

KAZIMIR  
PARTNERS

# Global Credit Crunch and its implications for the Russian Securitization market

Presented by Dmitri Dorofeev

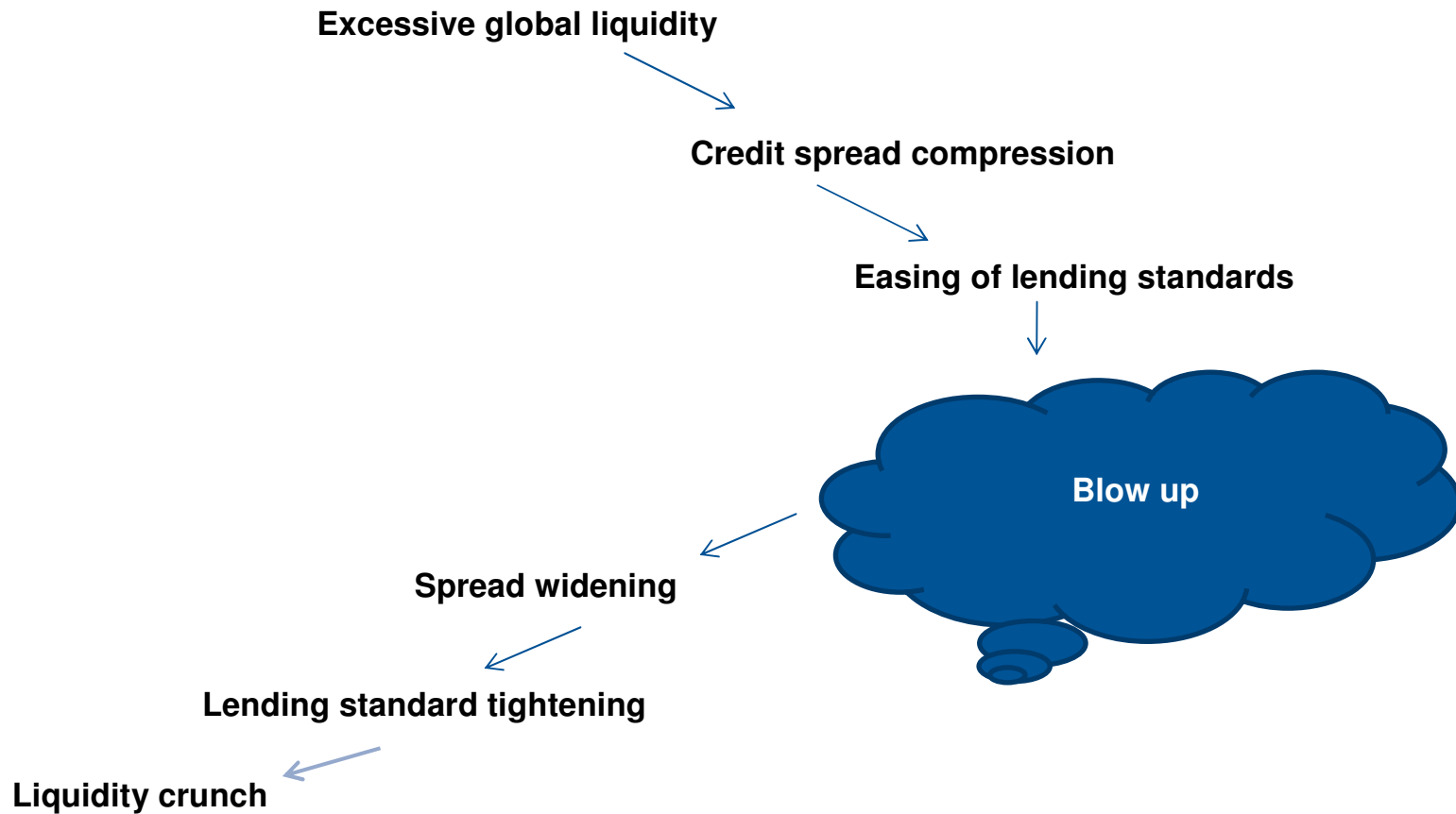
Международная конференция

Секьюритизация активов в России: перспективы, стратегии, практика

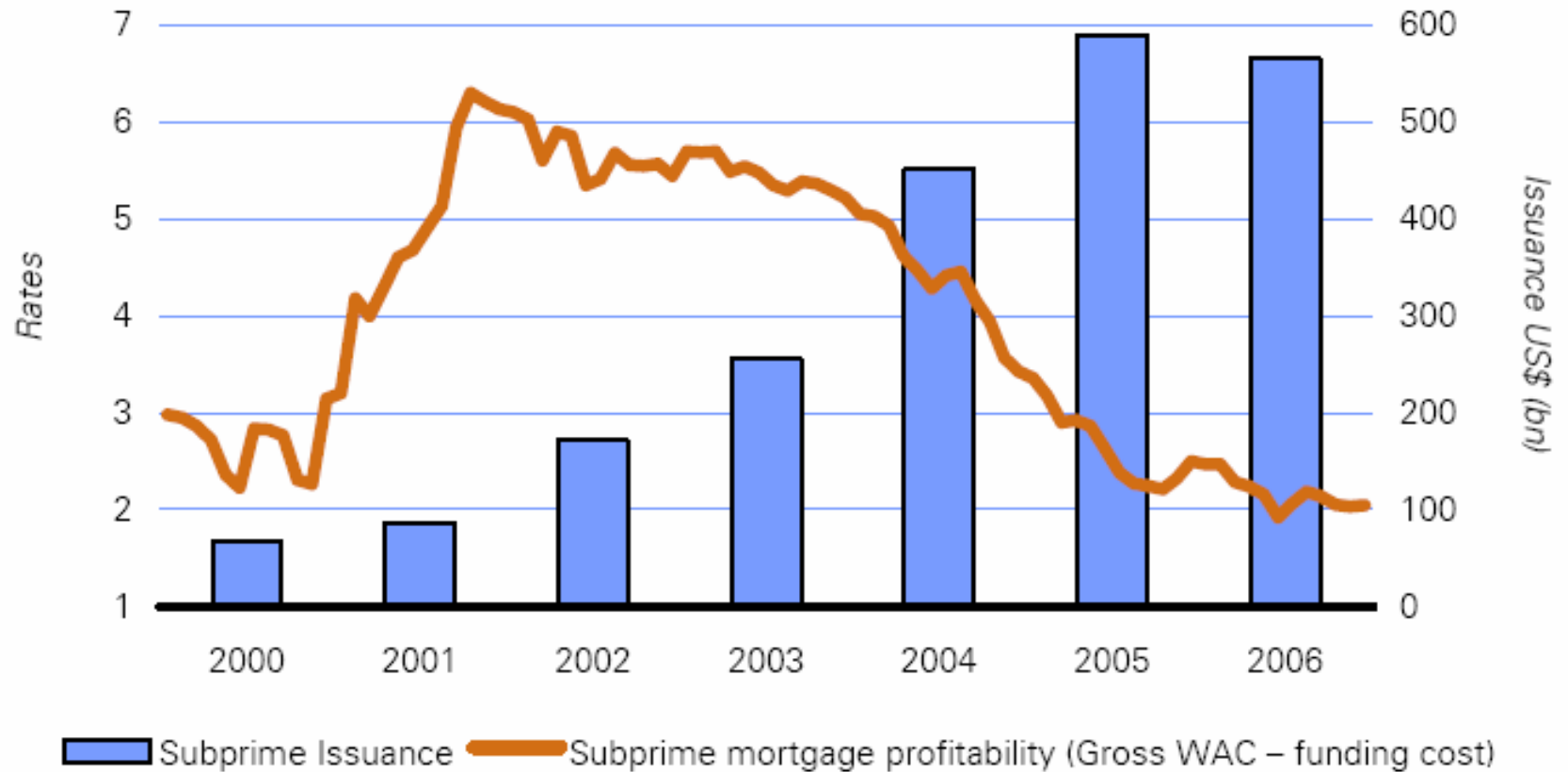
15-16 ноября 2007 г., отель «Холидей Инн Сущевский», Москва, Россия

# What Happened?

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# Competition drove margins down and origination volumes up

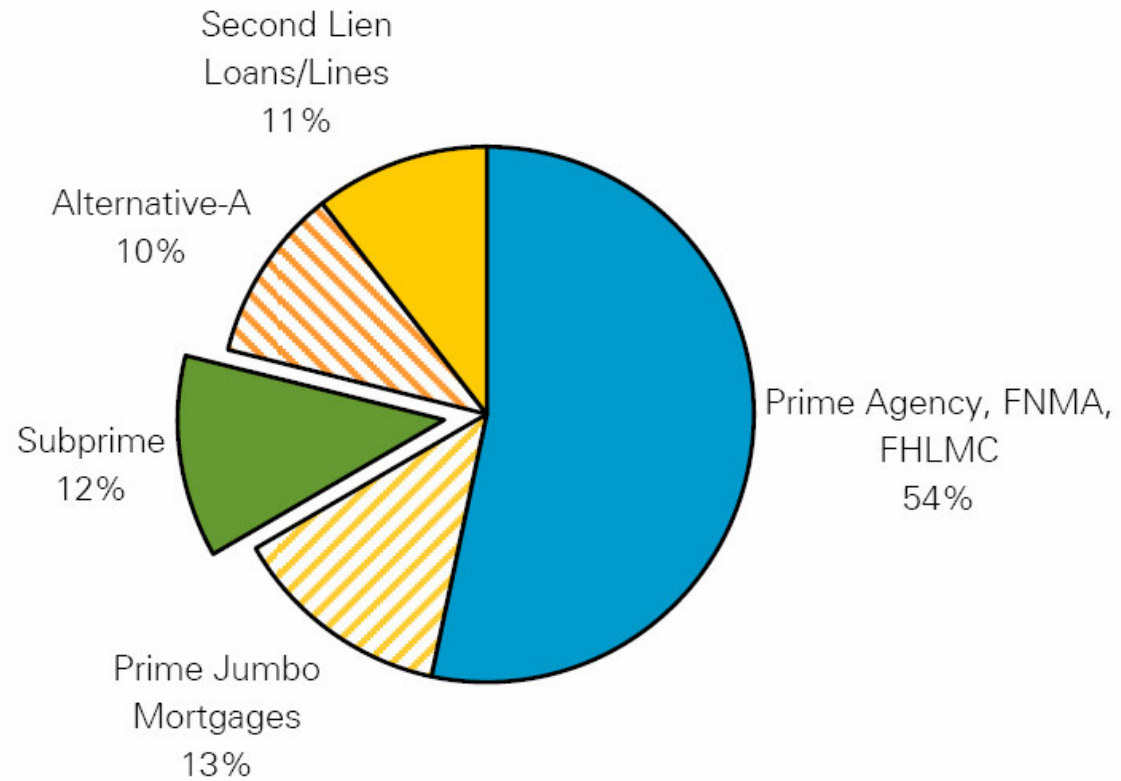


Source: Deutsche Bank

## Size of the problem

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### US\$10 trillion total residential mortgage market



Source: Census Bureau, eMBS, Loan Performance, Deutsche Bank

## Who is to Blame?

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- Banks and unregulated lenders?
- Investors?
- Investment banks?
- Rating Agencies?
- Regulators and Central banks?

## Are banks and unregulated lenders to blame?

<b>Mortgage product</b>	<b>% of U.S. subprime originations, at peak</b>
Interest only	37%
No money down	38%
No proof of income	43%
Low, "teaser" interest rate, "exploding" after 2 years	~80%
"Layered risk"; combines all of the above*	26%

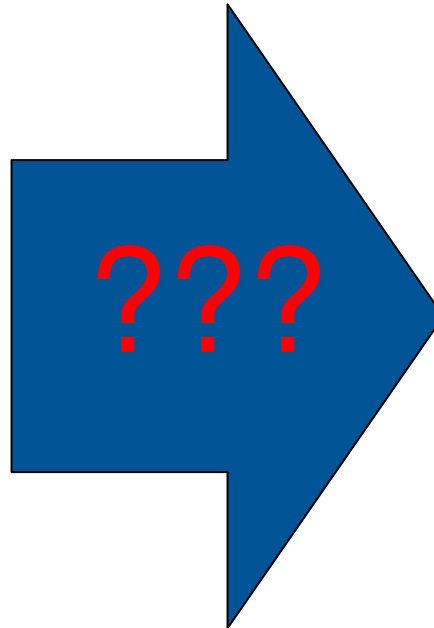
\* Plus a high debt-to-income ratio and low credit score (600-620), with the exception of LTV, which would have been 90-95% rather than 100%

Source: Deutsche Bank

# Is Wall Street to blame?

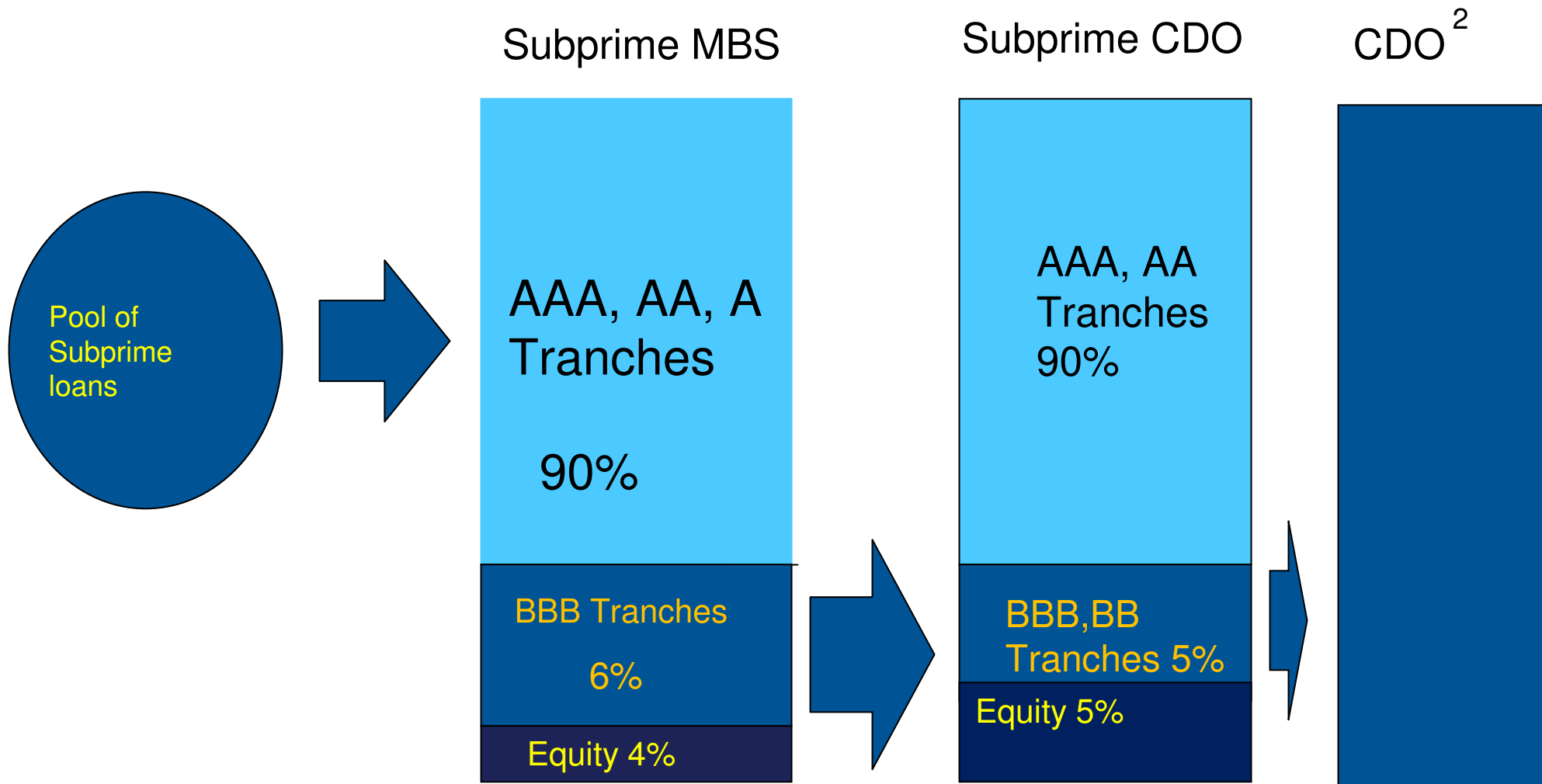
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The great magic of structured finance:





# From a Subprime Loan to a Subprime CDO structure



## Are rating agencies to blame?

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The transformation from BBB to AAA – key assumption is that by pooling together different BBB tranches the risk is diversified, so a AAA security can be created

**Main Problem:** Is the correlation of different BBB

bonds really that low or is it close to .... **1** ?!

## Conclusion:

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- Nobody in the chain from originator to the end buyer had enough “skin” in the game
- Ratings often replaced credit analysis and common sense
- Rating are only indication of CREDIT risk, not LIQUIDITY risk!

## Implications for Russian Mortgage Securitization

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- Lower volumes of collateral
  - Higher coupons
  - Higher loan quality:
    - Lower LTV
    - Reported income only
    - Full insurance coverage
- .....and most importantly – new pricing levels!!

THIS INFORMATION MUST BE READ IN CONJUNCTION WITH THE FULL TEXT OF THE INFORMATION MEMORANDUM

## Major Risks

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- Major correction of property prices in Russia
- Increase in delinquencies
- Further tightening of global credit conditions
- Time
- Weakening of global economic activity that may bring drop in commodity prices

....and...all of the above in a combination we don't know...and...something else we don't know!!

# Contact Information

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