Accounting standards, 68n
Accounting volatility, absence. See Synthetic CDOs
  classes
    creation, 51
    specialization, 54
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, 213–216, 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
  S&P 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
  deleverage 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 serv-
er; 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
explanation. 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, Business Week 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 tranche, 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
  payout, 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, 214f
corporate exposures, pool, 212, 217
credit enhancements, usage, 219
diversification, capability, 263
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 investments (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, 266–267
exemplification, 217–220
rating agency assumptions, 267
structuring/analysis, 253
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 examination), 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, documenta-
tion, 134
collateral value, material fluctuations (monitor-
ing), 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, 133
Commercial mortgage-backed securities (CMBSs)
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 (ser-
vicing 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
- tenor, 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

Credit risk
- analysis, 218
- commoditization, 305
- de-linking, 5
- elimination, 287–288
- loans, 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

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, 236–237
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, 157
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 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, 70
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, 58
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), collapse, 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
Index

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 Companies (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

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 Companies (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 Securitization
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
Option cost, 338–339
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 (proposition), 298
loan repayment, 198
performance risk, 189
rating, arbitrage, 190
reference, 8
Originator-provided credit enhancements, 86–90
Originator-retained collection/servicing, 6n
Pay-through certificatess, 10
Performing assets
par value, sum, 259
principal amount, 258
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
incluion, 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
Index

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, 333
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 (CDO2 // 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
  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, 281–284
  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, 283
  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, 76–77
    dissection, 23
  Senior notes, 10
  Senior secured debt, 90–91
  Senior-subordinate structure, 90–91
  Senior tranches, 312
  risk, 218n
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
  FDCPA 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,
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 servicers; Residential mortgage servicers
abilities. See Delinquent consumer finance transactions
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 bonds, 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, nonre-
  quirement, 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 Fran-
    chise loan servicers
  Threshold risk, 320
  Time truncating. 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
development. 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
businesse 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