

Dynamic looks to take on more ‘nuisance’ securities business

Dynamic Credit Management is looking to increase its business of helping banks rid themselves of “nuisance” securities, according to Jim Finkel, Dynamic’s CEO.

Nuisance securities, which Finkel describes as the “hoofs and tails” of securitized products, are securities that largely do not have any current or expected cash flows and are mostly equity tranches. And if they were initially rated they have since been substantially downgraded.

Tighter accounting rules are making it more difficult for companies owning a majority of the equity in structured finance transactions to avoid consolidating the entire asset pool. Doing so may not accurately reflect the companies’ exposure to risk in those assets. This is especially a concern for public and/or bank regulated companies that are subject to capital requirements and investor scrutiny.

Dynamic, however, unlike a public company, is not hindered by keeping nuisance securities on its books and doesn’t really care if they consolidate a big portfolio on its balance sheet, Finkel added.

“For financial institutions and insurers, among other things, there may be significant regulatory capital relief,” Finkel said. “The cost of doing this is relatively small, given the burdens and potential risk, and can be far outstripped by the regulatory capital savings or phantom income relief.”

Last week, for instance, RAIT Financial paid Dynamic USD 10,000 to take roughly USD 100m in trust preferred CDO stakes in four Taberna Capital deals, as previously reported.

Since 2007 Dynamic has done about 50 such transactions, which net Dynamic roughly between USD 10,000 and USD 15,000 per tranche, dependent on the size of the unloading institutions’ ownership interest.

by Aaron Johnson