



## **Model integration issues persist**

Principia Partners has released the findings of a survey focusing on ABS, MBS and CDO investors' use of cashflow and waterfall models. The results show that while the growing commoditisation of issuer reporting, collateral performance and loan level data has benefitted the modelling of cashflows, it is not enough to lighten the burden investors carry when building and managing cashflow and waterfall models.

Respondents to the 2Q13 survey comprised 100 structured finance investors from 62 organisations. The results confirm that most investors are juggling several different modelling methods and/or providers and, as a consequence, integration issues are commonplace. For example, over 50% of investors are using more than one method for obtaining or modelling cashflows and – for those using commercially available models – over 66% are using two or more providers.

Respondents expressed frustration with the amount of integration they face and the criticality of ensuring the accuracy of the models they use. This finding aligns with the degree of consolidation and the investment in expanding asset coverage by commercial waterfall model providers.

Unlike the reported use of waterfall models, the survey also shows that only 35% of investors rely on commercial prepayment and loss models. However, the greater access to current and historical loan level data in the US makes a notable difference: US investors reported using commercial models almost twice as often as European investors (45% in the US versus 25% in Europe).

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