

Benjamin T Solomon

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Strategy, Business Process Reengineering, Structured Finance, Financial Modeling & Statistical Modeling

Watch Your Tail!

February 2010

Featured Article:
**Some Lessons from
RMBS & CMBS Defaults**



Preserve capital ! ...

**Poetry Chapbook: The
Hindu and The Punk**

Dear Benjamin,

First some good news:

1. **FINRA compliance:** Ben Solomon passed his FINRA Series 65 exam last month.
2. **Congratulations:** [Celtic Capital Corporation](#) raised \$5.4 million A/R line of credit & term loans for 4 clients. Well done in this climate.
3. **Data Supplier:** We are finalizing our CMBS data vendor.
4. **CMBS Loss Vectors:** QuantumRisk is now accepting orders for CMBS Loss Vectors (Excel 2007, 120 forecast loss distributions). [More here.](#)



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This month's theme is Watch Your Tail!

This first article *Some Lessons from RMBS & CMBS* suggests that many of our assumptions about risk taking were misplaced. We were focused on pricing of risk when we should **also** have been watching how to preserve our capital.

The second article *Fannie, Freddie Chase Bad Mortgages* shows that securitization is not a one way process as we had once thought it was; that once sold we can forget the tails. The last article *Good & Boring* by Paul Krugman explains why Canada remained relatively unscathed. In essence Canadian policies ensured that the tails would not easily get past the banking filters.

Some Lessons from RMBS & CMBS Defaults



Both big investors and small investors lost badly in the market crash cum recession. Cherry Road provides a valuable lesson, that just maybe investors should have capital structures with high LTVs. Radical? Yes. But the lesson of this recession is how do we preserve capital? ...

[READ MORE...](#)

Fannie, Freddie Chase Bad Mortgage

Is securitization a one way process? No. The sleeping tigers have been awakened and they are changing our assumptions about securitizations.

Overall, banks repurchased about \$14.2 billion in loans from holders of mortgage-backed securities in the first nine months of last year, up from \$3.6 billion a year earlier, according to Barclays Capital.

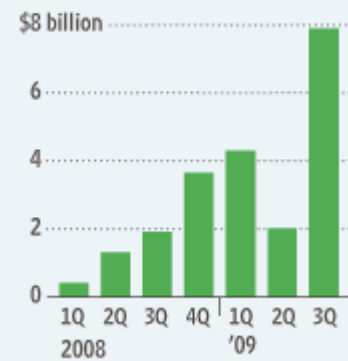
Looking at Fannie's current delinquency rate at 5.29%, the upper limit of possible repurchases is on the order of \$150 billion.

Would private labels emulate this course of action?

[READ MORE ...](#)

Buy Back

Total mortgage repurchases



Sources: Barclays Capital; FDIC

Good & Boring



Paul Krugman, economist & Nobel Laureate, made a very good case that this banking failure/Wall St. crash was not a result of our culture, low interest rates or an attitude that banks are 'too big to fail'.

The key differences are stricter banking leverage limits & limited securitization.

That is Canada had policies that cut off the loss tails

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1. Structured Finance:

- 1.1 CMBS Loss Vectors & Black Swans ([more](#))
- 1.2 CMBS Defeasance Structuring with Prepayment Charges and Yield Maintenance Analysis.
- 1.3 Municipal Tax-Exempt & Taxable Bonds Refunding Analysis including Escrow Analysis & Structuring.

2. Management Consulting:

- 2.1 Financial Analysis & Modeling
- 2.2 Business Process Reengineering
- 2.3 Business Strategy

[Meet Our Team](#)

Sincerely,



Benjamin Solomon, BSc, DipOR, MAOR, MBS(Banking & Finance)

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