



## CFAA Event 04/17/2014

### “Fundamental Mortgage Investment Workshop”



Already a month into the 2<sup>nd</sup> quarter of 2014 and CFAA has been in full force providing our members and the public with great, new events in the world of finance. We at CFAA are so proud to see such an increase in attendance since last year. We have listened to our members and non members alike to closely tailor these events to your interests and we are excited to see such a positive outcome.

The US mortgage sector has been such a huge topic not only in the finance industry but among world news all together. This month, CFAA continued with its Investment Workshop series with our second installment about Fundamental Mortgage Investment featuring CFAA’s very own Director, and Vice President at Neuberger Berman, David Tang, CFA and fellow coworker and Vice President, Chantal Zhang, CFA.

Mortgages, a complex fixed income class, has a significant role in investment portfolios and has become a big center of regulation from the Federal Government. In this workshop, David and Chantal gave insight on how professionals analyze mortgages, the difficulty in predicting its behavior, the major role that mortgages played in the 2008 recession, as well as the role the government is now taking for this asset class.



In the past, David Tang was responsible for hedging rate risk for Fannie Mae’s retained mortgage portfolio. He began this workshop by explaining to the attendees the basic details of fixed income by identifying it as the largest asset classifying market in the US, specifically because the government, US Treasury and Agencies issue these. Unlike in the equity



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market, however, where corporations are the ones responsible for the issuance. “As its name implies, fixed income, this pretty much means cash flows are pretty much set in the contract so it has lower volatility. Unlike the equity world, you try to pick the best stock but with fixed income it’s all about not losing, because at the end of the day you are getting your principal back.” The fixed income investor base is mostly institutional investors such as Insurance companies and governments like China. David then went on to discuss the different ways investors handle convexity hedging and the different hedging tool that can be used. There are also many brilliant minds that work with the complexity of mortgage modeling. “When I was with Fannie there were two groups actually doing this, each group has about 18 to 20 PhD’s, full time, doing this type of thing.” Adding with a smile on his face, “So as you can imagine... it costs a lot.”



Seamlessly flowing off of David’s presentation on Fixed Income, Chantal dove straight into the structure and fundamental differences between Agency mortgage backed securities and Non-Agency residential mortgage backed securities. At which point she described the bond analysis process for Non-Agency RMBS which consist of macroeconomic factors (unemployment rate, housing price appreciate, interest rate). “On the other hand it’s also critical to know when and if each individual borrower can make their mortgage payment. That is why we have to predict these forward behaviors.” But, it’s not just these macroeconomic factors that need to be studied; it’s also the characteristics of the borrower/lender and the pool/servicer. Chantal left plenty of time to give detailed insight to the financial crisis of 2008 by explaining what/who caused it and how it has affected the economy.

CFAA has been off to a great start in 2014 and we plan to keep the momentum going as we progress through the year by offering more workshops, guest speakers, and social events, giving members a variety of topics to enjoy. David Tang and Chantal Zhang both presented their material like true professionals. We want to thank both of them for taking their time to share their knowledge. CFAA will have plenty more events like this one throughout the year. Go to our website to see our upcoming events which includes a happy hour in July!

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**About CFAA**



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Chinese Finance Association of America (CFAA) is an independent not-for-profit, non-partisan organization committed to promoting educational and cultural exchange among finance professionals between the United States and Greater China through facilitating communication and the exchange of ideas in the financial industry. Incorporated and headquartered in Chicago, Illinois, CFAA is aimed to serve Chinese finance professionals and others who are interested in the financial industry of Greater China. Please visit our website [www.ChineseFinanceAssociation.org](http://www.ChineseFinanceAssociation.org) for more information about CFAA. To become a CFAA member, or to renew your CFAA membership and make your membership payment, please go to the [membership section](#) on our website. If you are interested in the volunteering opportunities at CFAA, please submit the [volunteer and staff application form](#). For global career opportunities in finance, please visit our newly launched [Online Job Center](#) through our partnership with one of the leading global career placement companies eFinancialCareers.com.