

Introduction

1.1 SETTING THE SCENE: ABOUT THIS BOOK

First of all—and before I forget: *Thank you for buying this book.*—I much appreciate your interest and curiosity.

As the subtitle of this book implies, we will be taking a close look at a securitization and structured finance “deal”. But, hang on a minute, there are so many different deals out there, spanning across many different asset classes as well as jurisdictions, so why are we looking at one “deal”?

The answer is simple: Our starting point for this journey is a generic deal, with no particular focus on asset class, deal structure, or jurisdiction. Based on the generics, I will guide you through along the way and would hope to develop your understanding so that you are equipped with the right tools, are able to ask the right questions, and consequently receive the appropriate answers.

Thinking about this introduction, I realized that there is really no such structured finance or securitization “college” or “university” course out there that would equip practitioners with the necessary tools and skills to just go away and structure or manage a deal throughout the transaction’s lifecycle for their firms. Clearly, there are many independent providers of courses (including more recently the rating agencies themselves), but with these courses being more theoretical in nature and typically only lasting a short duration (i.e., 2 to 5 days), don’t expect to walk away as a qualified structurer, underwriter, rating agency analyst, or securitization lawyer from such seminars.

Furthermore, a lot—if not most—of the practical knowledge and skills that are needed for these kinds of fairly complex activities are typically acquired over a long period of time on the job and by working with more experienced colleagues. However, as a direct consequence of the credit crisis, many banks and other financial institutions were forced to wind down some—if not the majority—of their structured finance-related business areas leading directly to a huge drain on experienced resource.

The knowledge in this book has been accumulated over at least 10 years including the “good” years, when this was a highly buoyant market as well as the four solid years of the 2007–2010 credit crisis—which many commentators referred to as the worst one of the last century. I am very grateful and indeed feel privileged to have been able to see both sides of the coin and to have been able to learn from both of them.

Whilst I can understand that some people may wish they could turn the clocks back pre crisis, when many institutions as well as individuals were doing very well, I can also understand an adjustment was probably overdue and with the crisis the pendulum had overswung. What we have seen since are many serious attempts to restore some kind of equilibrium. The danger here is of course that the securitization and structured finance market will be hit too hard with new regulatory requirements and essentially become prohibitively regulated.

Structuring a transaction can take anything from 2 to 6 months whereas the resulting structured finance deal is likely to be around for much longer—anything from 5 to 25 years, in extreme cases even considerably longer (usually due to specific legal or other requirements in certain jurisdictions).

The book’s key aims are twofold:

- To provide a solidly grounded back-to-basics approach that allows you to gain a quick understanding of the underlying key principles and sound practices for conducting these types of transactions.
- To give you a tried and tested set of tools to get you started in the structured finance market.

Please note, however, that the market itself has always been—and continues to be—in constant flux and, more recently, it has become increasingly difficult—if not at times impossible—to keep up with global developments. This leads to a higher level of uncertainty in terms of the form and shape the future market will actually evolve into. Taking a more generic deal view helps here in ensuring that most of this will be applicable to you in one way or another, no matter whether you are based in Europe, the U.S., or Asia—as I take a global view here.

I personally hope that you get value out of the book. If you have any comments—good or critical—please feel free to send them to me via the book’s companion website www.structuredfinanceguide.com or contact me at www.markuskrebsz.info

1.2 DIAGRAMMATICAL OVERVIEW OF DEAL LIFECYCLE STAGES

The following section provides a diagrammatical overview of deal lifecycle stages for a **generic** structured finance transaction. I emphasize the focus on generic as there may be slightly different steps depending on the asset class and jurisdiction that are involved. Figure 1.1 gives you a general overview of these deal lifecycle stages and also provide a roadmap to the book.

Following this overview you will find a more detailed roadmap (Chapter 2) dependent on the particular role you may currently be playing in the market (i.e., originator, issuer, deal structurer, arranger, lawyer, rating agency analyst, investor, portfolio manager, researcher, regulator, financial journalist, or other interested parties).

1.3 ROLE-BASED ROADMAP TO THE BOOK

Assuming that you are currently playing a particular role in the structured finance market, you would typically be more interested in certain areas and chapters more than others. Hence, I hope that you will find the following guidance with a focus on your particular area useful.

1.3.1 Originator, issuer, deal structurer, arranger

If you look at these roles logically, you may see that most of the chapters covering pre-close and at-close lifecycle stages are likely to be of most interest to these types of market players.

1.3.2 Investor, portfolio manager, asset manager

Equally, from an investor’s, portfolio manager’s, and asset manager’s perspective anything post close of a transaction’s lifecycle is likely to be most interesting for the analysis of transactions. However, in light of recent regulatory changes (e.g., requiring investors to undertake their own due diligence), some chapters on asset readiness are likely to be of interest to these roles too.



Figure 1.1. Generic deal lifecycle stages.

1.3.3 Lawyers, rating agency analysts, researchers, regulators, financial journalists and others that do not fit any of these categories

For the remaining readers, I'm afraid it pretty much depends what in particular you are after, so you are best advised to take a look in the table of contents as well as the comprehensive index at the back of the book to see if this helps.

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