property held as mortgage were not included in the calculation.

Questions: How to interpret the standard formula for Risk Adjusted Value of Mortgage?
 Answer: Apply the 25% RE3rd Formula shock for property risk on the value of the house pledged

Article 192 - Loan Given Default

4. The loss given default on a mortgage loan shall be equal to the following: $LGD = \max(\text{Loan} - 80\% \cdot \text{Mortgage Value}, 0)$

$LGD = \max(\text{Loan} - 80\% * 75\% * \text{House Value}, 0) = \max(\text{Loan} - 60\% * \text{House Value}, 0)$

Article 202 - Type 2 exposure SCR

$90\% \cdot LGD_{\text{not covered by collateral}} + \sum 15\% \cdot LGD_{\text{covered by collateral}}$