

- Accounting standards, 68n
- Accounting volatility, absence. *See* Synthetic CDOs
- Accretion-directed bonds, 50–55
- classes
    - creation, 51
    - specialization, 54
  - Accretion process, 50
- Accrual bonds (Z bonds), 50–55
- class
    - structure, comparison, 52
    - structuring, 54
  - lockout period, months (number), 51
  - par value, lockout period (addition), 50
- Actual/365 day count, usage. *See* Sterling-denominated swaps
- Administrative agent. *See* Asset-backed commercial paper
- duties, 179. *See also* Commercial paper
  - role, 180
- Administrative receivership, usage, 199–200
- Agency CMOs
- creation, 65
  - qualification, 31n. *See also* Nonagency CMOs
  - usage, 75
- Agency costs, reduction, 284
- Agency deals, 22n
- arbitrage transactions, 65
  - structuring, 34, 38
- Agency MBS deals, structuring, 31
- summary, 61–64
- Agency passthrough securities, valuation alternative, 329n
- Agreed-upon periodic interest rate, 101–102
- American Skandia Life Assurance Company (ASLAC), securitization transactions issuance, 205
- Amortization
- calculation, 35
  - triggers. *See* Early amortization triggers
- Amortizing swap, notional amount (decline), 108
- Annualized percentage rates (APRs), 164
- Arbitrage. *See* Securities
- activity, impact, 279
  - profits, making, 216
  - term, usage, 211–212
  - looseness, 243
  - transactions, 65
    - diversification, attainability, 232
    - ramp-up risks, impact, 269
- Arbitrage cash CDOs, 244–247
- assets, 245–246
  - flowchart, 245f
  - legal structure, 245
  - reinvestment period, 246
  - returns, 246–247
- Arbitrage CDOs, 215–216, 243–249
- assets, purchase, 216
  - examples, 243
  - issuance, capability, 243–244
  - pooling process, profit source, 243
  - purpose, 243–244
  - relevance, 219–220
  - returns, 246–247
    - example, 247t
- Arbitrage conduits, 173
- SCP definition, 172
- Arbitrage-free model, 331
- Arbitrage synthetic CDOs, 247–249
- collateral manager, appointment, 248
  - creation, 248–249
  - flowchart, 249t
  - income, 248–249
  - ramp-up period, 248
- Arbitraging, purpose, 314–315
- Asset-aging analysis, usage. *See* Servicers
- Asset-backed bonds, 10
- Asset-backed commercial paper
- placement agent, involvement, 180
- Asset-backed commercial paper (ABCP), 10
- administrative agent, involvement, 179–180
  - bank usage, 170
  - collateral, 174
  - deleveraging triggers, usage, 176–177
  - initiation, 170
  - issuance programs, 170
  - issuing agent, involvement, 180
  - manager, involvement, 180
  - paying agent, involvement, 180
  - program
    - parties, involvement, 178–180
    - sponsor, involvement, 178–179
    - structure. *See* Partially supported multiseller ABCP program structure
    - securitization, relationship, 173
- Asset-backed commercial paper (ABCP) conduits, 169. *See also* Multiple-seller ABCP conduits; Single-seller ABCP conduits

- Asset-backed commercial paper (*Cont.*)
- assets, credit quality, 181–182
  - going concerns, 173
  - management, quality, 181
  - rating, 180–182
  - receivables eligibility criteria, 182
  - summary, 182–185
  - types, 170–173
- Asset-backed notes, 10
- Asset-backed obligations, 10
- Asset-backed pools, 152
- Asset-backed securities (ABSs), 211. *See also*
- Mortgage-related asset-backed securities
    - cash flow, 326
    - yield measure, 327
  - collateral classes, 149
    - summary, 165–167
  - creation, 283–284
  - differences, 173
  - investor problems, 17
  - market, 92–93
  - transaction, payment problem, 318
  - valuation, 325
- Asset-backed transactions, relation, 187
- Asset-based lending, 5
- Asset pool
- base case loss, 96
  - diversification, 85
  - identification, 68–69
  - long-term assets, inclusion, 79
  - losses, absorption, 15
  - principal balance, replenishment, 155
- Assets, 149–150
- acquisition, synthetic mode, 215
  - classes, 153f
  - classification, 151f
  - credit quality. *See* Asset-backed commercial paper conduits
  - credit risk, 17–18
    - coverage, pool level enhancement (usage), 176
  - distribution, 6
  - duration/liabilities, mismatch, 17–18
  - future flows, contrast, 150
  - interest rate risk, 17–18
  - originator sale, 7–8
  - pooling, 4
  - portfolio, 156
  - quality tests, 255–256
  - risks, 270
  - seasoning, 70
  - securitization
    - cash flow, presence, 149
    - selection, 69–70
    - tests, 257–260
    - types, 7–8, 68
    - unavailability, risk, 269
    - value, computation, 258–259
- Asset securitization
- issuer motivation, 13
  - summary, 24–27
  - perpetual life, absence, 67
  - proceeds, maximization, 24
- Assets/existing receivables, usage, 7
- Assets/receivables, initiation, 7
- Auction call, 219n
- Auto leases, 314
- Auto loan deals, 164
- Auto loan securitization, 161–165
- collateral quality, 163
  - credit enhancements, 164
  - funding vehicles, 162
  - issues, 164–165
  - refinancing significance, 162
  - retail loan pool support, 212
  - structures, 164–165
- Automatic deleverage triggers, usage, 258n
- Available funds cap, inclusion, 113n
- Average life. *See* Bond classes; Collateral; Planned amortization class bonds
- examination. *See* Bond classes
  - expected maturity, contrast, 43n
- Backup servicer, 125–142. *See also* Cold backup servicer; Hot backup servicer; Warm backup servicer classification, 142
- Balance sheet assets, amount, 190–191
- Balance sheet cash CDOs, flowchart, 231f
- Balance sheet CDOs, 211, 215–216, 229–243, 311
- assets, 231
  - creation, 229–230
    - process, 230
  - credit enhancement structure, 233
  - diversity, 231–232
  - legal structure, 230–231
  - loans, selection criteria, 232–233
  - regulatory/economic capital relief, 216
  - reinvestment period, 232–233
  - structural tests, 233–234
- Balance sheet synthetic CDO, flow chart, 237f
- Balance sheet transactions, asset allotment, 232
- Banc One, credit card receivables (purchase), 154
- Bank for International Settlements (BIS)
- definition. *See* Structured finance
  - recognition. *See* Securitization
- Banking, health, 224–225
- Bank lockbox, usage, 126
- Bank One, N.A. v. Poulsen, et al.*, 145
- Bank risk
- capital, inadequacy, 293
  - masking, 302
  - opaqueness, increases, 300–302
- Bankruptcy
- definition, inapplicability, 317–318
  - protection. *See* Whole business securitization
- Bankruptcy-remote entity, SPV structuring, 15
- Bankruptcy remote structure, 6
- Banks
- adverse impact, 293
  - facilities, liquidity enhancement source, 78
  - loan sale, *BusinessWeek* observation, 294

- Barclays, conduit setup, 170
- Base case loss, 95. *See also* Asset pool multiplication, 96–97
- Basel I, 69
- Basel II, 69
- capital requirement, 293
  - definition. *See* Operational risk
- Base rate, 160
- Basis mismatch, relationship. *See* Interest rates
- Basis risk, 111–112
- mitigation, 111–112
  - shortfall, coverage, 113
- Basket default swaps, 313
- Basket trades, 313
- Bear Stearns Asset Backed Securities 1 Trust 2005-HE5 Asset-Backed Certificates, Series 2005-HE5 issue (prospectus supplement), 114–115
- Beneficial interest certificates. *See* Pass-through certificates
- Berkshire Hathaway Assurance, license, 92n
- Best execution, obtaining, 23–24
- Bilateral deals/transactions, 310–311
- Binary swaps, usage, 320
- BISTRO (JPMorgan), 243
- Block of business securitization, 204–205
- Bond classes. *See* Floating rate bonds; Prepayment-protected bond classes
- average life, examination, 53
  - cash flow, range, 22–23
  - collateral backing, 15
  - coupon rate, 39
  - creation, 9, 56
  - determination, 73–75
  - excess interest, combination, 61
  - existence, 10
  - issuance, average life, 47
  - PAC bonds, comparison, 48
  - pay-down structure, selection, 76–77
  - simulated cash flows, 335t
  - theoretical value, determination, 336–337
  - time tranching, 75
  - total par value, 39, 48, 58
- Bondholders, trust interest liability, 111–112
- Bonds
- analytics, 144
  - insurance, 92
  - market
    - exposure, 306
    - seniority, 306
  - par value, comparison, 39n
  - principal paydown, interest (usage), 113n
  - unavailability, risk, 269
- Book size reduction, absence. *See* Synthetic CDOs
- Borrower financials, problems, 160–161
- Borrowers, refinance right, 328
- Bowie bonds, 3
- Broad-based bond market indexes, mortgage sector, 287
- Buffett, Warren, 92n
- Bullet repaying notes, usage. *See* Synthetic CDOs
- Bullet repayment, providing. *See* Liabilities
- Business continuity planning. *See* Servicing
- Business securitization. *See* Block of business securitization
- Buyer, term (usage), 116
- Callable agency debentures, valuation, 329
- Call back option, constraint, 242n
- Capital
- banking regulations, 69
  - credit enhancement replacement, 173
  - inadequacy. *See* Bank risk management. *See* Regulatory capital notes, issuance, 173
  - providing. *See* First-loss risk raising, 3
  - relief, 150
  - source, usage, 15
  - structure, equity cost. *See* Securitization
- Capital market deals, 310–311
- counterparty/OTC deals, contrast, 311
  - funding, raising, 187
- Caps, 115–118. *See also* Interest rate cap payouts, compensation, 116
- usage. *See* Securitization
- Cash asset CDO, asset acquisition, 213
- Cash CDO, 229–234
- contrast. *See* Synthetic CDOs
  - structure, usage (initiation), 229
  - synthetic CDO, contrast, 215
- Cash collateral account (CCA), 233
- Cash collateral (cash reserve), 88–89
- account, creation, 88
- Cash collateralization, impact, 89–90
- Cash diversion, 113
- Cash flow. *See* Floating rate bonds
- allocation, rules (establishment), 23
  - components, decomposition, 35
  - control, 199
  - projection. *See* Mortgage pool simulation, 330–334
  - timing, 105–106
  - trapping. *See* Future flows
  - waterfall
    - scenarios, 201
    - usage. *See* Whole business securitization
  - yield
    - analysis, 325–327
    - calculation, 326
- Cash flow-related EATs, 194
- Cash inflow. *See* Life insurance business; London Interbank Offered Rate
- Cash investments, presence, 258
- Cash market instruments, package, 103–105
- Cash outflow. *See* Life insurance business
- Cash outlay, 105
- Cash reserves. *See* Cash collateral
- liquidity enhancement source, 78
  - maintenance, 193

- Cash securitization, 151  
   true sale structure basis, 237–238
- Cash settlement, 308, 320–321
- Cash structures, 150–151
- CDX.NA.IG (investment-grade names index), 251
- CDX.NA (index), 251
- Certificates, 10. *See also* Pass-through certificates;  
   Pay-through certificates
- Charge-offs, 159  
   rate, 159–160
- Cheapest-to-deliver obligation, 308
- Chief financial officer (CFO), installment sales  
   contract usage, 8–9
- Citibank (Citrioco LP // Ciesco), ABCP usage, 170
- Citibank Credit Card Issuance Trust, Class 2003-A10  
   Notes (fixed rate interest payment), 109–110
- City of Chandler, et al., v. Bank One, N.A., et al.*, 145
- Cleanup call, 219n
- Cold backup servicer, 142
- Collateral. *See* Asset-backed commercial paper  
   amount, posting, 119  
   average life, 42–43  
   cash flow, generation, 334  
   characteristics, 33  
   classes  
     classification basis, 149–151  
     types, 152–153  
   features, 218  
   floating rate, 108–109  
   liquidation value, 6  
   losses, coverage, 113  
   par value, comparison, 39n  
   quality, 163  
   residual profits, 152  
   structuring issue, 68–69
- Collateralized bond obligations (CBOs)  
   reference, 213  
   terminology, 212–213
- Collateralized commodity obligations (CCOs),  
   213
- Collateralized debt obligations (CDOs), 151, 174,  
   306. *See also* Arbitrage CDO; Balance sheet  
   CDOs; Hybrid CDO; Trust-preferred CDOs  
   arbitrage features, relevance, 219–220  
   arbitrage motivation, 211–212  
   asset quality tests, 256–257  
   classification, 214t  
   corporate exposures, pool, 212, 217  
   credit enhancements, usage, 219  
   diversification, capability, 265  
   diversification/leverage, balancing, 217  
   diversity tests, 257–258  
   economic drivers, 220–224  
   equity/debt investors, balance, 263–264  
   financial resources, usage, 263  
   granularity, loss, 270  
   inclusion, 155  
   introduction, 211  
   investment, 265–266  
   collateral/structural risks, 266–270  
   proposals identification, technological invest-  
     ments (usage), 263  
   investor preference, 265–266  
   key man provision, usage, 262  
   leverage, maintenance, 257–258  
   management teams, staffing, 262  
   market, 224–225  
     composition, 225  
     growth, 225–226  
   pool quality, measures, 256–258  
   popularity. *See* Structured finance CDOs  
   portfolio manager, 261–264  
   ramp-up period, 261  
   reinvesting structure, 232–233  
   retail pools, assumption, 218  
   standardization, completion, 265–266  
   static pools, presence, 232  
   strength/stability, advantage, 265  
   structure, 221t–223t  
     correlation risk, 265–267  
     exemplification, 217–220  
     rating agency assumptions, 267  
   structuring/analysis, 255  
     summary, 270–272  
   study, reasons, 211–212  
   summary, 227–228  
   synthetic technology, usage, 212  
   terminology, 212–213  
   transaction, objective, 219  
   transparency, availability, 266  
   types, 213–217, 229  
     collateral basis, 216–217  
     summary, 252–254  
   yield, impact, 266
- Collateralized debt obligations (CDOs) assets  
   acquisition. *See* Cash asset CDO; Synthetic CDO  
   ramping up process, 217  
   selection, 219  
   synthetic assets, equivalence, 248
- Collateralized debt obligations (CDOs) manager,  
   261–264  
   distinction, Moody's examination, 263, 264  
   equity ownership, 264  
   experience, 262  
   S&P examination, 262  
   fees, 264  
   internal control systems, importance, 263  
   qualities, 261–264  
   reinvestment option, usefulness (S&P examina-  
     tion), 269
- Collateralized debt obligations (CDOs) pool  
   bottom-up approach, 218  
   default probability, statistical analysis, 218  
   diversity, 220  
   granularity, 218  
   internal correlation, 218  
   top-down approach, 218
- Collateralized exchange obligations (CXOs), 213
- Collateralized fund obligations (CFOs), 213

- Collateralized loan obligations (CLOs)  
 commercial/industrial loans, securitization (usefulness), 285  
 term, restriction, 213  
 terminology, 212–213
- Collateralized mortgage obligations (CMOs), 31  
 creation, impact. *See* Prepayments  
 market, RMBS transaction migration, 212–213  
 markets  
 limitation, 55–56  
 problems, 49  
 qualification. *See* Agency CMOs; Nonagency CMOs
- Collateralized synthetic obligations (CSOs), 213
- Collection/servicing function, 124  
 transfer, 6n
- Commercial finance services, 130–131
- Commercial loans, 130
- Commercial mortgage-backed finance servicers, 132–135  
 asset management recommendations, documentation, 134  
 collateral value, material fluctuations (monitoring), 133  
 in-house staff property manager financial reporting, 135  
 integrated watchlist, maintenance, 134  
 master servicers, 133–134  
 pooling/servicing agreement, tracking ability, 133  
 primary servicers, 132–133  
 special servicers, 134–135  
 subservicer delinquency reporting, tracking, 134  
 third-party property managers, maintenance, 135  
 trust assets/expenses, management, 134  
 wire remittance procedures, 135
- Commercial mortgage-backed securities (CMBs)  
 portfolios, standards, 132  
 transactions, 125
- Commercial Mortgage Securities Association (CMSA), investor reporting package, 143
- Commercial paper (CP), 169  
 conduit issuer, 174–175  
 conduit repayment failure, 177  
 issuance/repayment, administrative duties, 179–180  
 meanings, 169n  
 rate, 112  
 term, relation, 169–170
- Committee on Oversight and Government Reform, Subcommittee on Domestic Policy, 296–297
- Companion bonds, 46
- Company-related EATs, 194
- Comparable, term (definition), 327
- Concentration limits, 256
- Conditional prepayment rate (CPR), 32–35  
 approach, mutual exclusivity, 33n  
 percentage, 34–35  
 usage, 33
- Conditional sales, usage, 162
- Conduits. *See* Arbitrage conduits; Asset-backed commercial paper conduits; Hybrid conduits; Multiseller conduits  
 asset type basis, 172–173  
 comparison. *See* Special purpose vehicle credit enhancement structure, 174–177  
 financing. *See* Repo/TRS conduit  
 implication, 170  
 liquidity support basis, 171  
 net worth, 177  
 rating, 181–182  
 seller number basis, 171  
 setup. *See* Barclays  
 structure. *See* Multiseller conduit  
 underwriting criteria, review, 181  
 variant. *See* Fully supported conduits
- Confidence levels, requirement, 95
- Connected mismatches, 267
- Conseco Finance, securitization transaction (servicing fees fixation), 141
- Consolidation, requirement (determination), 20n
- Consolidation of Variable Interest Entities. *See* Financial Accounting Standard Board
- Constant treasury maturity (CMT) index, 112
- Consumer finance abilities. *See* Servicers
- Consumer finance servicers  
 abilities, 130–131  
 charge-off policy, maintenance, 131  
 collection procedures, 130  
 controls, demonstration, 130  
 recovery performance history, 130–131
- Contingent deferred sales charges (CDSCs), 205
- Contraction risk  
 acceptance. *See* Support bonds  
 concern, 43  
 protection, 50
- Controlling financial interest, definition, 19
- Convexity, 341–342. *See also* Effective convexity measure, 339
- Corporate bonds, valuation, 329  
 lattice model, usage, 329n
- Corporate credit environment, 314
- Corporate entity securitization, 195
- Corporate exposures, pool. *See* Collateralized debt obligations
- Corporate funding, claims (prioritization), 90–91
- Corporate risk management, 17–18, 67–68
- Corporate securitization, 195
- Correlation risk, 266–267
- Counterparties, 101  
 deals, contrast. *See* Capital market exposure, acquisition, 305  
 interest rate swap, 102f  
 replacement, location, 118–119  
 risk, 103, 118–120. *See also* Exchange-traded options; Futures
- Counterparty risk, impact, 101
- Coupon leverage, 59. *See also* Multiple leverage
- Coupon rate, requirement, 60

- Coupon reset formula. *See* Inverse floating rate tranche
- Covenants  
breach, 199–200  
maintenance, 144
- Coverage, dollar amount, 93
- Credit assets  
returns, volatility risk, 307–308  
risk, stripping, 150–151  
synthetic creation, 214–215
- Credit card ABS, SIFMA estimates, 154–155
- Credit card companies, interest income/finance charges, 153
- Credit card receivables, 153–161  
delinked structure, 158  
discrete trust structure, 156–157  
funding exposure, 154  
interest, allocation, 157  
master trust structure, 156–157  
principal/prepayments, allocation, 157–158  
seller interest, 156  
transaction structure, 155–158
- Credit card securitization  
cases, 154–155  
deal, EATs, 161  
legal events, 161  
performance events, 161  
seller/servicer events, 161
- Credit card structure  
base rate, 160  
charge-offs, 159  
rate, 159–160  
components, 158–160  
credit scores, 159–160  
payment rate, 160  
portfolio yield, 159  
servicing fee, 160
- Credit default swaps (CDSs), 309, 321–322  
losses, occurrence, 248  
transaction, dealer template, 317–318
- Credit derivatives. *See* Funded credit derivatives; Unfunded credit derivatives  
basics, 305  
conversion, forms, 316  
deal, requirements, 307  
growth, 305–306  
investment products, transformation, 305–306  
market, losses, 321  
notional value, 307  
senior unsecured loans, referencing, 309  
tenure, 319  
transaction, elements, 306–310  
types, 321–323
- Credit-enhanced transactions, 154
- Credit enhancement, 15, 85. *See also* Auto loan securitization  
amount/size, 85  
cost, factoring, 15–16  
decision, 72–73  
depletion, 177  
indication, 87  
level, 77  
mechanism, 86–93  
usage, 22  
OC, usage, 280  
quantification, 94  
sizing, 93–97  
determination, 96  
historical mortality table, usage, 94–95  
source, 77  
structure. *See* Balance sheet CDOs; Conduits  
subordination, relevance, 199  
summary, 97–100  
usage. *See* Collateralized debt obligations
- Credit-enhancing interest-only (IO) strip, 89
- Credit event, 214, 316–318  
defining, 307  
occurrence, absence, 310  
payments, 308
- Credit histories, problems, 21–22
- Credit-linked note (CLN), 316, 323
- Credit-linked security, 316
- Credit rating, level (significance), 15
- Credit risk  
analysis, 212  
commodification, 305  
de-linking, 5  
elimination, 287–288  
leak, concern, 294–295  
originator performance risk, separation, 191  
removal, 17–18  
shift, credit derivatives device (development), 234  
slices, 7
- Credit scores, 159–160
- Credit support  
form, 89–90  
level, requirement, 74  
increase, 75  
sources/size, determination, 72–73  
usage, 23
- Creditworthiness, compromise, 21–22
- Cross-currency risk, 268
- C\*Star (Citibank), 243
- Cumulative losses, 79–80  
stress test, 95
- Currency risk, 191–192
- DaimlerChrysler, 162
- Davidson, Andrew, 297–298
- Dealer template, 317–318. *See also* Credit default swaps
- Debt funding, funding source cost, 281
- Debt holder, prepayment (impact), 31–32
- Debt investors, balance. *See* Collateralized debt obligations
- Debt service coverage ratio (DSCR), 193  
calculations, 133
- Debt-to-income ratio, 70
- Default  
history, 154

- probability, 94
- risk, 103
- swap, 309. *See also* Basket default swaps; Credit default swaps
- Defaulted assets, fair market value/recovery rate, 258
- Default rate per annum, 96
- Deleverage triggers, usage. *See* Asset-backed commercial paper; Automatic deleverage triggers
- Delinked structure. *See* Credit card receivables funding pot, creation, 158
- Delinquency/default, incidences, 21–22
- Delinquency minimization. *See* Servicers
- Delinquent consumer finance transactions, special servicer abilities, 129–130
- Deliverable obligations, 308
- Direct credit substitute, treatment, 171
- Disaster recovery. *See* Servicing
- Discrete trust, 156–157
  - structure. *See* Credit card receivables
- Disintermediation, 3
- Distribution waterfall, deviation, 114
- Diversified loans, pooling, 22
- Diversity score, 256–257
  - computation. *See* Pool
  - table. *See* Moody's
- Diversity tests, 257–258
- Dividend decision, 65–66
- Document tracking. *See* Servicers
- Dollar-per-loan count basis, 132
- Dollar swaps, floating rate payments, 106
- Double taxation, avoidance. *See* Residual profits
- Downgrade history, 154
- Duration, 339–341. *See also* Effective duration equation, 340
  - measure, 339
- Dynamic portfolio, 312
- Early amortization triggers (EAT), 90, 158, 160–161.
  - See also* Cash flow-related EATs; Company-related EATs; Credit card securitization; Sovereign-related EATs; Third-party-related EATs
  - legal events, 161
  - liquidity crisis, 161
  - performance events, 161
  - seller/servicer events, 161
  - usage. *See* Future flows
- Earnings, handling, 65–66
- Earnings before interest, taxes, depreciation, and amortization (EBITDA), 198
- Economies, securitization
  - benefits, 275, 284–288
  - summary, 288–290
  - impact, concerns, 291
  - summary, 302–303
- Effective convexity, 342
- Effective date, 105–106
- Effective duration, 341
- Embedded value. *See* Insurer securitization, motivation, 205
- Emerging market sovereign, 314
- Enforcement event, occurrence, 202
- Entity guarantee, obtaining, 119
- Entry barriers. *See* Whole business securitization
- Equal monthly installment (EMI) structure, loan
  - amortization, 163
- Equipment leases, 130
- Equity
  - form, 66–67
  - funding source cost, 281
  - funds, 315
  - investors, debt investors (balance). *See* Collateralized debt obligations
  - market, exposure, 306
  - presence, 66
- Euro-denominated swaps, floating rate payments, 106
- Excess profit, 86–88
  - recognition, 68n
- Excess spread, 66, 86–88
  - contrast, 89
  - cross-collateralization, 187
  - dollar amount, 87–88
  - levels, decrease, 161
  - nonpayment, 87
  - retention/trapping, 66–67
- Exchange-traded options, counterparty risk, 103
- Existing asset securitizations, 8
- Expected loss, 95
- Extension risk
  - concern, 43
  - protection, absence, 50
- Failure to pay, definition (inapplicability), 317–318
- Fair Debt Collection Practices Act (FDCPA)
  - instruction. *See* Residential mortgage servicers training/compliance monitoring. *See* Residential mortgage servicers; Servicers
- Fair Isaac and Company (FICO), credit scoring models, 159–160
- FAS 140, 68n
  - usage, 240–241
- Fast-pay/slow-pay structure, credit support mitigation, 77
- FDIC: *Issues Relating to the Failure of Superior Bank 6th* (Inspector General report), 301n
- Federal Home Loan Mortgage Corporation (FHLMC)
  - qualification, 22n
  - underwriting standards, 38
- Federal Housing Authority (FHA). *See* 100% FHA prepayment experience, 32n
- Federal National Mortgage Association (FNMA)
  - qualification, 22n
  - underwriting standards, 38
- Federal Reserve
  - Board of Governors, U.S. Division of Banking Supervision and Regulation (caution), 294
  - interest rates, reduction, 275–276
- Fee income, generation, 13. *See also* Servicing fee
- Financial Accounting Standard Board (FASB), 19
  - FIN 46R, usage, 179

- Financial Accounting Standard Board (*Cont.*)  
 Interpretation 46 (Consolidation of Variable Interest Entities), 19–20
- Financial covenants, usage, 200
- Financial entity, regulatory capital requirements (reduction), 18–19
- Financial futures flows, 192
- Financial guarantee, 92
- Financial guaranty insurance, 91–92
- Financial intermediaries  
 abilities, 283  
 activity, 284  
 model, 292–293  
 necessity, 282  
 originate-to-distribute, 295  
 role. *See* Fund-based financial intermediary  
 staffs, maintenance, 283
- Financial intermediation, relationship. *See* Securitization
- Financial leases, usage, 162
- Financial leverage, increase (argument), 280–281
- Financial markets, securitization  
 benefits, 275  
 summary, 288–290  
 impact, concerns, 291  
 summary, 302–303
- Financial Stability Report of April 2007* (Bank of England), 295
- Financial supervisor, regulatory control, 292
- Firm valuation  
 asset securitization, impact (discussion), 278–279  
 Modigliani/Miller position, 277–278
- First-loss risk, 320  
 capital, providing, 69n
- First National Bank of Keystone, residual interest (material differences), 301
- First-to-default example, 313
- Fixed physical settlement, 308
- Fixed rate payer, 101–102, 315  
 floating rate interest, receiving, 106
- Fixed rate receiver, 102
- Fixed recovery swaps, usage, 320
- Floater coupon rate, calculation, 59
- Floater interest rate cap, 58
- Floater/inverse combinations, creation  
 economic rationale, 56–57  
 example, 57
- Floater par value, calculation, 59
- Floating rate bonds  
 cash flows, 104t  
 classes, 55–59
- Floating rate interest, receiving. *See* Fixed rate payer
- Floating rate payer, 315  
 position, 105
- Floating rate payment, determination, 107
- Floating rate tranche, creation (possibility), 56
- Floors, 115–118  
 level. *See* Interest rate floor  
 usage. *See* Securitization
- Ford Motor Company, securitization  
 increase, 16  
 usage, 18
- Ford Motor Credit Co., 162
- Forward contracts, package, 103
- Forward-start swap, 105–106
- Franchise loan servicers, 131–132  
 collateral site inspections, 131  
 credit analysis skills, 132  
 management staff experience, 132  
 operating statements, collection/analysis, 131  
 procedures, maintenance, 131  
 third-party vendor engagement control, 132  
 watchlist functions, maintenance, 131
- Fraud risk, 144–145
- Free asset ratio, decline, 205
- Fully ramped-up structures, 217
- Fully supported conduits, variant, 171
- Fund-based financial intermediary, role, 284
- Funded credit derivatives, 316
- Funding costs, reduction, 13, 14–17
- Funding sources, diversification ability, 13, 17
- Funds collection/investment, usage, 144
- Future cash flows (FCFs), securitization, 187  
 summary, 206–208
- Future flow deals  
 borrowing, possibility, 190–191  
 features, 188–190  
 types, 191–192
- Future flows, 149–150. *See also* Financial futures  
 flows  
 borrower business, restrictions, 189  
 cash flow trapping, 188–189  
 contrast. *See* Assets  
 EATs, usage, 194–195  
 off-balance sheet, absence, 190  
 origination independence, absence, 189–190  
 overcollateralization, extent, 189  
 receivables, uncertainty, 188  
 subordination structures, usage (failure), 193  
 third-party guarantees, presence, 195  
 transferee, prioritization, 189
- Future flow securitization  
 determination, 188  
 reasons, 190–191  
 risk, removal, 191
- Future flow securitizations, 8
- Future flow transactions, 150  
 application, 190  
 classification, 192  
 objectives, 191  
 structural features, 193
- Future revenues, 187  
 securitization, 187–195  
 summary, 206–208
- Futures, counterparty risk, 103
- GE Commercial Equipment Financing LLC, Series 2003-1 statement, 112
- GECS Swap Agreement, 112

- Generally accepted accounting principles (GAAP), 19
- General Motors Corp., 162
- Global Financial Stability Report* (IMF), 265
- Goldman Sachs Alternative Mortgage Product (GSAMP) Trust 2006-S3, case study, 299–300
- Moody's discussion, 300
- Goods, export/sale basis, 192
- Government National Mortgage Association (GNMA) qualification, 22n
- underwriting standards, 38
- Government-sponsored entities (GSEs)
- maintenance, 136
- mortgage hedging activities, 292
- Granularity. *See* Collateralized debt obligations pool
- loss. *See* Collateralized debt obligations
- Greenspan, Alan (2005 credit derivatives statement), 224
- Guardian Savings and Loan, failure, 141
- Hard credit enhancement, 88
- Hedge counterparty, rating, 268
- Hedge funds, 315
- Herfindahl Index, 256
- High-spread contracts, 88
- High-yield bonds (junk bonds), 14
- acquisition, 216
- High-yield corporate bonds, focus, 262
- High-yield corporate CDOs, Moody focus, 262
- High-yield corporate debt, usage, 243
- High-yield transactions, spread compression risk (impact), 268
- Hire purchase funding, usage, 162
- Historical mortality table, usage. *See* Credit enhancement
- Hot backup servicer, 142
- Hybrid CDO, 215
- Hybrid conduits, 172
- Hybrid finance, 195
- Hybrid rate, 112
- IAS 39, usage, 240–241
- Income coverage tests, 257–260
- Index, 314
- Index-based credit derivative trades, 313–314
- Index tracking CDOs, 251–252
- Index trades, 251–252
- pool construction, 314
- Industry clusters, definition, 256
- In-force life insurance policies
- surplus, monetization, 205
- value, 204–205
- Infrastructure facilities, construction, 150
- Installment credit, forms, 162
- Installment period, length, 7
- Installment sales contracts, usage. *See* Chief financial officer
- Insurance profits, 187
- securitization, 204–206
- summary, 206–208
- transaction structure, 206
- Insurance securitization, motivations, 205
- Insurer, embedded value, 205
- Interest
- accretion, usage, 51
- allocation, 52, 157. *See also* Credit card receivables
- calculation, 38
- distribution, 39
- rules, 54–55
- measure, 340
- risk, measurement, 339–342
- usage. *See* Bonds
- Interest coverage (IC), 233–234
- test, 260
- triggers
- compliance. *See* Overcollateralization concept, 257–258
- Interest-paying bonds, dissection (motivation), 50–51
- Interest rate cap
- commonness, 56
- specification, 116
- usage, 118. *See also* Mortgage-backed securities; Net interest margin transactions
- Interest rate derivatives
- instruments, 103–105
- proceeds, usage. *See* Waterfall usage. *See* Securitization transactions
- Interest rate floor, level, 58
- Interest rate paths
- bond class, present value calculation. *See* Scenario interest rate path
- dependence, 329
- generation, 331
- procedure, 330
- simulation, 330–334
- Interest rate risk, 326. *See also* Assets mitigation, 111–112
- necessity, 9
- specification, 24
- Interest rates
- basis mismatch, relationship, 267–268
- benchmark term structure, 330
- changes. *See* Ramp-up period
- corridor, 117
- usage, 118
- cycles, prepayment rates (relationship), 32n
- decrease, protection, 116–117
- random paths, 331
- Interest rate swaps, 101–115. *See also* Counterparties
- OTC instruments, 103
- International Monetary Fund (IMF). *See* *Global Financial Stability Report*
- International Swap and Derivatives Association (ISDA) documentation, 307–308, 317
- Intra-obligor correlation, absence, 218
- Inverse floating rate tranche (inverse floater)
- availability, 58n
- coupon rate, 56

- Inverse floating rate tranche (*Cont.*)  
 coupon reset formula, 58  
 decline, 57  
 interest, calculation, 59  
 interest rate cap, calculation, 59  
 par value, calculation, 59  
 usage, 56
- Investment-grade assets, acquisition, 216
- Investment-grade certificate holders, cash flow  
 interruptions, 133
- Investment-grade-rated notes, rating triggers  
 (inclusion), 118–119
- Investment objectives, satisfaction, 279
- Investor  
 communications, usage, 144  
 credit risk, cushion, 189
- Issuers, market establishment, 17
- Issuer trust, representation, 157
- iTraxx, corporate/noncorporate name index, 251
- Junior bonds, 306
- Junior notes (subordinated notes), 10
- Junior tranches, 312
- Junk bonds. *See* High-yield bonds
- KeyCorp Student Loan Trust 2003-A, Asset-Backed  
 Notes transaction (prospectus), 110–111
- Key man provision, usage. *See* Collateralized debt  
 obligations
- Lattice model, usage, 329. *See also* Corporate bonds
- Legal arbitrage, 16
- Legal entity, creation, 14
- Legal risk, 72  
 inclusion, 123
- Lender, amount (advancing), 5–6
- Lenders, credit risk slice, 7
- Letters of credit (LOCs), 91, 93
- Leverage  
 risk implication, 217  
 usage. *See* Risk
- Leveraged buyout (LBO), impact, 195
- Liabilities  
 bullet repayment, providing, 76n  
 classes  
 assumption, 248  
 issuance, 231  
 sequential pay-down structure, 76  
 interest rates, 267–268  
 tranching, 4
- Life insurance business  
 insurer cash inflows, 204  
 insurer cash outflows, 204
- Liquidity  
 amount, determination, 78  
 enhancements, sources, 78. *See also* Banks  
 facility, 67  
 creation, 178  
 usage, 200  
 improvement, 284  
 provider, rating, 178  
 risk, 268  
 reduction, 287–288
- Liquidity support, 177–178  
 amount/sources, determination, 77–78  
 basis. *See* Conduits  
 necessity, understanding, 170–171
- Loans  
 amortization, 163  
 characteristics, projections, 332  
 origination, 296  
 pool  
 par value, excess, 66–67  
 simulated cash flows, 334t  
 portfolios, direct creation, 315  
 records, establishment, 127  
 servicing, 8
- Loan-to-value (LTV) ratio, 76  
 impact, 163
- Lockout period, 69  
 addition. *See* Accrual bonds
- Lognormal probability distribution curve, usage, 97
- London Interbank Offered Rate (LIBOR), 102  
 cash inflow, 105  
 curve, usage, 330–331  
 decline, 38  
 flatness, 107  
 payment, 109–110  
 reference rate, 322  
 six-month LIBOR, 103  
 payment, 104  
 three-month LIBOR, 110–111
- Longer-term assets, loan/bond form, 5–6
- Long-Term Capital Management (LTCM), col-  
 lapse, 225
- Loss allocation rules, 22
- Loss computation, 319–320  
 making. *See* Protection seller
- Loss materiality provisions, 320
- Loss rate, periodical fluctuations, 159
- Loss scenario, 95  
 consideration, 80
- Lowest-rated bond class, sale, 73
- Low-spread contracts, 88
- LTV Steel Company, Inc.  
 bankruptcy challenge, 16–17  
 securitizations, true sale status, 16
- Market-value-based structures, relationship. *See*  
 Par value
- Market value CDOs, 258–259
- Mark-to-market losses, 322
- Mark-to-market value. *See* Swaps
- Master servicer, 124–125. *See also* Residential  
 mortgage servicers
- Master trust, 156–157  
 structure, 156–157. *See also* Credit card  
 receivables
- Materiality loss provision, 320

- Maturity intermediation, 283  
 Maturity matching, presence, 173  
 Maximum WAC, 256  
*Metropolitan Life Ins. Co. v. Bank One, N.A.*, 145  
 Mexican originator transaction, example, 191–192  
 Mezzanine tranches, 312  
 Minimum WAC, 256  
 Mismatches. *See* Connected mismatches  
     relationship. *See* Interest rates  
 Modigliani/Miller position. *See* Firm valuation  
 Monetary policy  
     effectives, reduction, 291–292  
     securitization, impact, 292  
 Monoline insurance, 91–93  
 Monte Carlo simulation, usage, 328–339  
 Monte Carlo simulation model, 328–329, 341  
     usage, 336–337  
     simplicity, 330  
 Monthly cash flow. *See* Pass-through certificates  
     165% PSA assumption, 40t–42t  
 Monthly excess cash flow, application, 114  
 Monthly principal, cash flow dependence, 39–40  
 Monthly spot rates, simulated paths, 336t  
 Moody's, diversity score table, 257t  
*Moody's Perspective 1987-2002: Securitization  
 and its Effect on the Credit Strength of Com-  
 panies* (Moody's), 280  
 Mortality table, 94  
 Mortgage-backed pools, 152  
 Mortgage-backed products, appeal (broadening), 288  
 Mortgage-backed securities (MBSs)  
     cash flow, 326  
     yield measure, 327  
     classification, 152  
     interest rate cap, usage, 118  
     prepayments, 329  
     valuation, 325  
 Mortgage banker, impact, 285  
 Mortgage interest rates, changes, 287  
 Mortgage lending, curbing (legislative initiatives).  
     *See* Predatory mortgage lending  
 Mortgage market, operation, 285–286  
 Mortgage pool, cash flow projection, 32n  
 Mortgage-related asset-backed securities, 152  
 Multiple leverage (coupon leverage), 58  
 Multiple-seller ABCP conduits, 171  
 Multipliers, usage. *See* Standard & Poor's  
 Multiseller conduits  
     assets, example, 174  
     structure, 172f
- National Century Financial Enterprises (NCFE),  
     144–145  
 Negative carry, 88–89  
     risk, 268  
 Net interest margin (NIM) transactions, interest  
     rate cap (usage), 118  
 Net operating income (NOI) adjustments, 133  
 Net present value analysis, ability. *See* Residential  
     mortgage servicers
- Net Trust Swap Payment, 110–111  
 Net Trust Swap Receipt, 111  
 New Century, bankruptcy filing, 301n  
 Nominal spread, 327  
 Nonagency ABS, discussion, 56  
 Nonagency CMOs  
     discussion, 56  
     qualification, 31n  
 Nonagency deals, structuring, 65  
     summary, 80–84  
 Nonconforming servicers, welcome calls, 137  
 Nongeneric interest rate swaps, usage. *See* Secu-  
     ritization  
 Non-ISDA document, usage, 318  
 Nonpayment, reasons, 7n  
 Nonrecourse factoring, 7  
 Notional amount, 101–102  
     decline. *See* Amortizing swap  
     liability principal, connection, 111  
     stasis. *See* Amortizing swap  
 Notional interest-only (notional IO) bond classes,  
     60–61  
     investors, 61  
 Notional pool, risk attributes, 248  
 Notional principal, 101–102  
 Notional value, 318
- Obligors  
     concentration, 182  
     credity quality, consideration, 85  
     default incentives, 85  
     failure, 92  
     notification, requirement, 238n  
 Off-balance financing, achievement, 13  
 Off-balance sheet  
     absence. *See* Future flows  
     transaction, usage, 19  
     treatment. *See* Securitized assets  
     sale treatment basis, 241  
 Off-balance sheet financing  
     achievement, 19–20  
     disclosure, 20  
     SOX requirements, 20  
 Offshoring transactional-based activities, 126  
 Off-the-run Treasury issues, usage, 330–331  
 One-factor interest rate model, 331  
     100% FHA, 32n  
 One-month future interest rates, simulated paths, 333t  
 Onerous asset, 141  
 On-the-run Treasury issues, price/yield, 330–331  
 Opaqueness, increases. *See* Bank risk  
 Operating leases, usage, 162  
 Operating revenues, 187  
     securitization, 195–204  
     methodology, 196–198  
     summary, 206–208  
 Operational risk. *See* Securitization transactions  
     Basel II definition, 123  
     structured finance market perspective, S&P  
     survey, 123–124

- Option-adjusted basis, analysis, 49
- Option-adjusted duration, 341
- Option-adjusted spread (OAS), 325, 337–338  
analysis, usage, 328–339  
calculation, 337  
usage, 338
- Option cost, 338–339  
equation, 338
- Option-free bonds, assumptions, 340–341
- Options, strip, 116
- Originate-to-distribute, basis, 295
- Origination process, spread (capture), 17–18
- Originator  
accounting (volatility removal), synthetic transactions (usage), 241  
balance sheets, mortgages (impact), 275–276  
early amortization, impact, 194–195  
liabilities, repair (proposal), 298  
loan repayment, 198  
performance risk, 189  
rating, arbitrage, 190  
reference, 8
- Originator-provided credit enhancements, 86–90
- Originator-retained collection/servicing, 6n
- Originator/seller  
credit rating, 14–15  
excess spread, withdrawal, 66  
reference, 9
- Outstanding investments, proportions, 158
- Overcollateralization (OC), 66–67, 89–90, 118  
amount. *See* Targeted overcollateralization amount  
reduction, 115  
building, 113, 114  
consideration, 155  
extent. *See* Future flows  
maintenance, 193  
OC/IC triggers, compliance, 233  
test, 258–260  
illustration, 259  
triggers, concept, 257–258  
usage. *See* Credit enhancement
- Over-the-counter (OTC) deals, contrast. *See* Capital market
- Over-the-counter (OTC) instruments. *See* Interest rate swaps
- Over-the-counter (OTC) transactions, 307–308
- Oxford Acceptance Corporation III Series C CMOs, PRO bonds (inclusion), 45n
- Pacific Thrift and Loan, residual interest (material differences), 301
- Parallel yield curve shift assumption, 340
- Parent bond  
class, 57  
parameters, 59  
coupon rate, 51
- Pari passu* bonds, 306
- Park Place Securities, Inc., Asset-Backed Pass Through Certificates, Series 2004-WCW2  
statement, 117–118
- Partially supported multiseller ABCP program structure, 175f
- Par value  
market-value-based structures, relationship, 217  
sum. *See* Performing assets
- Pass-through certificates (beneficial interest certificates), 10  
monthly cash flow, 36t–37t
- Pass-through securitizations, structured finance (contrast), 4–5
- Pass-through security  
coupon rate, 35  
form, 287  
prepayment speed (100% PSA), 46
- Pass-through security, creation, 286–287
- Pay-down structure  
selection. *See* Bond classes  
types, 76
- Payment processing. *See* Servicers
- Pay option adjustable-rate mortgage, ability, 275n
- Pay-through certificates, 10
- Performing assets  
par value, sum, 259  
principal amount, 258
- Per-loan servicing costs, reduction, 126
- Physical settlement, 308, 320–321. *See also* Fixed physical settlement  
commonness, 321
- Plain secured borrowing, whole business securitization (contrast), 196
- Plain vanilla swap, notional principal (stasis), 108
- Planned amortization class (PAC) bonds, 43–49, 329  
average life, 48  
comparison. *See* Bond classes  
inclusion, 79  
priority, 45–46  
total par value, 48
- Planned amortization class (PAC) structure. *See* Sequential pay PAC structures  
distribution rules, understanding, 46–47  
introduction, 45n
- Planned amortization class (PAC) support structure, 49
- Planned redemption obligation (PRO) bonds, 45n  
inclusion. *See* Oxford Acceptance Corporation III Series C CMOs
- Pollock, Alex (2007 statement), 297
- Pool  
diversity score, computation, 232  
granularity. *See* Collateralized debt obligations pool  
insurance, 93  
policies, 93  
interests, sale, 175  
paper (coverage), program-wide enhancement (usage), 176  
quality, measures, 255–257
- Pool level enhancement, 175, 176  
usage. *See* Assets

- Pool level triggers, components, 177
- Portfolio. *See* Dynamic portfolio; Static portfolio
  - assets, deterioration, 177
  - default swap, 311
  - derivative, 311–312
  - trade. *See* Structured portfolio trade
  - triage, demonstration. *See* Residential mortgage servicers
  - yield, 159
- Postacceleration waterfall, 201
- Postenforcement waterfall, 201
- Predatory mortgage lending, curbing (legislative initiatives), 298
- Preenforcement waterfall, 201
- Premium, 214
  - consideration, 318
  - inconstancy, 318
  - protection buyer purchase, 308
- Prepayment-protected bond classes, 79
- Prepayments, 31–38
  - allocation. *See* Credit card receivables
  - benchmark. *See* Public Securities Association concern, 31–32
  - conventions, 31–34
  - definition, 31
  - experience. *See* Federal Housing Authority impact, 87n. *See also* Debt holder model. *See* Public Securities Association problems, 32
  - projection, 332
  - protection, necessity (determination), 78–79
  - rate. *See* Conditional prepayment rate relationship. *See* Interest rates
  - risk (elimination failure), CMO creation (impact), 288
  - speed, 50
    - assumption, 39
- Present value, calculation. *See* Scenario interest rate path
- Primary fee, seniority, 264
- Primary servicer, 124. *See also* Commercial mortgage-backed finance servicers; Residential mortgage servicers
- Prime borrowers, deals (distinction), 22
- Prime loans, 21–22
- Principal
  - allocation. *See* Credit card receivables
  - calculation, 38–39
  - cash flow dependence. *See* Monthly principal distribution, 39
  - rules, 43, 55
  - payments, 48
    - allocation, 58
    - disbursal, 52
    - priority, 49
- Principal and interest (P&I) advances, 133
- Proceeds, usage, 112–115. *See also* Waterfall
- Program level enhancement, 175, 176
- Program sponsor. *See* Asset-backed commercial paper
- Program-wide triggers, components, 177
- Project finance, 7
  - inclusion, 4
- Properties
  - geographical diversification, 69
  - types, 70
- Proportional pay-down structure, 77
- Pro rata pay-down structure, 77
- Protection buyer, 307, 314–315
  - physical delivery, 321
- Protection payment, 214, 308
- Protection purchase, 315
  - reason, 309–310
- Protection seller, 307, 315
  - loss computation, making, 319–320
  - premium, earning (example), 310
- Public debt market, absence, 281–282
- problems, 282
- Public Securities Association (PSA)
  - approach, mutual exclusivity, 33n
  - benchmark (prepayment model), 34
  - prepayment benchmark, 32–38
  - range, 50
  - speeds, 34
- Purchase rate, 161
- Ramp-up period. *See* Arbitrage synthetic CDOs; Collateralized debt obligations
  - concentration risk, 269
  - interest rate changes, 269
- Ramp-up risks, 268–269
- impact. *See* Arbitrage
- Rating agency, impact, 73
- Rating arbitrage
  - argument, 281
  - occurrence, 281
- Rating factors, 256–257. *See also* Weighted average rating factor
- Rating triggers
  - decrease, 119
  - inclusion. *See* Investment-grade-rated notes
- Real estate investment trusts (REITs), 216
- Real estate owned (REO)
  - dispositions, procedures, 135
  - management experience, 139
  - overseeing/disposal, 134
  - property management marketing/disposition procedures, 137
  - status, 135
- Real Estate Settlement Procedures Act (RESPA)
  - guidelines, 136
- Receivables
  - eligibility criteria. *See* Asset-backed commercial paper conduits
  - sale, 188–189
  - transfer, absence, 239
  - uncertainty. *See* Future flows
- Reference asset, 307, 311–312
- Reference entity, 214, 307
  - cheapest-to-deliver asset, delivery, 317
- Reference obligation, 307

- Reference portfolio, 307, 311–312
- Reference rates, 322
  - excess, 116
  - usage, 102
- Refinancing rates, 332
  - simulated paths, 333t
- Regulation AB. *See* Securities and Exchange Commission
- Regulatory capital
  - arbitrage, 69
  - management, 18–19
  - relief, 69
  - requirements, reduction. *See* Financial entity
- Reinvesting type CDO, presence, 219
- Reinvestment period. *See* Arbitrage cash CDOs
- Reinvestment risks, 326. *See also* Revolving period
- Related-party guarantees, 91
- REMIC rules, 132
  - consistency, 135
- Repo/TRS conduit, financing, 172
- Representation, Davidson update, 297–298
- Resecuritization CDOs, 249–251
- Resecuritizations (CDO<sup>2</sup> // CDO squared), 216
- Reset date, 105–106
  - comparison, 116–117
- Residential mortgage-backed securities (RMBSs)
  - loans, 69
  - retail loan pool support, 212
  - transactions, 152
    - migration. *See* Collateralized mortgage obligations
- Residential mortgage debt, debt market size, 286
- Residential mortgage loans
  - investment vehicle problems, 286
  - sale, 17–18
  - support. *See* Securitization
  - underwriting standards, satisfaction, 22
- Residential mortgage markets, funds supply (dependence), 285
- Residential mortgage servicers, 135–141
  - best-exit-strategy-workout plan, 138
  - collection calling hours, expansion, 138
  - collection technology, maintenance, 136–137
  - dual-path strategy, 139
  - FDCPA instruction, 137
  - FDCPA training, 136
  - foreclosure
    - dual track maintenance, 138
    - proactive timeline management, 139
  - foreclosure/bankruptcy timelines, management, 138
  - insurance loss drafts/claims disbursements, maintenance, 140
  - later reporting/remitting penalties, monitoring, 140
  - loss mitigation, dual track maintenance, 138
  - master servicers, 140–141
  - net present value analysis, ability, 137
  - payment processing environment, demonstration, 136
  - portfolio triage, demonstration, 139
  - primary servicers, 135–137
  - prime-time calling percentage, 138
  - short-term repayment plan cure rates, 138
  - skip-tracing abilities, demonstration, 139
  - special servicers, 138–139
  - subprime services, 137–138
    - collection training, 137
  - subservicer delinquency reporting/collection activity, review, 140
  - success rates, 138
  - telephony, usage, 138
  - time-to-call criteria, 138
  - vendor management methodologies, 138
  - vendor relationships, demonstration, 136
- Residual interest, value (material differences), 301
- Residual interest bond class, 56n
- Residual profits, double taxation (avoidance), 240
- Residual value, representation, 195–196
- Restrictive covenants, usage, 200
- Restructuring, 318
- Retail assets, whole sale assets (contrast), 151
- Retail loans, 149
  - pool, 95
  - summary, 165–167
- Retail pools
  - assumption. *See* Collateralized debt obligations
  - wholesale loan pools, contrast, 152–153
- Returns, volatility, 69
- Return swaps, total rate, 316–317
  - implication, 322
- Revenues, future flows securitization, 188
- Revolving asset securitization, 156
- Revolving asset structure, 155–156
- Revolving period, reinvestment risks, 269
- Revolving structure, 69
- Risk
  - buyer, 307
  - capital, inadequacy. *See* Banks
  - creation, leverage (usage), 220
  - distribution, 199
  - identification, 70–72
    - necessity, 67–68
  - seller, 307
  - transfer, impact, 293
- Risk-based capital guidelines, concept, 18–19
- Risk-based capital requirements
  - management, securitization (usage), 18
  - satisfaction, 13
- Risk transfer-based transactions, 151
- Risk-weighted assets, 69
- Risk-weighted value, 18
- Sale treatment, basis. *See* Off-balance sheet
- Sarbanes-Oxley Act of 2002 (SOX) Section 401(a), impact, 20
- Savings and loan associations (S&Ls), residential mortgage loans (percentage), 285
- Scenario interest rate path, bond class (present value calculation), 334–336
- Secondary fee, payment, 264

- Second-lien mortgages, collateral, 299
- Second-to-default obligor, protection purchase, 313
- Secured lending, 5
- Secured loans  
 structure. *See* Whole business securitization  
 usage, 162
- Securities  
 arbitrage, 172  
 credit quality, 6  
 third-party guarantor, achievement, 6n  
 design problems, 294–300  
 issuance. *See* Securitization  
 repayment, self-liquidating exercise, 187–188
- Securities and Exchange Commission (SEC), 19  
 Regulation AB, 142–143  
 definition. *See* Servicing function
- Securities Industry Financial Markets Association (SIFMA)  
 ABS market estimates, 162  
 estimates. *See* Credit card ABS
- Securitization. *See* Future flow securitization; Term securitization  
 advantages, BIS recognition, 291–292  
 assets, sale (involvement), 6–7  
 benefits, 275. *See also* Economies; Financial markets  
 summary, 288–290  
 capital structure, equity cost, 74  
 caps, usage, 117–118  
 contribution. *See* U.S. housing finance market  
 defining, 5–8  
 definition, refinement, 4  
 economic impact, 275  
*Economist* comments, 277  
 financial intermediation, relationship, 231–284  
 financing, contrast, 6  
 floors, usage, 117–118  
 funding  
 costs, 277–281  
 usage, reasons, 13–21  
 illustration, 8–10  
 interest rate swaps, usage, 108–112  
 investor protection, 16  
 issuance, cost, 68  
 legal/accounting expenses, factoring, 15–16  
 legal preference, 16  
 markets, establishment, 296  
 nongeneric interest rate swaps, usage, 108  
 nonquantifiable benefits, 17  
 operational issues, 123  
 summary, 145–146  
 origins, 285  
 relationship. *See* Asset-backed commercial paper  
 residential mortgage loans, support, 113–115  
 risk management capability, 18  
 securities, issuance, 10  
 structure, consideration, 66  
 structuring, 72–73  
 summary, 11–12  
 technique, 3  
 usage. *See* Risk-based capital requirements  
 whole business securitization, contrast, 197t
- Securitization transactions, 92  
 interest rate derivatives, usage, 101  
 summary, 120–122  
 operation, trustee role, 143–144  
 operational risk, 123  
 perspective, 65–66  
 result, 190–191
- Securitized assets, off-balance-sheet treatment, 150
- Seller  
 cross-default, 177  
 insolvency/bankruptcy, 177  
 interest, 156. *See also* Credit card receivables  
 representations, 195  
 term, usage, 116  
 warranties, 195
- Seller level enhancement, 175
- Senior bonds  
 class  
 issuance, 73  
 protection, increase, 16–77  
 dissection, 23
- Senior notes, 10
- Senior secured debt, 90–91
- Senior-subordinate structure, 90–91
- Senior tranches, 312  
 risk, 118n
- Sequential pay PAC structures, 47–49
- Sequential pay structures, 38–43
- Series trust, representation, 157
- Servicer risk, 72
- Servicers. *See* Backup servicer; Commercial finance servicers; Franchise loan servicers; Master servicer; Primary servicer; Specialized servicer; Special servicers  
 advances, liquidity enhancement source, 78  
 advances, requirement, 128  
 asset-aging analysis, usage, 128  
 collection staff, oversight ability, 129  
 compliances, 128  
 consumer finance abilities, 129–130  
 customer service environment, quality, 129  
 data scrubbing, ability, 130  
 delinquency minimization, 128  
 delinquent portfolios, management, 129  
 document tracking, 128  
 employee turnover, stability measure, 126  
 FDCA training/compliance monitoring, 130  
 insolvency/bankruptcy, 177  
 insurance, presence, 128  
 internal controls, 127  
 investor reporting, 128  
 loan/asset administration, 127–128  
 obligor service, 128  
 organizational structure, 125–126  
 payment plan procedures, presence, 129  
 payment processing, 128  
 pricing model/technology, postpurchased review, 130

- Servicers (*Cont.*)
- qualities, S&P identification, 128–141
  - recovery models, development/implementation (demonstration), 130
  - reporting, 142–143
  - staff
    - strengths, 125
    - turnover, 126
  - strengths, 125–128
  - systems, 127
    - interface, 130
  - training, 126
  - types, 124–125
- Services, export/sale basis, 192
- Servicing
- business continuity planning, 127
  - disaster recovery, 127
  - fee, 160
  - organizations, organizational structure (optimum), 126
  - process-oriented job, 125
  - transition, 141
- Servicing fee, 34
- income, generation, 20–21
- Servicing function, 124
- SEC Regulation AB definition, 124
- Setting date, 105–106
- Settlement frequency, 107
- Shorter bonds, offering, 54
- Shorter-term paper, usage, 43
- Short squeeze, 321
- Short-term assets
- credit card securitization financing, 169
  - usage, 5
- Short-term bond classes, par value, 24
- Short-term financing, necessity, 77–78
- Short-term interest rate
- factor, 331
  - mean-reversion speed, 331
- Short-term investments, presence, 258
- Short-term liquidity, problem, 66
- Short yield volatility, 331
- Simulated average life, 339
- Simulated future one-month rates, interest rate path, 335
- Single-B issuers, spread, 14
- Single-monthly mortality (SMM) rate, 33–35
- Single-name credit derivatives, flexibility, 313–314
- Single-name default swap, 311
- Single-name derivative, 311–312
- Single-obligor derivative, 311–312
- Single-seller ABCP conduits, 171
- Skip-tracing abilities, demonstration. *See* Residential mortgage servicers
- Small and Medium-sized Enterprise (SME) loans, 130, 314
- Soft credit enhancement, 87–88
- Sovereign-related EATs, 194
- Sovereign risks, 191–192
- Specialized servicer, 125
- Special purpose entity (SPE), 8–9
- qualification, 19n
- Special purpose vehicle (SPV), 5
- agency collections, transfer, 238
  - assets, 66
    - transfer, 155–156
  - conduit, comparison, 170
  - creation, 230
  - exposure, 101
  - importance, 8–9
  - interposing, 311
  - loans, near-homogeneous portfolio (transfer), 229
  - management, absence, 67–68
  - payments, 192
  - purchase, example, 89
  - securities, issuance, 113n
  - setup
    - example, 9
    - purpose, defeat, 9
- Special servicers. *See* Commercial mortgage-backed finance services; Residential mortgage servicers
- abilities. *See* Delinquent consumer finance transaction
  - demonstration, 129–130
- Speculative-grade-rated corporations, bank loan replacements, 3
- Speculative-grade rating, 14
- Spread compression risk, 268
- impact. *See* High-yield transactions
- Stabilized mortgage reduction term (SMRT)
- bonds, 45n
- Standard & Poor's
- cumulative loss, projection, 300n
  - multipliers, usage, 95–96
- State of Arizona et al. v. Credit Suisse First Boston Corporation, et al.*, 145
- Static pools, presence. *See* Collateralized debt obligations
- Static portfolio, 312
- Static spread, 328
- Steel, Robert (2008 American Securitization speech), 276–277
- Step-down triggers, 67
- Step-up feature, usage, 318
- Step-up pay-down structure, 77
- Sterling-denominated swaps, actual/365 day count (usage), 106
- Stop-issuance triggers, 176–177
- Strike rate, term (usage), 116
- Structural arbitrage
- arguments, 279–280
  - principle, 279–280
- Structural credit enhancement, 86, 90–91
- Structural protection triggers, inclusion, 79–80
- Structured Asset Investment Loan Trust Mortgage Pass-Through Certificates, Series 2005-4 (payment priority), 113–114
- Structured CDOs, growth, 251
- Structured credits, inclusion, 4

- Structured credit trade, 312
- Structured credit trading, concept, 306
- Structured finance
- BIS definition, 4–5
  - capital market participant definition, 4
- Structured finance CDOs, 249–251
- assets, 250–251
  - genesis, 249–250
  - growth, 250
  - popularity, 216–217
  - problems. *See* Subprime crisis
- Structured investment vehicle (SIV), 173
- Structured notes, inclusion, 4
- Structured portfolio trade, 312–321
- Structured product CDOs, 249
- Structured vehicles, 169
- summary, 182–185
- Structure risk, exposure, 270
- Structuring
- bands, 46
  - goals, 13
  - summary, 24–27
  - speeds, 46
- Subordinated bond
- classes, subordinated claims, 91
  - excess interest, 241
- Subordinated first-loss liabilities, 66–67
- Subordinated loan, 88
- Subordinated notes. *See* Junior notes
- Subordination structures, usage, 22
- failure. *See* Future flows
- Subprime borrowers, 21–22
- deals, distinctions, 22
- Subprime crisis
- aftermath, 225
  - response, 296–297
  - structured finance CDOs, problems, 250
- Subprime lending, securitization (responsibility), 296–297
- Subprime loans, 21–22
- securitization, 22–23
- Subprime mortgage bond, ISDA publication, 317–318
- Subprime services. *See* Residential mortgage servicers
- Superior Bank
- residual interest, material differences, 301
  - Tier 1 capital, first-loss support, 301
- Support bonds, 43, 46–49
- contraction risk, acceptance, 46
  - inclusion, 79
  - types, 49
- Surety bonds, 92
- Surplus excess spread, utilization (providing), 157
- Survival rate, 94
- Swaps. *See* Interest rate swaps
- administrator, impact, 114–115
  - documents, 119–120
  - market
    - quotes, 105–107
    - terminology/conventions, 105–107
  - mark-to-market value, 119–120
  - notional principal
    - decline. *See* Amortizing swap
    - stasis. *See* Plain vanilla swap
  - payments, negative cash flow impact, 113n
  - position, interpretation, 103–105
  - quoting convention, 106–107
  - trade date, 105–106
  - trustee termination, absence, 119–120
- Synthetic CDOs, 234–243
- accounting volatility, absence, 240–241
  - advantages, 236
  - asset acquisition, 214
  - book size reduction, absence, 242
  - bullet repaying notes, usage, 242–243
  - cash CDOs, contrast, 236–243
  - contrast. *See* Cash CDO
  - creation, 234–236
  - customer service flexibility, retention, 242
  - FAS/IAS standards, usage, 241
  - flowchart. *See* Balance sheet synthetic CDO
  - funding/reinvestment problems, minimization, 236
  - funding/risk transfers, split, 236
  - future profits, sources, 241
  - issuance size, 225–226
  - legal costs, reduction, 239
  - origination/servicing function separation, nonrequirement, 238–239
  - residual profits, double taxation (avoidance), 240
  - transfer, validity (guarantee), 127
  - true sale
    - concerns, 238
    - problems, alleviation, 236–238
  - up-front taxation, absence, 239–240
- Synthetic securitization, 151
- Synthetic structures, 150–151
- Synthetic technology, usage. *See* Collateralized debt obligations
- Synthetic transactions, usage. *See* Originator
- Synthetic transfers, 315
- Targeted amortization class (TAC) bonds, 50
- Targeted overcollateralization amount, 114
- Tax/insurance third-party service providers, usage, 126
- Tax risk, 72
- 10-K report, usage, 142–143
- Tenure, 319. *See also* Credit derivatives
- Term securitization, 173
- Theoretical value, determination. *See* Bond classes
- Third-party credit enhancement, 86, 91–93
- Third-party credit risk, 91
- Third-party property managers, maintenance. *See* Commercial mortgage-backed finance servicers
- Third-party-related EATs, 194
- Third-party vendor engagement control. *See* Franchise loan servicers
- Threshold risk, 320
- Time tranching. *See* Bond classes

- To-be-ramped up structures, 217
- Total assets, excess, 157
- Total capital reserves, financial entity requirement, 18–19
- Total principal payment, 35
  - 100% PSA/250% PSA, 44t–45t
- Total rate of return swap. *See* Return swaps
- Total return swap (TRS), 322
- Towers Healthcare, Ponzi-type devices, 144–145
- Toyota Auto Receivables 2003-B Owner Trust,
  - Class A-3 statement, 108–109
- Trade date. *See* Swaps
- Tranche payment, 55
- Tranching
  - concept, 231–232, 306
  - indexes, combination, 306
- Transactions
  - deleveraging, 257–258
  - economics, 78
  - evaluation, 120
  - microlevel structuring, 21
  - structure
    - economic goal, 23–24
    - example, 74–75
    - structuring, implications, 14–15
    - transparency, absence, 20
    - types, 152
- Triple-B rated investment defaulting, historical
  - probability, 85–86
- Troubled loans, overseeing/disposal, 134
- True sale
  - achievement, 164–165
  - importance, 9
  - legal issue, 17n
  - opinions, 189
  - problems, alleviation. *See* Synthetic CDOs
  - risk, 315
  - structure
    - basis. *See* Cash securitization
    - usage, 230–231
- Trust deed, usage, 143
- Trustees
  - legal role, 143
  - role. *See* Securitization transactions
  - technology assistance, 144
- Trust-preferred CDOs, 217
- Two-bond class structure, creation, 73–74
  
- Underwriting standards, 8
  - case study, 299–300
  - differentiation, Moody's proposals, 297
  - problems, 294–300
- Unfunded credit derivatives, 316
- Uniform Commercial Code (UCC) refilings, 133
- Uniform Single Attestation Program, maintenance, 136
- United Kingdom (UK) bankruptcy law, 152
- Up-front taxation, absence. *See* Synthetic CDOs
- U.S. housing finance market, securitization contribution, 285–288
  
- Valuation methods
  - applicability, 320
  - Monte Carlo simulation, usage, 328–339
  - OAS analysis, usage, 328–339
- Value of In-force (VIF) policies, 205
- Variable interest entities, 19–20
- Variance-reduction method, 332n
- Vehicle financings proposals, dealer origination, 163
- Very accurately dated maturity (VADM)
  - bond class, 54
  - example, 54–55
  
- Warm backup servicer, 142
- Warranties, Davidson update, 297–298
- Waterfall
  - deviation. *See* Distribution waterfall
  - interest rate derivatives, proceeds (usage), 113
  - stipulations, 199
- Weighted average coupon (WAC), 34–35. *See also*
  - Maximum WAC; Minimum WAC
- Weighted average maturity (WAM), 34–35
- Weighted average rating factor (WARF), 255–256
- Whole business securitization, 195–204
  - asset value, realization, 203
  - attributes, 203–204
  - bankruptcy protection, 198–199
  - bankruptcy remote design, absence, 198–199
  - basis, reasons, 198
  - brand value, 203
  - businesses
    - features, 202
    - usage, 202–204
  - cash flow waterfall, usage, 200–202
  - concept, 202–203
  - contrast. *See* Plain secured borrowing; Securitization
  - credit enhancements, 199–200
  - entry barriers, 203
  - future profits, maintenance, 203
  - management, 204
  - methodology, 196–198
  - operational constraints, stress, 199
  - presence, demonstration, 203
  - secured loan structure, 196, 198
  - structural enhancements, 199–200
  - usage, 199–200
  - UK development, 195
- Whole sale assets, contrast. *See* Retail assets
- Wind down triggers, 176–177
- Working capital facilities, usage, 200
  
- Yield curve
  - impact, 60
  - parallel shifts, 340
- Yield maintenance agreement, 118
- Yield measures, problems, 326
  
- Zero-volatility spread (Z-spread), 325, 327–328
  - measure, 328
  - OAS, relationship, 338