



Securitization Basics

Understanding the Securitization
Components and Process

A blue-tinted photograph of a street sign for Wall Street. The sign is white with black lettering and features an arrow pointing left towards the number '105-120'. The word 'WALL' is prominently displayed in large, bold letters. The background shows a blurred view of a city street with buildings and a clear sky. Overlaid on the center of the image is the title 'Securitization- A Brief History' in a clean, white, sans-serif font.

Securitization- A Brief History

Goals Of This Presentation

- To help you in your practice by:
 - Providing an explanation as to each component of the securitization process; and
 - Providing an explanation as to how each component interacts with one another.

The Securitization Process

- Began with government sponsorship
- Spread to the private sector

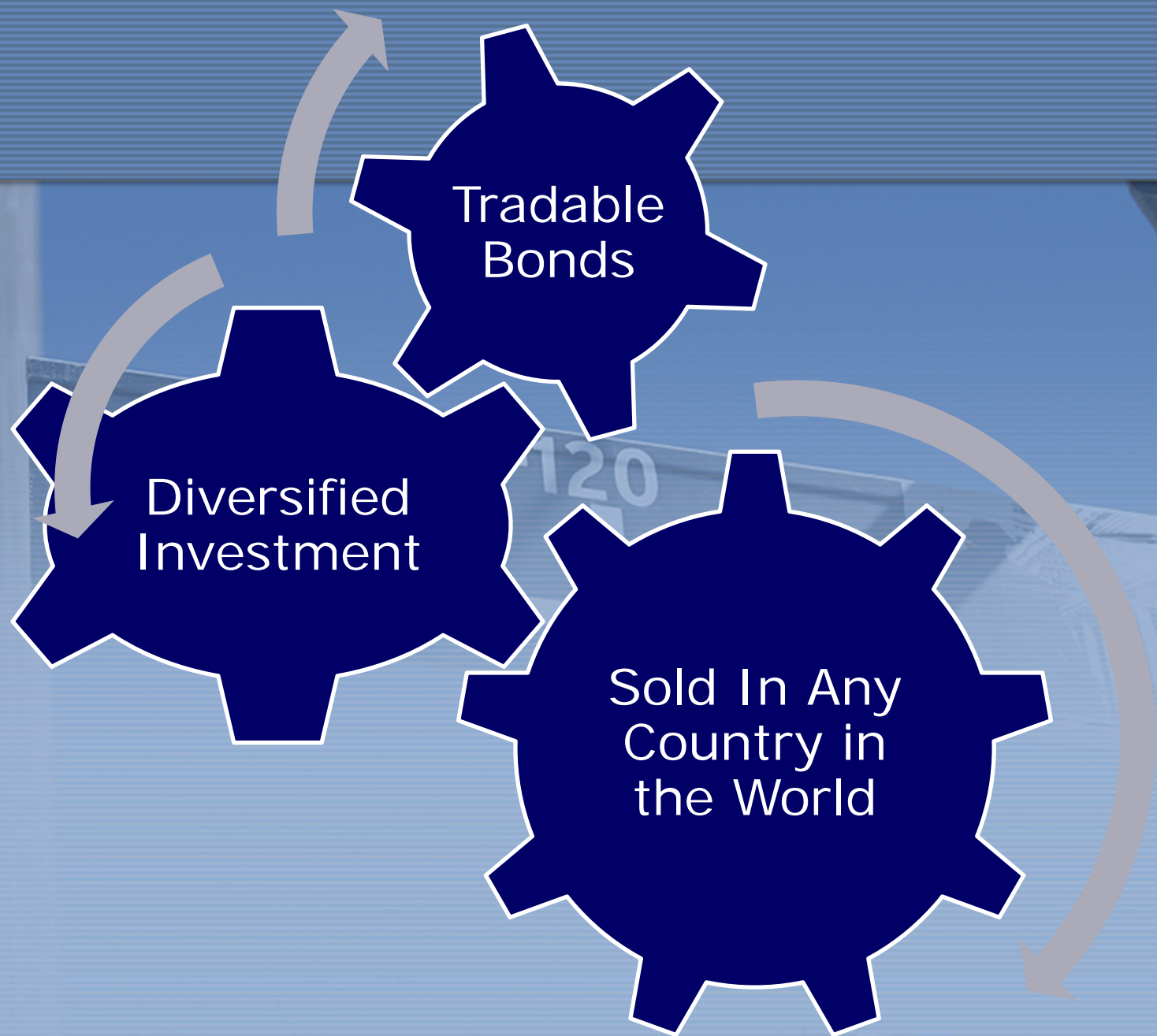
The pool of illiquid underlying mortgage assets is transformed into tradable bonds.




The pool is then transferred as a whole into a trust.



The trust then issues a series of bonds, then these bonds are sold to investors.





In 2006, approximately sixty percent of the outstanding United States mortgage debt existed in these tradable bonds.

(Chomsisengphet and Pennington-Cross (2006)).

60%

Slicing the tradable bonds into bond classes

- From investment grade (AAA/Aaa through BBB/Baa3)
- To below investment grade (BB+/Ba 1 through B-/B3)
- To an unrated class which is subordinate to the lowest rated bond class (Z).

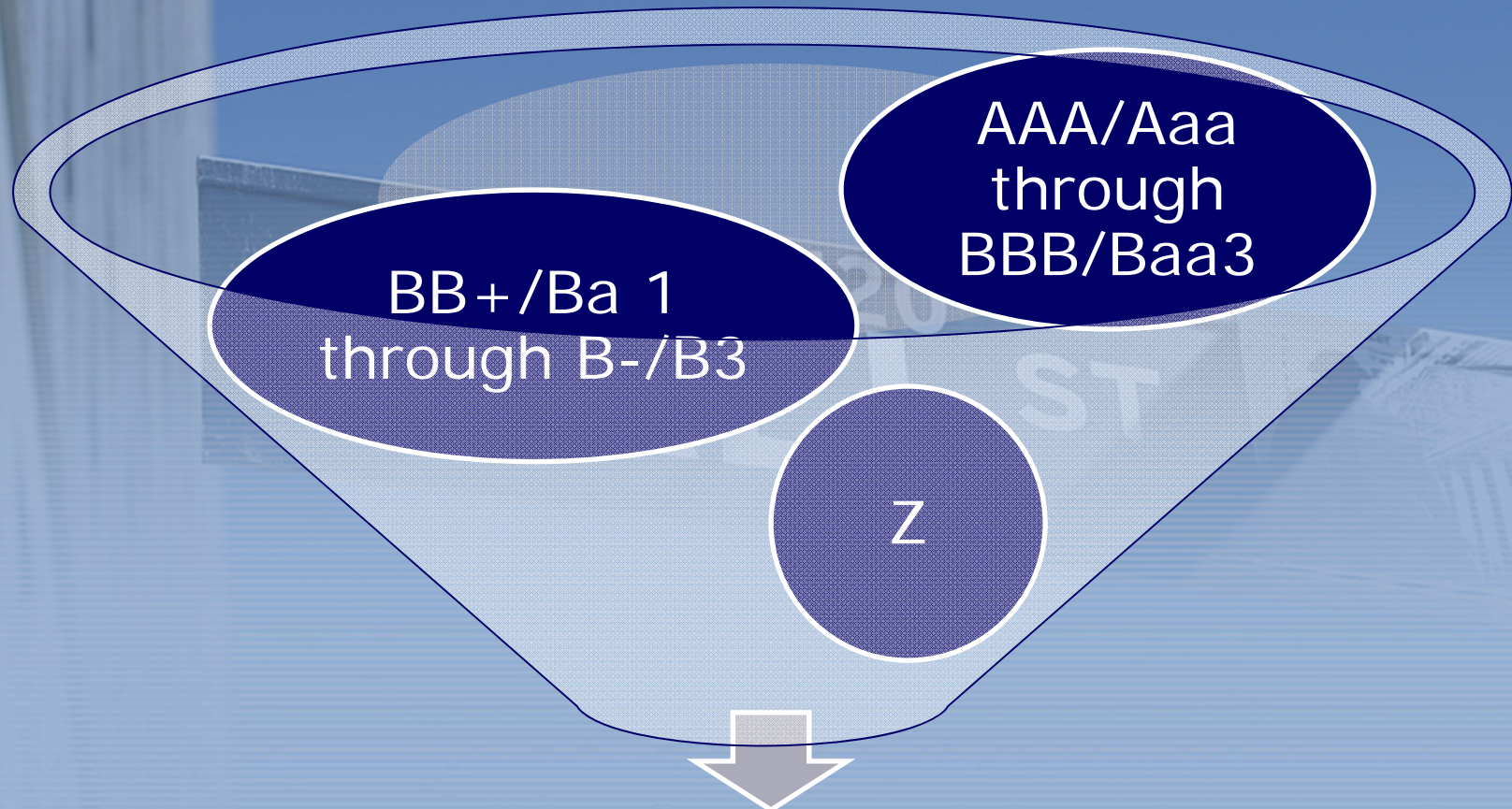
Investors Chose The Bond Classes

- Level of risk
- Yield
- Duration



← 105-120
WALL ST

Payment Is Made Accordingly



The "Waterfall"

Conflicting Interests

- Loan Origination vs. Continued Monitoring
- Low Interest Rates and Highly Leveraged Mortgages
- Additional Conflicts

Distinguished from "Portfolio Loan"

- Portfolio loans are originated by a lender and held on its balance sheet through maturity.
 - Generally due to a failure to meet underwriting guidelines.

REMIC and Required Compliance

- REMIC stands for real estate mortgage investment conduit.
- Function
- Compliance



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Pooling and Servicing Agreement

- A securitized and transferred loan is then serviced in accordance with the Pooling and Servicing Agreement (PSA) and the applicable loan documents.
- Primary, Master and Special servicers are required to act in accordance with the “servicing standard” as defined in the applicable PSA.

Pooling and Servicing Agreement

- Standard of care, skill and diligence
- Allocation and distribution of loan proceeds and losses
- Details servicing of loans

Servicers (Industry Participants)

- Primary Servicer
- Master Servicer
- Special Servicer



Mortgage Electronic Registration System

- MERS for short
- Created by the mortgage banking industry to “streamline the mortgage process by using electronic commerce to eliminate paper”. (See www.mersinc.org)
- The mission of MERS is to “register every mortgage loan in the United States on the MERS® System” (See www.mersinc.org)

Mortgage Electronic Registration System

- Acts as a nominee in the county land records for the lender and servicer.
- Any loan registered on the MERS® System is inoculated against future assignments because MERS remains the nominal mortgagee no matter how many times servicing is traded.

Mortgage Electronic Registration System

- Properly handling MERS in your practice



Concluding Thoughts

