

Euro CDO Summit Somber But Optimistic

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Collateralized debt and loan obligation players at Opal Financial Group's European CLO/CDO & Structured Products Summit in Monte Carlo today projected a grim short-term future for the sector. The market is expected to remain closed in 2009 and CLO defaults are expected to hit between 8-12% next year. The market will reopen, but with modifications, according to investors and structurers. In the meantime, opportunities remain for investors with the capacity to stay in the game.

Structural complexity was the biggest culprit behind the meltdown of the deals, according to some of the panelists, who said much simpler structures will be the way going forward. "Investors are now realizing that there is massive model risk [in the transactions] aside from the traditional risks of other securitization deals," said Franz Pesendorfer, a managing director at Unicredit Markets & Investment Banking.

Leverage will also come down when firms are able to bring deals back to market. Some of the investors warned that the worst is yet to come before that can happen. "The crisis is no longer about liquidity. The story now is the recession, said Amedee de Clermont-Tonnerre, head of CDO investment at Natixis Asset Management in Paris. "The bulk of defaults are coming," he said.

There are still opportunities to be had, added Clermont-Tonnerre and other investor panelists. In Europe, existing deals still have a year before they are expected to suffer the hits taken by those in the U.S. "The U.S. market is going down much quicker and here we still have about a year left to collect cash flows," he said.

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