



JIM C – QUIZ OF THE WEEK

MONDAY – 09/22/08

Wall Street's inability to unravel complex securitization schemes has created a cascading financial/political crisis.

HOW DID THE TERM "SECURITIZATION" ORIGINATE?

Origin: Lewis S. Ranieri (Salomon Brothers) coined the term in 1977 to describe the first conventional mortgage pass-through security, which was for Bank of America. The term was first printed in a "*Heard on the Street*" column for Wall Street Journal.

Definition (Investopedia): The process of creating a pass-through, such as the mortgage pass-through security, by which the pooled assets become standard securities backed by those assets.

Example: A regulated and authorized financial institution originates numerous mortgages, which are secured by claims against various properties the mortgagors purchase. All of the individual mortgages are bundled together into a mortgage pool, which is held in trust as the collateral for a bond (Mortgage-Backed Security). Instead of paying investors fixed coupons and principal, it pays out the cash flows from the pool of mortgages.

Conventional Wisdom: Securitization = An Investment Vehicle

Moment of Zen: It is all a confidence game - in the end, the only real players are greed and fear.