European Structured Finance Criteria Piece

Structured Finance

Rating Trade Receivable Securitisations

**Analysts**
Diana Turner  
+44 207 417 6282  
diana.turner@fitchratings.com

Amit Agarwala  
+852 2263 9904  
amit.agarwala@fitchratings.com

Damian Thompson  
+44 207 417 6252  
damian.thompson@fitchratings.com

Deborah Seife  
+212 908 0604  
deborah.seife@fitchratings.com

**Executive Summary**

Trade receivables securitisations have undergone significant changes from the first transactions completed in the US in the mid-1980s, largely in the legal framework of various jurisdictions where trade receivables are securitised, as well as within the seller/servicer community. In addition, the definition of what constitutes a trade receivable has expanded, requiring Fitch to constantly review these new receivables as they emerge.

Recognising these changes and the uniqueness of each trade receivable transaction, Fitch’s rating guidelines incorporate all of the agency’s credit and structuring experience to develop a comprehensive framework to analyse this complex asset class. Our rating approach seeks to understand the commercial nature of trade receivables, providing seller/servicers with flexibility while remaining sensitive to investors’ credit concerns. Structures and receivable types will continue to evolve in this market segment, whose breadth spans a wide range of industries, product types and sellers.

One critical element associated with the development of this asset type has been the use of a dynamic reserve mechanism, which adjusts the dollar amount of credit enhancement periodically based on portfolio performance-driven calculations. Fitch’s dynamic reserve calculation utilises a volatility factor based on standard deviation for both the loss and dilution components of the reserve calculation. This calculation is unique in the trade receivable area, and is considered an important protection feature for investors in these transactions.

Fitch considers both qualitative and quantitative factors in its rating approach of trade receivable transactions. In general, Fitch analyses the legal issues, the structure, the seller/servicer and the underlying collateral in determining the credit enhancement commensurate with the desired rating.

Trade receivable securitisation has traditionally been effected through asset backed commercial paper (ABCP) conduits operating globally, the reasons for which will be discussed when we look at the nature of trade receivables.

More recently, a number of structures combining the issuance of ABCP and term securities or simply term securities have emerged. Fitch’s trade receivables criteria can be applied to both structures, in as much as the asset analysis is similar. However, as the actual structure and supporting features, namely liquidity and third party credit support, are very different between ABCP conduits and term securitisations, the rating analysis of the total transaction will vary from structure to structure.

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While this report does not address all of the structural differences between a conduit and term execution, it does address many of the structural and credit risks the two structures share.

■ Nature Of Trade Receivables As An Asset Type

During the past five years, Fitch has seen an increasing variety of assets classified as trade receivables. While the variety has increased, certain general trade receivable characteristics exist.

1) Short Term Nature

The trade receivable maturity is a combination of two factors: the credit term given by the seller and the additional time taken by the debtor to pay the account. Terms can vary considerably from country to country and may also be influenced heavily by industry sector and market practice. Due to the short-term nature of trade receivables, transactions tend to be revolving, with collections being used to purchase newly created receivables on a frequent basis. As trade receivable cashflow can be the main component of working capital for a company, receivables management should be an important factor for all industries to consider.

2) Seasonality and Market Trends

Trade receivables, like other short-term assets, have a direct link to the sales generated by the sellers involved in the securitisation. Typically, receivables of most products will follow a recognisable seasonal trend. As a result, the securitisation will typically follow one of two patterns to cope with these fluctuations: (1) the seller will choose to sell all receivables and to receive a fluctuating amount of proceeds throughout the year, depending on the outstanding balance of assets and dynamic reserve, or (2) the seller will segregate a pre-determined core level of receivables and receive a level amount of funding throughout the year. It is clear that the first approach can only realistically be achieved using a fluctuating liability or securities amount, such as that afforded by commercial paper.

3) Seller and Market Influence

Although trade receivables are considered to be a simple homogenous asset type, there are a number of small changes that, if made by the seller or in the market, can lead to diversity within a portfolio. Fitch believes it is important to examine how much flexibility there is within any portfolio and to examine ongoing surveillance of pools where changes have been made.

Trade receivables are typically originated by companies on a daily basis. Within any transaction, there may be a number of different sellers that, while owned by the same company, may operate in many different industries, thereby experiencing differing influences through time. As part of its analysis, Fitch will review how centrally controlled or managed various asset origination or collection procedures are. Fitch is looking for a consistent approach on procedures and where practices are centrally controlled, management should actively seek to maintain consistency.

Market influence may affect both the way in which a sales force chooses to originate a particular asset and/or how debtors choose or are able to pay their outstanding liabilities. For both issues, Fitch maintains a careful balance between the flexibility required by all sellers to change their business practices to reflect the conditions they are experiencing and investors requirements that receivables continue to meet defined eligibility criteria that ensure consistency and quality.

■ The Fitch Approach To Rating Trade Receivables Transactions

Fitch’s approach to evaluating trade receivables transactions considers the following five broad areas:

1) Qualitative Issues

When examining the qualitative issues surrounding a trade receivables securitisation, Fitch evaluates the company as a seller and then as a servicer of assets. Although in most instances, the roles of seller and servicer will be performed by the same entity, the company’s influence over the assets and the flexibility that they enjoy in these roles will vary considerably. For example, certain corporate changes could affect a company’s ability to originate assets effectively; other changes could affect a company’s servicing capabilities, while still others
could affect both the company’s ability to originate assets and its ability to service. For example, a demerger of a group company may lower the level of assets available to sell or the introduction of a new corporate structure may affect the servicing capabilities.

Fitch will look at the seller/servicer company from a macro perspective, focusing on the number of jurisdictions it operates in, its corporate history and market share. The future of the company will be considered, including its forecasts for growth in revenues and profits and how it plans to implement its future operating strategies.

From a micro perspective, Fitch will evaluate the company’s senior management, their experience and the stability of the management team. We will also examine the debt structure of the company and how securitisation will change the asset/liability mix of its balance sheet.

With respect to the company’s trade receivable origination and servicing area, Fitch will evaluate the credit management procedures, including any trade indemnity insurance, how the credit departments are staffed and managed, how sales are originated, new customers approved and credit limits set. We will also examine how late payments are pursued and if external collection agents or legal firms are used.

Finally, it is critically important that Fitch believes that the policy and procedures, as well as actual business practices, are the subjects of regular management review. Management audits should show that where issues have been raised, they have been resolved satisfactorily.

2) Quantitative Issues

When looking at a particular pool of trade receivables, Fitch undertakes a trend analysis to determine how the receivables have performed historically. Typically, Fitch would look at monthly data from the last 3-5 years. It involves:

a) Default analysis: a technical default date is selected, after which a receivable is deemed not to have performed. This typically may be set at 60 days or 90 days past the receivables original due date. The amount of receivables becoming defaulted in any month is compared to the sales levels in the month when the receivables were generated. This default analysis is then analysed for the pool’s historical performance so that a suitable loss ratio can be determined. The result becomes a factor in the overcollateralisation or reserve requirements.

b) Dilution analysis: Fitch will ask the company to provide levels of dilution for analysis. Dilution traditionally occurs where a credit note is issued to a debtor to compensate for a wrongly billed receivable or faulty goods. The effects of dilution could be considered to be the most detrimental to a pool of trade receivables as once a credit note or other such instrument has been issued, the value of the related trade receivable is reduced to zero.

Obviously, if that receivable has already been sold to the securitisation, the investors may have a direct deduction in expected cashflow. Therefore, Fitch pays particular attention to the type and levels of dilution experienced in a particular pool of receivables during the previous three to five years. Dilution will be reserved for in a transaction either by a reserve in the overcollateralisation level or by an indemnity from a third party liquidity provider.

Credit notes can also be used to reward debtors who order pre-determined levels of product throughout the year, by the issuance of a note at year-end representing a percentage of sales. Fitch will differentiate between these different types of dilution, either by applying a stress factor or not, depending if the level is open to change or is pre-determined (in which case, a stress would be inappropriate).

c) Credit Terms: Fitch will also require details of the credit/payment terms extended to customers. In particular, we will focus on where the responsibility for amending credit terms resides and also if credit terms have changed over a period of time. Changing credit terms may reflect a general market change, a change in customer base or a company that is aggressively seeking to protect or expand market share. Throughout the life of a securitisation transaction any amendment of credit terms should be reflected in the Payment Terms Factor (as defined in the Fitch model), thereby influencing the overall overcollateralisation level.
d) Debtor Concentration: In any pool of trade receivables, there may be concentrations relating to particular debtors. Where these are significant, (for instance, a single debtor represents more than 2%-3% of the receivables portfolio), Fitch will examine the respective debtor and may conclude that a special debtor limit is acceptable for that particular customer. To the extent that concentrations exceed established transaction limits, then those receivables would be considered to be ineligible for financing through the securitisation. Fitch will also evaluate whether a seller has the ability to group together obligors who share corporate ownership, whether the seller can monitor potential concentrations across their various branches or subsidiaries and whether outstanding concentrations can be tracked on a seasonal basis, as a proportion of receivables balance, rather than sales made.

Fitch also analyses the receivables pool to ensure that debtors are well diversified by geographic location and also, if relevant, by industry SIC code.

3) Structural, Tax and Documentation Issues

Structure
The legal structure used in trade receivable transactions is comparable to that experienced in other asset securitisations. The assets are typically sold to a bankruptcy remote, special purpose vehicle. A security interest in the receivables is granted to the trustee, giving the investors access to the cashflow. Additionally, Fitch and its counsel evaluate the legal sufficiency of the true sale, the establishment of a special-purpose vehicle and the security granted over the assets. Like any securitisation, the structure of any transaction should be able to withstand the bankruptcy of the seller, servicer or any debtor.

Certain legal opinions, typical to all asset backed transactions, are also required to ensure legal soundness. These include opinions on true sale, non-consolidation and the perfection of the first priority security interest in the collateral.

There are certain key structural issues that are particularly relevant to trade receivable deals that must be examined:

a) Fluctuating Asset Balances: As a trade receivable pool varies in size throughout the year, the structure will need to take into account whether collections are sufficient to purchase new levels of receivables. More specifically, in the event that collections are not sufficient to purchase additional receivables, to what extent can the structure rely upon the seller advancing cash into the structure for new receivables to be purchased? Conversely, when collection levels are high but new receivables generated are at a low level, the structure will need to have the flexibility to return collections to the seller (while maintaining sufficient reserves) to avoid reinvestment losses on cash that is unutilised in the structure.

b) Revolving Nature of Transactions and Frequent Sales: As trade receivable transactions are typically structured as revolving pools, with sales on a weekly or even daily basis, the transfer of assets must continue to be valid on each sale date. The governing law of the trade receivable will be important in determining how that transfer takes place and whether the asset must be specifically identifiable in law. This may determine system requirements for validating the true sale of the assets: for instance, a weekly list of assets sold may have to be produced and be made available to the trustee. In the event of an amortisation of the transaction, it would be clear which assets were assigned on which particular date, thereby allowing the collections on those receivables to be directed to the investors. In addition, there may be representations and warranties given by the seller or the SPV at the time of each sale, which protect the consistency of the pool. Fitch will assess whether or not these structural protections have been put in place at the outset of the transaction and if they can be maintained.

Tax Issues
There are four major tax issues that Fitch takes into consideration with each trade receivable transaction reviewed. The importance of each factor will vary from jurisdiction to jurisdiction and Fitch will determine whether additional local tax issues need to be addressed.

a) Transfer Tax: a tax may arise on the transfer of trade receivables from the seller to the SPV. This will need to be addressed and, if relevant, a reserve may be required. This transfer tax...
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(stamp duty) has recently been increased in the UK.

b) Permanent Establishment Issues: in cases where the SPV is located in a different tax jurisdiction than the seller, measures must be taken to ensure that the SPV is not granted a permanent establishment for tax purposes in the seller’s jurisdiction.

c) Value Added Tax (VAT) or Sales Tax: in cases where trade receivables attract a sales tax, this is typically shown on the face of the invoice and is included in the sale of the receivable as part of the transaction. Therefore, the SPV is buying the whole face value of the invoice, including VAT, and monies are advanced against the whole face value. Investors would receive the benefit of the VAT cashflow. In the event of a trade receivable going into default, the seller may have the ability to reclaim the sales tax from the relevant authority (as he has not received it from his customer). In order to effect this claim, however, he will need to be the owner of that particular receivable. As such, a mechanism should be included in the documentation to allow the asset to be transferred back to the seller in order for this ‘bad debt relief’ to be collected.

d) Withholding Tax: the risk of this tax being levied will occur when there is an interest component to the receivable. Charging interest on trade receivables, in particular where there is late payment, is becoming increasingly common. As a result, the risk of a withholding tax on the transfer of such an asset will need to be considered.

4) Cashflow Path

During the life of a trade receivable transaction, the flow of cash deriving from the assets must be clearly defined and any risks of non-receipt or diversion must be examined and assessed. Due to the revolving nature of a trade receivable transaction, cash will flow daily through the structure and the whole transaction may simply rely on one month’s cashflow or less. Therefore, it is important that cash is accounted for and structures are in place to allow its availability to remain undisrupted by a seller, servicer or some asset-related event.

Fitch will map out the cashflow path, from the point where the debtor forwards payment until the issuer has the ability to repay or rollover securities as they become due. At each stage, Fitch will assess who has control over the cash and how that control could be amended/exercised should the circumstances of the transaction change. Fitch will evaluate if structural protections are required at each stage:

documentation

Other than the key documents outlining the legal structure of the transaction, there are certain areas that are designed specifically to protect the investors and other deal counterparties from a deterioration in either the asset quality or the ongoing servicing capabilities. The key areas focussed on are the eligibility criteria, seller and servicer representations and asset triggers.

a) Eligibility Criteria: these are agreed at the outset of the transaction and will be the subject of a seller representation at the point of sale, that all assets being introduced into the transaction comply with the eligibility criteria. Typically, they may include areas such as assets generated under the laws of a particular jurisdiction, assets where all goods and services have been completed in full (thereby excluding performance risk) or where the debtor is not the subject of a bankruptcy order or similar proceeding.

b) Seller and Servicer Representations: these will ensure that the seller and servicer is responsible for maintaining the receivables pool and related servicing at the agreed level. Areas covered may include no change to credit and collection policies, agreements on receivable reporting and information flow and agreements on auditing and financial reporting.

c) Asset triggers: the triggers on receivables transactions are set in consultation with Fitch and are there to ensure that should the performance of the pool deteriorate, the transaction can enter a wind-down phase where no new assets are bought and investors are paid with collections. Although dynamic credit enhancement does allow for changes in performance to be reflected by an increase/decrease in the reserve level, Fitch believes that performance triggers are relevant to allow the transaction to wind-down in an orderly way, rather than just continuing with ever increasing levels of overcollateralisation. Triggers may include limits on the default ratio, the dilution ratio, measurement of delinquent receivables, the collateral sufficiency test or actual loss to collection ratio.

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a) Payment by the Debtor: by what method does the debtor normally pay, i.e. via bank transfer, cheque or cash? How long does each of these methods take and at what point in the banking process are these funds non-returnable or cleared?

b) Reconciliation with the outstanding invoices: how long does it take for the bank to notify the seller of the receipt of funds? How long does it take the seller/servicer to reconcile funds to an invoice? Are funds transferred to the SPV accounts prior to reconciliation or post-reconciliation?

c) Security of Account: will the collections be held in a trust or lockbox account? Will the seller have access to that account and under what circumstances could the transaction deny access to the seller/servicer?

d) Use of Collections: once the receipts have been reconciled, will the seller have use or control of the collections? This may depend on the credit worthiness of the seller, the amount of collections available between each sale or whether a third party is covering the seller risk in a particular transaction.

Control over the cashflows may change during the life of a transaction, reflecting the changing creditworthiness of the seller or the banking institution with whom the accounts are held.

5) On site Review and Surveillance

On site review will take place prior to the closing of the transaction on both the seller/servicer and on the asset pool.

Fitch’s review includes a visit to the servicer, during which Fitch meets with management and evaluates the major aspects of the company’s business operations that could affect the performance of the transaction. Among the factors considered are the servicer’s systems capability, capacity and flexibility; the company’s management/reporting structure; the controls in place to mitigate errors and fraud; and disaster recovery or contingency plans. A sophisticated accounts receivables system is particularly important for trade receivable transactions because of the rapid turnover of the receivables and frequent reporting requirements.

Fitch also evaluates the seller/servicer’s financial condition and the risk of bankruptcy as a financially distressed seller/servicer can have a negative impact on the pool’s performance. Moreover, a debtor’s willingness to pay a financially troubled seller/servicer may decrease if collection efforts are less than rigorous. Thus, the financial instability of the seller/servicer can result in higher dilutions, set-off risks, and delinquencies. To mitigate the impact of seller bankruptcy risk throughout the life of the transaction, wind-down triggers can be incorporated into the structure. Such triggers may be based directly on the servicer’s financial condition or rating, or on the pool’s performance – another possible indication of servicing deterioration.

Examination of the asset portfolio will take place prior to the onsite visit. This data will then be checked while Fitch is at the seller/servicer, where additional data may also be sought. The data review will cover the figures discussed in the quantitative section above

Fitch’s Dynamic Reserve

The dynamic reserve is a formula-driven form of credit enhancement that constantly adjusts the amount held in the reserve fund in response to changes in pool performance. From both issuers’ and investors’ perspectives, a dynamic reserve is preferable to a static credit enhancement. From the investor’s perspective, a dynamic reserve results in credit enhancement that automatically adjusts based on the performance of the underlying assets, taking into account changes in pool characteristics, and protecting against rapid deterioration of the pool. A dynamic reserve also enables investors to better match their returns to maturity as its purpose is to prevent any early wind-down in case of a spike in losses above a trigger level. From an issuer’s perspective, a dynamic reserve results in an enhancement formula that is more cost effective than a static one. Specifically, it prevents the transaction from experiencing an undue penalty resulting from a fixed reserve fund requirement irrespective of the underlying pool’s performance.

Full details of the dynamic reserve calculations, together with an example, are attached in the Annex on pages 7-10.
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Appendix

Calculating Fitch’s Dynamic Reserve

**Dynamic Reserve** = Loss Reserve + Dilution Reserve + Carrying Cost Reserve (the overall reserve may be subject to a minimum required reserve floor)

\[ \text{Loss Reserve} = (A \times B \times C \times D) + E \]

- **A** = Rating Multiplier
- **B** = Default Ratio
- **C** = Default Horizon Stress
- **D** = Payment Terms Factor
- **E** = Default Volatility Factor

**Rating Multiplier:** This number is used to add a multiple of stress commensurate with the transaction’s rating level to the other Loss Reserve components (see table below).

**Default Ratio:** Highest three-month rolling average (of the most recent 12 months) of the default percentage that is an approximation of the losses, plus any identified write-offs occurring prior to the technical default date divided by the total sales in the month in which these loss proxy accounts were generated. This sales number is used to account for the time-lag effect when estimating performance rates. Assuming 30-day payment terms and accounts in a delinquent bucket of 91-120 days used as a loss proxy, the Default Ratio would equal the highest three-month rolling average during a 12-month of all accounts 91-120 days past due plus any identified non-pays as a percentage of sales four months prior.

**Default Horizon Stress:** Cumulative sales that occurred during the default horizon as a percentage of eligible receivables. The default horizon is calculated as the sum of the weighted-average payment terms and the number of days delinquent used to approximate losses. In the example above the default horizon is approximately four months (30 + 91 = 121 days). Given stable originations and a 30-day portfolio turnover, the stress would equal approximately four. This stress, in conjunction with the Default Ratio, quantifies the amount of receivables likely to default that are embedded in the current portfolio.

**Payment Terms Factor:** Current weighted-average payment terms divided by the original weighted-average payment terms. On the first day of a transaction, this factor will always be one, but reporting throughout the term of the transaction will indicate changes in the weighted-average payment terms. This factor is used to adjust the horizon stress if there is a fluctuation in the payment terms, since the originator has the ability to control/change payment terms.

**Default Volatility Factor:** The 12-month sample standard deviation of the monthly default percentage (an approximation of the losses, plus an identified write-offs less than 91 days past due when written off, divided by the total sales in the month during which these loss proxy accounts were generated), multiplied by the Z value. The Z value of 1.96 provides a confidence interval of 95% for all rating categories. This Volatility Factor aims to protect investors from spikes occurring after a period of relatively stable performance.

\[ \text{Dilution Reserve} = [(A \times B) + E] \times C \times D \]

- **A** = Rating Multiplier
- **B** = Dilution Ratio
- **C** = Dilution Horizon Stress
- **D** = Payment Terms Factor
- **E** = Dilution Volatility Factor

**Rating Multiplier:** This number is used to add a multiple of stress commensurate with the transaction’s rating level to the other Dilution Reserve components (see table above).

**Dilution Ratio:** 12-month average of the percentage of current dilutions over the sales in the month originating the dilutions.

**Dilution Horizon Stress:** Cumulative sales in the dilution horizon divided by the ending balance of the eligible receivables. The dilution horizon is the weighted-average time lag between the sale and the recognition of dilution, as estimated using a sampling of invoices for dilutive items. This stress, in conjunction with the Dilution Ratio, quantifies the amount of receivables likely to be subject to dilution that are embedded in the current portfolio.

**Payment Terms Factor:** See above.

**Dilution Volatility Factor:** Sample standard deviation over 12 months of the percentage of current dilutions over the sales in the month originating the dilutions, multiplied by the Z value. The Z value of
1.96 provides a confidence interval of 95% for all rating categories. This Volatility Factor protects investors from losses due to dilutions in a wind-down scenario, even after a period of relatively stable dilutions.

**Rating Multipliers**

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**Carrying Cost Reserve:** The sum of the Senior Cost Reserve and the Yield Reserve, designed to cover interest and expenses during an amortisation period.
### Loss Reserve

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<th>Month</th>
<th>Rating Multiplier (for 'AA' rating)</th>
<th>A</th>
<th>i (3-Month Rolling Avg. of i)</th>
<th>ii</th>
<th>B</th>
<th>iii</th>
<th>iv</th>
<th>C</th>
<th>D</th>
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<th>Dilution</th>
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<td>Default Ratio 12-Month Peak of</td>
<td>4-month Cumulative Sales</td>
<td>Ending Balance Eligible Receivables</td>
<td>Default Horizon Stress (iii/iv)</td>
<td>Payment Terms Factor</td>
<td>12-Month Sample Standard Deviation</td>
<td>Default Volatility Factor (1.96xV)</td>
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<td>147,500</td>
<td>2.24</td>
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<td>0.24%</td>
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<td>4.16%</td>
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<td>2.25</td>
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<td>0.85%</td>
<td>0.85%</td>
<td>326,000</td>
<td>156,750</td>
<td>2.08</td>
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<td>12</td>
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<td>326,000</td>
<td>148,200</td>
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### Dilution Reserve

<table>
<thead>
<tr>
<th>Month</th>
<th>Rating Multiplier (for 'AA' rating)</th>
<th>A</th>
<th>i (2-Month prior Cumulative Sales)</th>
<th>ii (12-Month Avg. of i)</th>
<th>B</th>
<th>iii</th>
<th>iv</th>
<th>C</th>
<th>D</th>
<th>v</th>
<th>Default</th>
<th>Payment</th>
<th>Dilution Reserve ((AxB)+E) x C+D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dilution to be stressed/Sales 2-Month prior</td>
<td>Default Ratio (12-Month Peak of</td>
<td>4-month Cumulative Sales</td>
<td>Ending Balance Eligible Receivables</td>
<td>Default Horizon Stress (iii/iv)</td>
<td>Payment Terms Factor</td>
<td>12-Month Sample Standard Deviation</td>
<td>Default Volatility Factor (1.96xV)</td>
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<tr>
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<td>2.25</td>
<td>3.55%</td>
<td>1.79%</td>
<td>161,000</td>
<td>140,700</td>
<td>1.14</td>
<td>1</td>
<td>1.65%</td>
<td>3.23%</td>
<td>8.31%</td>
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<tr>
<td>2</td>
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<td>156,500</td>
<td>150,750</td>
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<td>1</td>
<td>1.54%</td>
<td>3.02%</td>
<td>8.93%</td>
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<td>3</td>
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<td>2.46%</td>
<td>2.62%</td>
<td>166,500</td>
<td>151,700</td>
<td>1.10</td>
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<td>1.46%</td>
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<td>9.61%</td>
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<td>1.63%</td>
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<td>1.69%</td>
<td>159,900</td>
<td>146,000</td>
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<td>139,750</td>
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<td>1.98%</td>
<td>164,000</td>
<td>138,650</td>
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<td>133,000</td>
<td>147,500</td>
<td>0.90</td>
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<td>11</td>
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<td>132,000</td>
<td>156,750</td>
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<td>1.92%</td>
<td>4.82%</td>
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<td>1.94%</td>
<td>163,000</td>
<td>148,200</td>
<td>1.10</td>
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<td>1.19%</td>
<td>2.34%</td>
<td>7.36%</td>
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</tbody>
</table>

Required Credit Enhancement Month 12 = 14.52%
### Carrying Cost Reserve

Carrying Cost Reserve = Senior Cost Reserve + Yield Reserve = \[\frac{(A + B)}{360}\] 2.44%

**A  Senior Costs Reserve**

- \((1\times2\times3)/360\) 0.56%
- (multiplied to gross receivables outstanding, including ineligible receivables)

1. **Annual Senior Expenses**
   - a 1 Annual Senior Expenses  \(a+b+c\) 3.0%
   - a  Back up servicer 2.0%
   - b  Trustee fees 0.5%
   - c  Other fees 0.5%

2. **Days Sales Outstanding**
   - 30 (calculated from the data input sheet, changed monthly)

3. **Stress Factor**
   - 2.25 (varied depending on the rating)

**B  Yield Reserve**

- \((1\times2\times3)/360\) 1.88%
- (multiplied to notes issued)

1. **Coupon - annual**
   - \(a+b+c\) 0.10
   - a  Libor 0.06
   - b  Margin 0.02
   - c  Libor fluctuation protection 0.02

2. **Days Sales Outstanding**
   - 30 (calculated from the data input sheet, changed monthly)

3. **Stress Factor**
   - 2.25 (varied depending on the rating)