Elements of Structured Finance

Ann Rutledge, Sylvain Raynes
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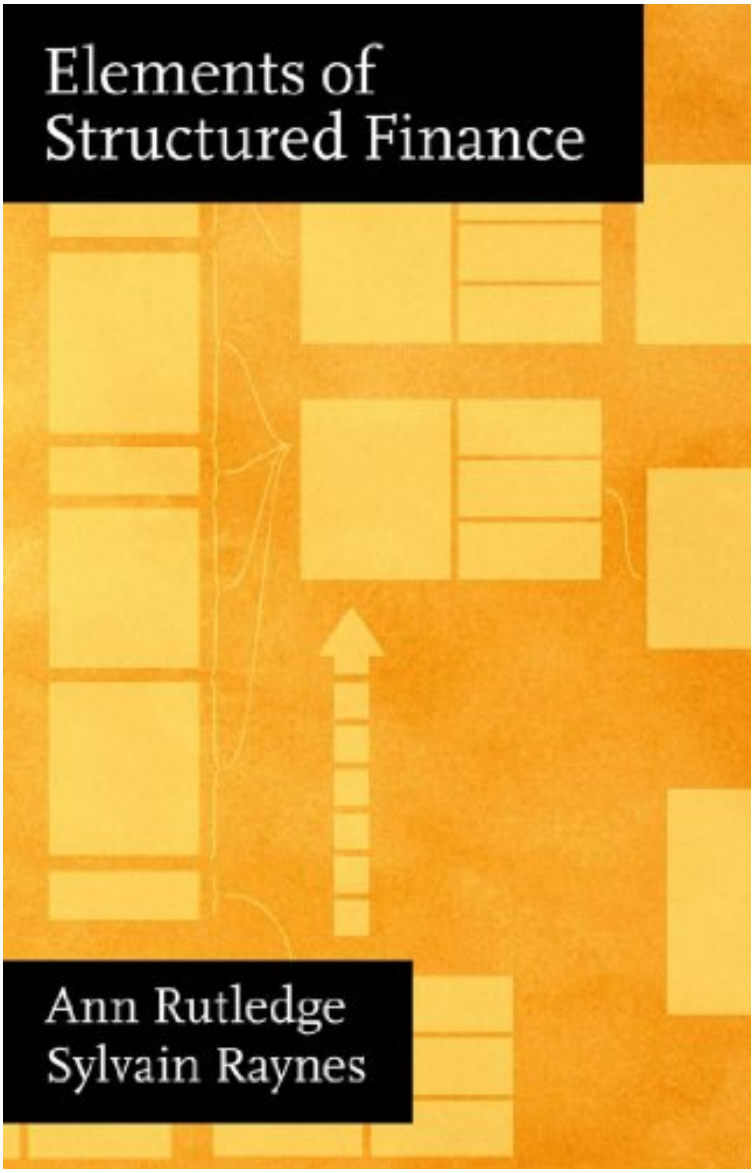

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Ann Rutledge, Sylvain Raynes : Elements of Structured Finance before purchasing it in order to gage whether or not it would be worth my time, and all praised Elements of Structured Finance:

1 of 1 people found the following review helpful. If you are new to the topic and want to learn, stay away. This expensive book will only confuse you.By WinThis book may serve as a demonstration of the authors knowledge, but I it is not very helpful to those who want to learn about the topic. Contents without clear definitions or concrete examples are all over the book. The logic in the book is hard to follow at best.The editing quality is poor too and there is no errata maintained anywhere, which calls into question the attitude of the authors or editors. The footnotes of

entire sections are missing from the book. For a simple example, page 14, at the end of line 13. Where does that (1) refer to? As it turned out, the notes at the end of the book only start from chapter 6.This book was used as textbook in one of my courses. None of my classmates I talked to has even the slightest positive comment about this book. I feel obliged to share our experience in the hope of helping others save some time and calling for better authors to step forward with better books on this topic.6 of 7 people found the following review helpful. PowerfulBy Dr. Lee D. CarlsonVery loosely speaking, and in line with some of the analogies to physics given in this book, structured finance could be viewed as the "quantization of corporate finance". The authors succingtly give a hint to this viewpoint when they write in chapter 2 that structured finance is an "ensemble of micro-processes" that allow one to describe a corporation as a "sum of discrete packets of quantifiable value". The latter can then be "bundled" and then sold, and the proceeds used to purchase "new discrete packets of quantifiable value." In this context the authors drive home the point that this is dynamic process, far removed from conventional accounting and mere ink blots on a balance sheet. Bringing about these processes takes creative work and ingenuity, coupled with an understanding of legal reasoning and regulation, and requiring in-depth practical understanding on the part of analysts charged with placing value on the resulting deals.A great deal of space in the book in fact is devoted to just what constitutes "value", and some fairly esoteric mathematics and philosophical musings are utilized to assist in the characterization of value. Readers without the background in these areas may find the book rough going at times, and may find it difficult to appreciate the ramifications of what the authors are doing. With such a background though readers will find many interesting (and sometimes amusing) discussions in this lengthy book. All this being said, readers should not expect though that the entire book is devoted to mathematical techniques and philosophical dialog. This is readily apparent in chapter five, where "subjective" considerations such as "credit intuition" and the ability to identify what is "just enough" collateral backing for adequate return are emphasized.The authors' emphasis on the analytics behind structured finance includes some highly interesting discussions on various mathematical techniques and concepts. Some of these include:1. Darboux integration. The authors should probably say that the empty set should have a measure of zero, rather than the empty set, since the measures they consider are real-valued, and not set-valued (although measures can of course be set-valued in general). In addition, they should say that the measure of the 'union' of a countable number of elements is equal to the sum of the measures of each element when they state the requirement of countable additivity. Also, the authors need some kind of discussion as to why the weaker notion of countable 'subadditivity' will not suffice for insuring that the set of assets behind investments are measurable quantities. Lastly, why not use the ordinary Riemann integral instead of the Darboux integral in this context? Some explanation as to the choice of the latter would have been helpful, that adds to their comment that the Darboux sum is a "generalization and extension of the Riemann sum." They are equivalent of course in terms of the calculated values obtained by each, but the Darboux integral is frequently advertised as being "easier to define" than the Riemann integral.2. "Back of the envelope" calculations, which are usually viewed as kind of a "first crack" at problems, are given an organized treatment in this book, almost to the point of formality. They are to be distinguished from the corporate "indirect" measure of payment quality, which relies on proxy data, by utilizing data directly from the structure of the transaction. Most interesting in this discussion is the authors' allusion (perhaps unknowingly) to 'Bayesian belief networks', when they write about belief systems able to correct themselves using feedback from data.3. Cumulative loss curves. The reviewer can attest to their utility, at least in the context of mortgage analytics, and the difficulty in accounting for recoveries. The authors give useful hints on how to construct loss curves, and how to interpret their geometry (the inflection point etc). Along these lines the reviewer sees no a priori reason why growth curves such as the 'double logistic curve' could not be utilized here, even though no real example of growth behavior based on such a curve is available. Can the geometry of such growth curves as the double logistic curve be ruled out or are there examples of loss growth where the losses follow the "flat" part of such a curve? Such behavior in losses would fly against the S-shaped paradigm of "accelerate, reach a maximum, decelerate, taper off" expoused in this book and many others on credit analytics. The double logistic curve or more generally curves with multiple periods of degeneracy ("flat periods"), might find a better home in accounting for recoveries, although the reviewer knows no example where such has been done.4. Not surprisingly, an entire chapter is devoted to Monte Carlo simulation. Monte Carlo simulation is the bread-and-butter of the entire world of modeling, not just financial, and every analyst is expected to be an expert in its use and the fundamentals behind it. In addition, modelers must be aware of the abuses of Monte Carlo simulation as well as its limitations. Some of these limitations are brought out by the authors, but they sell (rightfully) Monte Carlo simulation as being one of the "basic weapons" of financial modeling.5. Prepayment modeling, also of great interest in mortgage modeling, is discussed by the authors predominantly for the case of automobile loans and home equity loans. The former are not "sensitive to interest rates" while the latter are, and this entails of course that the subject of prepayment modeling have an intersection with that of the (vast) field of interest rate modeling. The reviewer can attest to the non-trivial nature of modeling home-equity payment behavior and the risk analysis of home equity loans, due in part to the way in which such loans "sit behind" first liens in event of mortgage default. The most important part of the discussion on prepayment modeling though definitely has to do with the proper definition of 'duration'. This term has probably caused more confusion to newcomers to financial modeling, due fully to its everyday use as a measure of time.

Noticeably missing, but not at all fatal to their discussion, is any discussion on competing risks in prepayment modeling, and the use of copulas, the use of the latter of which has been blamed for the extreme financial events beginning in 2007. Copulas are discussed in the book in the context of general data analysis but not in-depth.6. Dimension theory, in particular, that of spaces of non-integer dimension, finds its place in the book in a discussion of Hausdorff dimension. For the reviewer this part of the book was difficult to fathom, not because the notion of Hausdorff dimension is difficult to formulate mathematically but rather the manner in which it is motivated by the authors. This is not to say that their discussion is incorrect, but rather that it is hard to connect it with what is found in the standard literature on fractal geometry. In addition, anyone who has tried to apply fractal geometry to practical modeling knows how difficult it is to compute the Hausdorff dimension, due in part to the inability in a numerical computation to distinguish between open and closed sets. The discussion on the connection of Hausdorff dimension with correlation in revolving portfolios is fascinating however, and deserves scrutiny, particularly from a philosophical standpoint.As alluded to above, the book is not just about mathematical techniques. In fact, discussions of a purely philosophical nature take place at various places, and some of these can be thought provoking at times, and somewhat strange at others. Some pages are devoted for example to the philosopher Martin Heidegger, which is quite surprising given the practical tone of the book and the fact that Heidegger's philosophy is sometimes blamed as being a precursor to the deconstructionist school that has irritated many in the scientific profession and labeled in financial circles as "anti-capitalist". By the same token, the ancient philosopher Aristotle is given top-billing also in the book. The discussion is fascinating and of extreme importance, touching as it does on how the Aristotelian notion of 'phronesis' gives a "grounding" for risk management and decision-making in general.In general the combination of mathematical techniques, philosophical musings, historical anecdotes, and the practical emphasis makes this book very unusual and at the same time very powerful. For these reasons it might also make it somewhat inaccessible to typical analysts, who are usually under pressure to derive results, and may not have time to fully appreciate the meaning behind what they are doing. The book therefore could serve well those educators who are responsible for training future financial analysts, ensuring that they have a thorough grounding in the ethics, practice, and limitations of financial modeling.Note: This book was read and studied between June 2011 and October 2011.2 of 4 people found the following review helpful. Kindle Buyers BewareBy Carlos M. RecaldeThe Kindle edition of this book is distributed as a series of images, one for each page of the paper edition. It does not support most normal Kindle features, such as: highlighting, notes, definition lookup, etc. Since this book is likely a learning experience for many readers, and a reference text for others, these short-comings may become material. In addition, unless you have hawk eyes, you need to resize your screen at the turn of every page in order to read the text. This turns out to be quite a bother - particularly as it often happens in the middle of a sentence - many of which take a bit of concentration to follow because of the complexity of concepts under discussion.However, the content is excellent - well written, easy to follow and comprehensive. I'm only on the third chapter, but am confident that at its conclusion I will be happy to have this book in my library. (Just wish I could use the other features, because there is a lot digest here.) With these limitations, the paper copy may make more sense for some readers.

For all but the most credit-worthy companies, it is more efficient to finance large pools of assets that have predictable behavioral characteristics through non-standard arrangements. These off-balance sheet structures allow credit exposures to be tailored to investor risk, asset class, and an ever-increasing diversity of idiosyncratic needs on the part of issuers and investors. The discipline that addresses these structures, which is called structured finance or securitization, is almost twenty years old, and has become a ubiquitous element of modern financial management. Yet, it has not been systematically covered in a textbook designed for both the school and workplace contexts.Elements of Structured Finance, the text version of a program of instruction in structured finance that the authors have offered at universities, private training programs, and consultancies, fills this void spectacularly. Raynes and Rutledge, two very highly regarded teachers and consultants in the field, bring clarity and logic to an inherently complex and frightening area of finance, using their extensive experience working with many of the top Wall Street securities houses. The book will start with the relatively simple concepts of static valuation models and the benchmark pool, and take the reader through the more esoteric features of dynamic risk analysis, thus serving as both an excellent introduction for the beginner and an essential reference for the professional. In addition to participants in structured finance programs, this book will appeal to structured finance analysts and managers at banks, asset management companies, insurance companies, and a wide variety of other corporations.

"Ann Rutledge and Sylvain Raynes offer a timely insight into the intricate inner-workings of structured finance. Oft overlooked financial theory is explored and explained with expert precision, making the case for the industry to take a thorough and honest look at financial engineering and the essence of 'deal-hood.' Those who dive into this book will find themselves enriched with a deeper understanding and an edge amongst their peers."--Susan M. Wachter, Richard B. Worley Professor of Financial Management, University of Pennsylvania"Investor road maps are out there. One example is Elements of Structured Finance, a highly readable book on securitization... It offers any reader a clear

overview of how the securitization process broke down in the recent mania, as well as analytical instruction to help investors make sure that such breakdowns do not happen again."--Gretchen Morgenson, The New York TimesR About the AuthorAnn Rutledge is currently adjunct assistant professor of finance at the Hong Kong University of Science and Technology. Both are co-authors of The Analysis of Structured Securities, published by Oxford University Press in August 2003. They are founding principals of the New York-based, structured credit metrics boutique, RR Consulting. Their clients include rating agencies, governments, universities, and global banks.Sylvain Raynes is adjunct assistant professor within the Masters Program in Financial Engineering at Baruch College, CUNY in New York City.