

COURSE OUTLINE:

ASSET BACKED SECURITIES

Why issuers securitize

Cash flow characteristics of securitized assets

- Amortizing versus nonamortizing assets

Credit enhancement mechanisms

Factors considered by the rating agencies

Call provisions

Measuring prepayments and defaults

- Voluntary versus involuntary prepayments
- Conditional prepayment rate (CPR) and absolute prepayment speed (ABS)
- Prospectus prepayment curve (PPC)
- Conditional default rate (CDR), losses versus defaults, loss severity

Extension and contraction risk

Passthrough versus paythrough structures

- Prepayment and credit tranching

Features of structures backed by amortizing assets

- Examples: Auto-backed securities, home equity loans, manufactured housing

Features of revolving structures

- Example: Credit card receivable structures
- Valuation of ABS
- Projecting cash flows
- Cash flow yield and its limitations
- Nominal spread versus zero-volatility spread (ZV OAS)
- Option-adjusted spread (OAS)
- Monte Carlo simulation to value an ABS: Application to home equity and manufacturing housing deals

Measuring interest rate risk

- Duration– effective versus modified
- Convexity– positive versus negative convexity

COLLATERALIZED DEBT OBLIGATIONS

Basic CDO Structure

Arbitrage versus balance sheet transactions

- Determinants of CDO arbitrage

Cash Flow CDO Transactions

- Rating agency analysis
- Focus on structured finance cash flow CDO

Market Value CDO Transactions

- Rating agency analysis

Synthetic CDO Transactions

Analyzing CDO Mezzanine Tranches

Analyzing CDO Equity Tranches

Management of a Portfolio of CDOs