

# U.S. Structured Finance Newsletter

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## Going Long... with Caution

Over the course of the past several months, DBRS has received an increasing number of inquiries regarding its ability to rate various longevity-related securitization transactions. The majority of the proposals involve life settlements. Within this category, DBRS has seen pools represented by both cash settlements and premium financed settlements, as well as structures seeking to create synthetic securities related to such pools.

Within the realm of life settlements, there exists a spectrum of collateral types and transaction structures that create a continuum of risks, both credit and operational, that may be common to some or all of transactions or unique to either a product type or transaction structure. Generally, these risks can be categorized as either collateral-related or structure-related. Some of the more prevalent topics within these risk categories which issuers and investors should be cognizant of are:

### Collateral-Related:

- The licensing and experience of the life settlement provider
- The historical performance of the policies originated by the provider
- The seasoning of the policies and compliance of the origination process with all applicable law
- The identification and experience of the seller of the policies (to the securitization issuer) and the established chain or ownership between the provider, seller and issuer
- The contents of the policy file
- The due diligence of the provider in originating and selecting policies
- The terms of the policy regarding the payment of death benefit, surrender value, policy maturity or any return of premium
- Independent verification of policies
- Independent analysis of actuarial procedures and life expectancies used in the policies
- The specific eligibility criteria for policies to be included in the collateral pool
- The quality, experience and scope of duties of the servicer (and back-up servicer) of the policies

### Structure-Related:

- The structure and bankruptcy-remote nature of the issuer (special-purpose vehicle)
- The necessary and proper legal opinions to affect a true-sale and non-consolidation
- The requisite representations, warranties and covenants and recourse in the event of breaches
- Form, amount and source of equity in the transaction; representations not limited to origination of policies in compliance with all applicable law, absence of misrepresentation or fraud, existence of insurable interest, establishment of proper ownership of the policies and the establishment of a first-perfected security interest in the policies
- The flow of funds for the transaction assuring necessary parties are paid accordingly
- Provisions for the payment of taxes
- The "sources and uses" of the bond issuance proceeds
- Form and sizing of credit enhancements in the transaction to provide for, among other things, the payment of policy premiums, concentration risks and insurer risks
- Reinvestment risk

While none of the proposed longevity-related securitization transactions that have been shown to DBRS have closed to date; DBRS does expect to begin assigning ratings to completed transactions in the coming weeks. In the meantime, DBRS maintains a published rating methodology for this asset class on its website at [www.dbrs.com](http://www.dbrs.com).

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