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## Blizzard can't stop ASF 2005 conference

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PHOENIX - Last week's industry conference hosted by the American Securitization Forum proved to be anything but the "usual" conference, as Northeast-based members battled a blizzard to attend. Such was the draw of ASF 2005, which included celebrities from Jay Leno to the Securities and Exchange Commission's Paula Dubberly on hand.

Approximated attendance at press time by the ASF was about 1,070 attendees with a 15% to 20% attrition rate, mostly weather related. Despite this, attendees still managed to pack 107 tables for Monday's performance by Jay Leno, where the comedian and late night host noted obesity had gotten to the point where "cheesecake is merely an ingredient" after recently being served cheesecake ice cream.

ASF Chairman Vernon Wright noted that 175 firms were members of the organization, adding that it was his goal to hit 200 by the end of 2005. Both ASF Executive Director George Miller and United Capital Markets President John Devaney expect the market to grow as technology continues to enhance trading and the tranching out of credit risk.

This year's crowd was peppered with indications of a changed market. A bevy of equipment lease issuers from various regions of the U.S. made the rounds at cocktail parties, alongside representatives from pure-play property management companies. There was a noticeable surge in representatives from the manufactured housing industry, signaling a warmth for the sector not felt since 1999. Additionally, a large contingent of Australian residential mortgage lenders and investment bankers were present.

While overall market volume is not expected to repeat the record setting issuance of 2004, the crowd at ASF 2005 indicated that more diverse collateral offerings are in store for this year, and that investors are ready to take on riskier asset classes.

Despite this increased risk appetite, market participations aren't exactly seasoned in the art of preparation for market reforms. During a live audience survey, 42% of respondents at the opening session felt they were only "minimally familiar" with the reform proposals underway from the SEC. Regardless of what final form they take, new SEC rules governing the asset-backed market take effect March 8, and must be fully implemented on Jan. 1, 2006 (See story p. 3).

Spreads were also a topic, as participants from the same panel voted in a 52% to 48% split that spreads would widen in 2005.

Lehman Brothers' head of ABS research David Heike called current yield spreads "incredibly tight" right now, but still delivering value to the investors. Over the last 12 months, asset-backed had delivered almost 150 basis points of excess return versus Treasuries, he said, adding, "Even manufactured housing showed a strong performance [in 2004]." Heike predicted U.S. ABS issuance would reach \$535 billion this year.

That projection essentially labels the market as overachieving, but looking over attendance, Heike's projection might not be all that unreasonable.

A few patches of concern were explored during the event as well. While the No. 1 topic was the health of the housing market, market fundamentals and ABS CDOs came into the picture as well.

"ABS is driven by fundamentals and technicals, but over the last year there seems to be a skewing towards the technical side," said Blake Murphy, vice president, Fortis Financial Services.

"From our credit perspective, we think credit will erode this year, but the ABS market will do well," added Lehman's Heike. However, Heike anticipates pockets of weakness will finally appear in the housing market - a projection the analyst conceded he made last year - and predicted a 4% decline in home prices.

"I don't think current home price gains are sustainable. Affordability limits demand," said Kenneth Posner, executive director at

Morgan Stanley. The pool of qualifying buyers this year might shrink by as much as 20%, assuming the 10-year Treasury yield moves above 5%, he said. "We project chargeoff rates doubling, from 12 basis points to 25 basis points for banks' portfolios," Posner added.

The rise of asset-backed CDOs also took on discussions both on panels as well as over private dinner discussions.

Several secondary CDO traders speculated on last month's pricing of Neptune ABS 2004-1, a \$400 million diversified ABS CDO from Fund America Management via Bear Stearns. Sources said the deal was compromised of nearly 90% home equity ABS, leading to much debate as to whether CDO investors were more sophisticated, or if the market was overheated.

Speaking from a hedge-fund perspective, Mark Klipsch of Orix Credit Corp., handled the CDO market without the white gloves on. "I see a lot of irrationality in the market," Klipsch said, adding that history has shown CDO ratings do not necessarily reflect the risk.

When speaking with market participants about his concerns, Klipsch related that too often he's told, "it's different this time." That very phrase, Klipsch said, was uttered just prior to the market collapses of the 70s, 80s, and especially during the late 90s.

In an approach designed to expose how embedded this utopic view of the CDO market might be, Klipsch polled the audience during the opening session as to their view, today, of default rates for CDO collateral over a five-year horizon. In its electronic feedback, 46% of the audience responded to a 3% to 7% default scenario.

"You're all liars," joked Klipsch. "Look at where secondary CDO spreads are at - clearly defaults are not considered. What's going to happen to all these home equity deals?" he asked. "My view is a little negative, but you need a little negativity when everyone becomes over optimistic."

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