RE 591	Fall 2008
Professor Crocker H. Liu	BAC575
3:10-5 p.m. MW BA296	Office Hours:
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Real Estate Capital Markets: Debt Securitization

Course Objectives: This course is designed to introduce students to various facets of real estate securitization from a debt perspective. Students will not only gain an understanding of the theory underlying the securitization, structuring, and pricing of assets in general and real estate in particular but will also learn how to actually structure and value various real estate securities using Excel. Debt instruments explored Debt instruments explored include residential and commercial mortgage-backed securities (MBS), collateralized debt obligations (CDOs), collateralized loan obligations (CLOs) and residential asset backed securities (ABS). Real Estate Process I and II is a prerequisite for this course.

Texts	**Required**: Lewis (L), 2006, Liar's Poker, Hodder & Stoughton Fabozzi (F), 2005, The Handbook of Mortgage-Backed Securities, 6th edition McGraw-Hill **Recommended**: Fabozzi, Bhattacharya, and Berliner (FBB), 2007, Mortgage-Backed Securities: Products, Structuring, and Analytical Techniques, Wiley Hayre (H), 2001, Salomon Smith Barney Guide to Mortgage-Backed and Asset-Backed Securities, 1st edition, Wiley
Class Packet	Lecture notes are available at the Memorial Union Copy Center (basement)
Reading Packet	Readings are available for download on my website for this course. The password will be given on the first day of class.

Grading: Grading is based on the class curve rather than the total number of points and adheres to the grading curve.

Each Case (3 Cases)	20% (60% Total)
Final Exam	40%

Each of the cases is an ***INDIVIDUAL*** case study. Students must turn in assignments on the date due by the beginning of class. No late submissions are allowed. Grading is based on the class curve.

Topic Schedule 9/24/08-10/26/08

Class/ Week	Date	Topic	Assigned readings/Assignment
1	9/25-9/27	Residential Mortgage-Backed Securities (RMBS): Structuring and Prepayments	Liar's Poker (Whole Book) L. Hayre, 1999, Guide to Mortgage-Backed Securities, Salomon Smith Barney L. Hayre and A. Rajan, 1995, Anatomy of Prepayments: The Salomon Brothers Prepayment Model, Salomon Brothers. F, Ch2: Mortgage Pass-Through Securities F, Ch19: Overview of Recent Prepayment Behavior and Advances in Its Modeling **Case 1: Mortgage Prepayments/Pricing the Prepayment Option**
2	10/01 - 10/03	RMBS: Stripped MBS, CMOs, PACs, TACs, IOs, POs, Floaters and Inverse Floaters	F. Ch8: Stripped Mortgage Backed Securities F. Ch9: Collateralized Mortgage Obligations (CMOs) F. Ch10: Effect of PAC Bond Features on Performance F. Ch11: Z Bonds F. Ch12: Companions with Schedules F. Ch13: Inverse Floating Rate CMOs F. Ch14: Nonagency CMOs **Case 2: Strips, CMOs, and Option-Adjusted Spreads**
3	10/08 – 10/10	RMBS: Valuing Different Types of MBS Commercial MBS (CMBS): Overview, Bond Ratings, Default Risk, and Structuring	**Residential MBS**: P. Kupiec and A. Kah, 1999, On the Origin and Intrepretation of OAS, Journal of Fixed Income, pp. 82-92 D. Babbel, 1992, Pitfalls in the Analysis of Option-Adjusted Spreads, Financial Analyst Journal, pp. 65-69 F. Ch23: Valuation of Mortgage Backed Securities F. Ch26: Duration and Convexity Drift of CMOs F. Ch27: Understanding Inverse Floater Pricing F. Ch21: Next Generation Prepayment Models to Value Nonagency MBS **Case 3: PACs, TACs, Floaters, and Inverse Floaters**

Topic Schedule 9/24/08-10/26/08

Class/ Week	Date	Topic	Assigned readings/Assignment
3	10/08 – 10/10	Commercial MBS (CMBS): Overview, Bond Ratings, Default Risk, and Structuring (cont)	**Commercial MBS:** Morgan Stanley, 2002, Transforming Real Estate Finance: A CMBS Primer Daniel Wheeler, January 2001, A Guide to Commercial Mortgage Backed Securities, Salomon Smith Barney Fitch, Commercial Mortgage Presale Report: Wachovia Bank Commercial Mortgage Trust, Series 2005-C21 S. Gordon, 2002, How to Build a Bond, CMBS World: 16-19 H. Esaki, Winter 2002, Commercial mortgage defaults: 1972-2000, Real Estate Finance 18(4): 43-53 P. Corcoran, Fall 2000, Stress and defaults in CMBS deals: Theory and evidence, Real Estate Finance . 17(3): 63-72 F. Ch35: Commercial Mortgage-Backed Securities F. Ch38: CMBS Collateral Performance
4	10/15 - 10/17	Commercial MBS: Pricing/Valuation	M. Adelson, Summer 2002, How the Events of September 11 Affect Thinking about Risk, CMBS World 4(2):54-79. P. Rubenstein, Summer 2002, Do Current CMBS Pricing Conventions Make Sense, CMBS World 4(2): 50-52. C. Maxam and J. Fisher, 2001, Pricing Commercial Mortgage-Backed Securities, Journal of Property Investment and Finance 19(6): 498-518 P. Childs, S. Ott, and T. Riddiough, 1996, The Pricing of MultiClass Commercial Mortgage-Backed Securities, Journal of Financial and Quantitative Analysis 31(4): 581-603 B. Lancaster, 1999, Analyzing and Valuing CMBS: What to Look For, The Securitization Conduit 2(2 & 3): 14-20.

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Class/ Week	Date	Topic	Assigned readings/Assignment
5	10/22	Commercial Debt Obligations (CDO), Commercial Loan Obligations (CLO), and Residential Asset Backed Securities (ABS)	Bond Market Association, 2004, CDO Primer Nomura, 2004, CDOs in Plain English: A Summer Intern's Letter Home Nomura, 2006, The Evolution of Commercial Real Estate (CRE) CDOs Commercial Mortgage Securities Association, Summer 2005, Understanding Managed CRE (Commercial Real Estate) CDOs, CMBS World 7(2): 26-69 Andreas A. Jobst, Collateralised Loan Obligations (CLOs): A Primer, Center for Financial Studies, CFS Working Paper No. 2002/13 Nomura, 2006, The CMBX: the Future is Here Wachovia, 2007, Understanding Residential ABS: A Comprehensive Guide to Collateral, Structure, and Related Credit Derivative Markets
5	10/24	Final Exam	You may bring in 2 pages of formulas ONLY!!! This includes explanation of formulas.