Asset-Backed Securities Made Simple
Asset-Backed Securities

- Asset-backed securities (ABS) are bonds that represent pools of loans.
- The loans are usually of similar types, duration and interest rates, so that their risks can be understood.
- By selling their loans to ABS packagers, the original lenders recover cash quickly, enabling them to make more loans.
- The asset-backed securities market has grown as different types of loans are securitized and sold to investors.
Asset-Backed Securities: A Big Segment of the Bond Market

Outstanding Bond Market Debt
As of December 31, 2004

- Corporate: $4,704.5 billion (20%)
- Treasury: $3,943.6 billion (17%)
- Federal Agency: $2,745.1 billion (12%)
- Municipal: $2,018.6 billion (9%)
- Mortgage-Related: $5,472.5 billion (22%)
- Asset-Backed: $1,827.8 billion (8%)
- Money Market: $2,872.1 billion (12%)

Total: $23,584.2 billion

Source: bondmarkets.com, Research Quarterly
Asset-Backed Issuance Growing Faster

Source: bondmarkets.com, Research Quarterly
Consumer Finance Dominates

ABS Outstanding by Major Types of Credit
As of December 31, 2004

- Home Equity: $454.0 B (24.8%)
- Credit Card Receivables: $390.7 B (21.4%)
- Manufactured Housing: $42.2 B (2.3%)
- Equipment Leases: $70.7 B (3.9%)
- Student Loans: $115.2 B (6.3%)
- Automobile Loans: $232.1 B (14.1%)
- Other: $258.0 B (14.5%)
- CDO: $264.9 B

Total: $1,827.8 Billion

Source: bondmarkets.com, Research Quarterly
The European Market

Monthly ABS issuance

ABS issuance by country (2005 y-t-d)

Source: HSBC, Bondware, Bloomberg

ABS issuance by asset type

ABS issuance by currency (2005 y-t-d)

Source: HSBC, Bondware, Bloomberg

Note: No attempt was made to calculate percentages. Actual issuance volumes are

Source: HSBC Market Update on absnet.net

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Typical Credit Card Securitization

Prospectus Supplement to Prospectus dated March 7, 2003

Household Affinity Credit Card Master Note Trust I
Issuer

Household Affinity Funding Corporation III
Transferor

Household Finance Corporation
Servicer

Series 2003-2 Asset Backed Notes

<table>
<thead>
<tr>
<th>Class A Notes</th>
<th>Class B Notes</th>
<th>Class C Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Amount</td>
<td>$699,000,000</td>
<td>$39,000,000</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>2.18% per year</td>
<td>2.51% per year</td>
</tr>
<tr>
<td>First Interest Payment Date</td>
<td>April 15, 2003</td>
<td>April 15, 2003</td>
</tr>
<tr>
<td>Expected Principal Payment Date</td>
<td>February 15, 2006</td>
<td>February 15, 2006</td>
</tr>
<tr>
<td>Final Maturity Date</td>
<td>February 15, 2008</td>
<td>February 15, 2008</td>
</tr>
<tr>
<td>Price to Public</td>
<td>$698,959,262 (or 99.994172%)</td>
<td>$38,990,394 (or 99.975369%)</td>
</tr>
<tr>
<td>Underwriting Discount</td>
<td>$1,223,250 (or 0.175000%)</td>
<td>$87,750 (or 0.225000%)</td>
</tr>
</tbody>
</table>
# Used to Finance Many Things

<table>
<thead>
<tr>
<th>Auto Loans and Leases</th>
<th>Mortgages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Assets</td>
<td>Home Equity Loans</td>
</tr>
<tr>
<td>Aircraft</td>
<td>Manufactured Housing</td>
</tr>
<tr>
<td>Franchise Loans</td>
<td>Subprime Mortgages</td>
</tr>
<tr>
<td>Equipment Leases</td>
<td>Student Loans</td>
</tr>
<tr>
<td>Timeshare Loans</td>
<td>Insurance Related</td>
</tr>
<tr>
<td>Entertainment/Intellectual Property</td>
<td>Securitizations</td>
</tr>
<tr>
<td>SBA Loans</td>
<td>Life Settlements</td>
</tr>
<tr>
<td>Trade Receivables</td>
<td>Catastrophic Risk</td>
</tr>
<tr>
<td>Mutual Fund Fees</td>
<td>Insurance Premiums</td>
</tr>
<tr>
<td>Healthcare Receivables</td>
<td>Structured Settlements</td>
</tr>
<tr>
<td>Consumer Loans</td>
<td>Sports Receivables</td>
</tr>
<tr>
<td>Credit Cards</td>
<td></td>
</tr>
</tbody>
</table>

*Used to Finance Many Things*

---

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Why Securitization?

- Loans and other financial contracts
  - Illiquid
  - Originator assesses risk, subjective, periodic
  - High operating cost
  - Limited investors base

- Security
  - Liquid/tradable
  - Independent third party evaluation
  - Global investors base and flexible structures
Choose a Structure to Suit the Type of Assets to be Securitized

- Mortgage Securitization
- Non-Mortgage ABS
- Collateralized Debt Obligations
- Synthetic ABS and Credit-Linked Notes
- Intangibles
- Infrastructure and Project Financing
Case Study: The Company (Finance Company Limited)

- Finance company whose growth is constrained
- Has pool of automobile receivables
- Has track record
- Plans to use this as an ongoing source of financing
Key Decisions

Securitize the assets

Decisions

- Form of transfer of asset
- Form of special purpose vehicle
- Form of credit enhancement
- Form of cash flow allocation
- Form of transformation of cash flows
Asset-Backed Securities: The Typical Structure

FORD (SPONSOR)

SALE OR ASSIGNMENT

LOANS.

Servicing Agreement

SPECIAL PURPOSE VEHICLE

ISSUES ASSET-BACKED CERTIFICATES

LOANS.
The Alternative: Synthetic ABS

DB (Originator)

REFERENCE POOL OF LOANS
(Stay on balance sheet)

CREDIT SWAP AGREEMENT

SPECIAL PURPOSE VEHICLE

TOP QUALITY INVESTMENTS

ISSUES ASSET-BACKED CERTIFICATES
Case Study: Initial Exchanges

Finance Co.'s Customers

Hire-Purchase Agreement

Finance Co. Ltd (Seller)
Case Study: Initial Exchanges

Finance Co.’s Customers

Finance Co. Ltd
(Seller)

FCL 1997-A
(Special Purpose Co.)

Investors

Hire-Purchase Agreement

Proceeds

Proceeds
Case Study: Initial Exchanges

Finance Co.’s Customers

Hire-Purchase Agreement

Finance Co. Ltd (Seller)

Servicing Agreement

Proceeds

Sale of Assets

FCL 1997-A (Special Purpose Co.)

Proceeds

Asset-Backed Securities

Investors

Trustee

Trust Agreement
Case Study: Initial Exchanges

Finance Co.'s Customers

Hire-Purchase Agreement

Finance Co. Ltd (Seller)

Servicing Agreement

FCL 1997-A (Special Purpose Co.)

Trust Agreement

Trustee

Rating Agency

Top Rating

Investors

Proceeds

Sale of Assets

Asset-Backed Securities
Credit Enhancement: Guarantee Method

- **Finance Co.’s Customers**
  - Hire-Purchase Agreement
  - Sale of Assets
  - Proceeds

- **Rating Agency**
  - Servicing Agreement
  - Top Rating
  - Proceeds

- **FCL 1997-A**
  - (Special Purpose Co.)
  - Asset-Backed Securities

- **Investors**
  - Proceeds

- **Trustee**
  - Trust Agreement

- **Financial Guarantee Provider** (if required)
  - Guarantee Agreement
Credit Enhancement: An Alternative Approach

Finance Co. Ltd (Seller) → Proceeds → FCL 1997-A (Special Purpose Co.) → Sale of Assets

Rating Agency

Top Rating

Senior

Lower Rating

Subordinated

No Rating

More Subordinated

Financial Guarantee Provider of required

Guarantee Agreement
Example:
Franchise Loan Securitization

Franchisees (Borrowers) → Loan Agreement → Atherton Capital (Seller) → Proceeds → Sale of Assets → Servicing Advisor → Mellon Mortgage (Servicer) → Servicing Agreement → Atherton FLF 1998-A (Special Purpose Co.) → Proceeds → Investors

Class | Rating | Subordination
--- | --- | ---
A1,A2,A-x | AAA | 28%
B | AA | 22%
C | A | 16.5%
D | BBB | 12%
E | BB | 8.5%
F | B | 5.5%
Issuer balance | NR | 0%
The Process

Is the company ready?

What pool?

What legal structure?

What credit enhancement?

Are the assets suitable?
Asset-Backed Securities:
Legal and Regulatory Aspects

- Legal
  - The Transfer
  - The Special-Purpose Vehicle
- Taxation
- Accounting Treatment
- Bank Regulatory Treatment
Legal Aspects

- Goal: Credit quality must be solely based on the quality of the assets and the credit enhancement backing the obligation, without any regard to the originator's own creditworthiness.

- Otherwise, quality of the ABS issue would be dependent on the originator's credit, and the whole rationale of the asset-backed security would be undermined.
Three conditions enable the separation of the assets and the originator

- The transfer must be a **true sale**, or its legal equivalent. If originator is only pledging the assets to secure a debt, this would be regarded as collaterized financing in which the originator would stay directly indebted to the investor.

- The assets must be owned by a special-purpose corporation, whose ownership of the sold assets is likely to **survive bankruptcy** of the seller.

- The special-purpose vehicle that owns the assets must be **independent**
6 Battery Road

- Securitization of a DBS Land property
- DBS Land sells 6BR to SPV, Clover, for S$835m
- Clover issues S$878m of debt: 66% to public, 34% to DBS Land
- Senior Bonds: 10 year, 6%, plus “share of gain if building is sold”
What Makes it a Sale?

- The form and treatment of the transaction
- The nature and extent of the benefits transferred
- The irrevocability of the transfer
- The level and timing of the purchase price,
- Who possesses the documents
- Notification when the assets are sold
What Makes it Likely to be Consolidated?

- The difficulty of segregating and ascertaining individual assets and liabilities
- The presence or absence of consolidated financial statements
- The comingling of assets and business functions
- The existence of parent and intercorporate guarantees and loans
- The transfer of assets without strict observance of corporate formalities.
Taxation Aspects

- If the SPV or the transfer is subject to normal corporate, withholding, or individual tax rates, investors or borrowers could in principle be subject to additional or double taxation

*Must avoid double taxation of*
- Seller/servicer
- Trust or special-purpose corporation
- Investors
Taxation: Before

TAX

Seller
Taxation: Before and After

Seller

Seller/Servicer

Trust

Investor

TAX

TAX?

SALE

TAX?

TAX?

TAX?
Accounting Treatment

- Sale versus financing
- Consolidation
- Accounting for loan servicing
FASB Sale Treatment

- The transferor relinquishes control of the future economic benefits embodied in the assets being transferred.
- The SPV cannot require the transferor to repurchase the assets except pursuant to certain recourse provisions.
- The transferor's obligation under any recourse provision are confined and can be reasonably estimated.
Consolidation Treatment

- International accounting standards hold that consolidated financial statements are more meaningful than separate ones
- "Nonhomogeneous operation" exception
- Finance, insurance, real estate and leasing subsidiaries can generally be left apart
Basel 2 and ABS

- Originating banks (“clean break”)
- Investing banks (use of ratings)
- Sponsor banks (for ABS conduits)
- Synthetic securitization (degree of risk transference)
<table>
<thead>
<tr>
<th>Credit Rating</th>
<th>Deducted Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA to AA-</td>
<td>20%</td>
</tr>
<tr>
<td>A+ to A-</td>
<td>50%</td>
</tr>
<tr>
<td>BBB+ to BBB-</td>
<td>100%</td>
</tr>
<tr>
<td>BB+ to BB-</td>
<td>150%</td>
</tr>
<tr>
<td>B+ and below</td>
<td>Deducted from capital</td>
</tr>
</tbody>
</table>

*Source: Basel Committee on Banking Supervision, January 2001*
Example:
Ford Credit Owner Trust 1999-A

$1,462,716,000
Ford Credit Auto Owner Trust 1999-A

Ford Credit Auto
Receivables Two L.P.

Ford Motor Credit
Company

Servicer

The trust will issue the following securities:

<table>
<thead>
<tr>
<th>Class A-1 Notes</th>
<th>Principal Amount</th>
<th>Interest Rate</th>
<th>Final Maturity Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class A-2 Notes</td>
<td>$250,000,000</td>
<td>5.010%</td>
<td>July 15, 1999</td>
</tr>
<tr>
<td>Class A-3 Notes</td>
<td>$296,000,000</td>
<td>5.089%</td>
<td>January 18, 2000</td>
</tr>
<tr>
<td>Class A-4 Notes</td>
<td>$495,000,000</td>
<td>5.31%</td>
<td>April 16, 2001</td>
</tr>
<tr>
<td>Class A-5 Notes</td>
<td>$313,767,000</td>
<td>5.31%</td>
<td>November 15, 2001</td>
</tr>
<tr>
<td>Class A-5 Notes(1)</td>
<td>$250,000,000</td>
<td>5.38%</td>
<td>June 17, 2002</td>
</tr>
<tr>
<td>Class A-6 Notes</td>
<td>$250,000,000</td>
<td>5.41%</td>
<td>March 17, 2003</td>
</tr>
<tr>
<td>Class B Notes</td>
<td>$39,254,000</td>
<td>5.79%</td>
<td>June 16, 2003</td>
</tr>
<tr>
<td>Class C Certificates</td>
<td>$68,695,000</td>
<td>6.52%</td>
<td>August 15, 2003</td>
</tr>
<tr>
<td>Class D Certificates(1)</td>
<td>$39,254,000</td>
<td>8.00%</td>
<td>June 15, 2004</td>
</tr>
</tbody>
</table>

Before you purchase any of these securities, be sure you understand the structure and the risks. See especially the risk factors beginning on page S-13 of this prospectus supplement and on page 13 of the attached prospectus.

These securities are not being offered by this prospectus supplement.

1. The Class A-5 Notes, the Class A-6 Notes and the Class D Certificates are not being offered by this prospectus supplement.
2. The trust will pay interest and principal on the securities on the 15th day of each month. The first payment date will be February 16, 1999.
3. The trust will pay principal sequentially to the earliest maturing class of securities then outstanding until paid in full.
Ford Structure: Waterfall

Class A-1 to A6
Class B
Class C
Class D

Receivables
Ford Structure: Default or Loss?

- Receivables
- Class A-1 to A6
- Class B
- Class C
- Class D
Paydown: Soft Bullet Structure
Rating Agencies

Why a rating?
- Compare alternatives across different ratings categories;
- Obtain a relative as well as an absolute measure of credit risk
- Be reasonably sure of a market to sell the security.
Rating Reports

- General reports on a sector, like CLOs
- Pre-sale report on an individual CLO, once risks have been evaluated but final terms and credit enhancement have not yet been finanized
- Final deal report
- Periodic updates
Typical Rating Report

Asset-Backed Presale Report

Honda Auto Receivables 2004-1 Owner Trust

Expected Ratings
$347,000,000 Class A-1
  Asset-Backed Notes ....................... F1+
$456,000,000 Class A-2
  Asset-Backed Notes ..................... AAA
$431,000,000 Class A-3
  Asset-Backed Notes ..................... AAA
$301,000,000 Class A-4
  Asset-Backed Notes ..................... AAA
$47,514,648 Asset-Backed
  Certificates* ............................ NR

*Retained by seller. NR – Not rated.

Analysts
Andrew Chan

Summary
Fitch Ratings expects to rate the Honda Auto Receivables 2004-1 Owner Trust (the trust) notes as listed at left. The trust is also issuing $47.5 million in certificates that are unrated and retained by the seller. Fitch’s ratings address the likelihood that noteholders will receive full payments of interest and principal in accordance with the terms of the transaction documents. The ratings on the class A notes are based on the following:

- High quality of the retail auto receivables originated and serviced by American Honda Finance Corporation (AHFC).
- Initial credit enhancement of 3.50% provided by a 3.00% subordinated certificate and a 0.50% nondeclining reserve account growing to a target level of 0.75% of the initial pool balance.
- Yield supplement account (YSA) designed to compensate for
# Ratings

## Rating Scales of the U.S. Rating Agencies

<table>
<thead>
<tr>
<th>Agency</th>
<th>Investment Grade</th>
<th>Speculative Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P</td>
<td>AAA</td>
<td>AA+</td>
</tr>
<tr>
<td>Moody's</td>
<td>Aaa</td>
<td>Aa1</td>
</tr>
<tr>
<td>Fitch</td>
<td>AAA</td>
<td>AA+</td>
</tr>
</tbody>
</table>
Rating Process

Issuer/Banker Requests rating → List information requirements Due diligence & Meeting with management

- Pool credit analysis
- Legal analysis
- Stress testing

Credit enhancement negotiation → Deal documentation

- Rating committee
- Presale report
- Final report

“Rating CLOs” (Fitch) on Workshop Website giddy.org/abs-hypo.htm
## Stress Testing

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Hypothetical Deal</th>
<th>Stress Test One</th>
<th>Stress Test Two</th>
<th>Stress Test Three</th>
<th>Stress Test Four</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chargeoffs</td>
<td>Remains stable at 5%</td>
<td>Increase to 20%</td>
<td>Increase to 20%</td>
<td>Increase to 20%</td>
<td>Increase to 20%</td>
</tr>
<tr>
<td>Payment Rate</td>
<td>Remains stable at 15%</td>
<td>Remains stable at 15%</td>
<td>Decreases to 7%</td>
<td>Decreases to 7%</td>
<td>Decreases to 7%</td>
</tr>
<tr>
<td>Yield</td>
<td>Remains stable at 18%</td>
<td>Remains stable at 18%</td>
<td>Remains stable at 18%</td>
<td>Decreases to 10%</td>
<td>Decreases to 10%</td>
</tr>
<tr>
<td>Pool Size</td>
<td>Remains stable</td>
<td>Remains stable</td>
<td>Remains stable</td>
<td>Remains stable</td>
<td>Decreases by 70%</td>
</tr>
<tr>
<td>Result</td>
<td>Deal ends as planned after 9 months.</td>
<td>Deal goes into early-amortization and investors are repaid on time.</td>
<td>Deal does not mature on time (takes extra 3 mo.), although investors are repaid.</td>
<td>Deal does not mature on time (takes extra 2 mo.), although investors repaid.</td>
<td>Deal fails. No one willing to buy assets. Investors are not fully repaid.</td>
</tr>
<tr>
<td>Investors Repaid?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
Cost-Benefit Analysis

- Banks
- Corporations
- Investors
Separation of Two Businesses: Origination and Lending

SPONSORING COMPANY

ACCOUNTS RECEIVABLE

SALE OR ASSIGNMENT

ACCOUNTS RECEIVABLE

SPECIAL PURPOSE VEHICLE

ISSUES ASSET-BACKED CERTIFICATES
For Corporations: “Pure Play” Argument

Separate the credit of the assets from the credit of the originator:

- Identify and isolate good assets from a company or financial institution
- Use those assets as backing for high-quality securities to appeal to investors.
- Such separation makes the quality of the asset-backed security independent of the creditworthiness of the originator.
For Banks: Capital Requirements

- In a perfect world, adding good assets would require little additional capital, since creditors would not see any increase in the bank's risk.
- But if regulatory capital requirements penalize banks for holding such assets, they should:
  - securitize the good assets
  - profit from origination and servicing
- In general, regulatory costs or rigidities create an incentive for banks to shrink their balance sheets by securitizing loans.
## Banks – Capital Savings

### Credit Enhancement Calculation

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Portfolio</td>
<td>Securities Classes</td>
</tr>
<tr>
<td></td>
<td>From A</td>
</tr>
<tr>
<td>A</td>
<td>50</td>
</tr>
<tr>
<td>BB+</td>
<td>100</td>
</tr>
<tr>
<td>B</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>250</td>
</tr>
<tr>
<td>Capital</td>
<td>20</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>7%</td>
</tr>
<tr>
<td>Equity</td>
<td>15%</td>
</tr>
<tr>
<td>Total</td>
<td>7.64%</td>
</tr>
<tr>
<td>Cost</td>
<td></td>
</tr>
<tr>
<td>ABS</td>
<td>5%</td>
</tr>
<tr>
<td>Debt</td>
<td>8%</td>
</tr>
<tr>
<td>Equity</td>
<td>16%</td>
</tr>
<tr>
<td>Total</td>
<td>6.71%</td>
</tr>
</tbody>
</table>
Ford Credit Auto Owner Trust

- What are the economic benefits and costs to Ford in this ABS deal?
- What do the underlying assets earn?
- What rates do the securities pay?
- Other costs?
- Who gets the excess spread?
Ford Credit Auto Owner Trust

- Interest cost
- Underwriting fees
- Rating agency and other securitization costs
- Servicing fees
- Other costs
- Default losses

….compare with Ford Credit’s alternative
# Banc One Capital Markets, Inc.

## Generic Offer Side ABS Spreads

**June 6, 2003**

### Fixed Rate Assets

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Description</th>
<th>Spread History</th>
<th>Changes</th>
<th>52-Week Statistical Analysis</th>
<th>All-In Yields</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>6/30/03</td>
<td>7/30/03</td>
<td>8/31/03</td>
<td>9/30/03</td>
</tr>
</tbody>
</table>

#### Credit Cards

- **AAA**
  - L: 3 3 3 3 +0 -1 -7 12 -3 6 3 9 -0.7 - 1.19 -0.07 2.28 1.16
  - S: 4 4 4 4 +0 -1 -2 19 -2 3 2.5 -0.3 - 1.47 -0.07 3.25 1.47
- **AA**
  - L: 3 6 6 6 +0 -1 -1 12 1 3 1.5 -0.1 - 1.06 -0.05 2.24 1.86
  - S: 3 5 5 5 +0 -1 -1 12 1 3 1.5 -0.1 - 1.06 -0.05 2.24 1.86
- **A**
  - L: 3 5 5 5 +0 -1 -1 12 1 3 1.5 -0.1 - 1.06 -0.05 2.24 1.86
  - S: 3 5 5 5 +0 -1 -1 12 1 3 1.5 -0.1 - 1.06 -0.05 2.24 1.86

#### Asset Prime

- **Owner Trust**
  - L: 7 7 7 6 +0 -1 -4 -1 16 2 9 3.2 -0.7 - 1.20 -0.07 2.44 1.16
- **AAA**
  - L: 6 5 5 4 +1 -1 -3 -1 16 2 9 3.6 -1 - 1.19 -0.05 2.49 1.47
- **AA**
  - L: 6 4 5 4 +1 -1 -3 -1 16 2 9 3.6 -1 - 1.19 -0.05 2.49 1.47
  - S: 6 6 6 6 +1 -1 -3 -1 16 2 9 3.6 -1 - 1.19 -0.05 2.49 1.47
- **A**
  - L: 1.14: 12 12 12 12 +1 -1 -3 -1 16 2 9 3.6 -1 - 1.19 -0.05 2.49 1.47
  - S: 12 12 12 12 +1 -1 -3 -1 16 2 9 3.6 -1 - 1.19 -0.05 2.49 1.47

#### Asset Non-Prime

- **Wrapped**
  - L: 10 10 10 10 +0 -1 -14 20 10 9 9 -1.4 - 1.19 -0.07 2.32 1.12
  - S: 10 10 10 10 +0 -1 -14 20 10 9 9 -1.4 - 1.19 -0.07 2.32 1.12
- **AAA**
  - L: 23 23 23 23 +0 -1 -14 20 10 9 9 -1.4 - 1.19 -0.07 2.32 1.12
  - S: 23 23 23 23 +0 -1 -14 20 10 9 9 -1.4 - 1.19 -0.07 2.32 1.12

#### Home Equity Loans

- **AAA**
  - L: 45 45 45 45 +0 -1 -20 79 42 52 8.7 -0.9 - 1.58 -0.07 2.07 1.16
  - S: 45 45 45 45 +0 -1 -20 79 42 52 8.7 -0.9 - 1.58 -0.07 2.07 1.16
- **AAA**
  - L: 45 45 45 45 +0 -1 -20 79 42 52 8.7 -0.9 - 1.58 -0.07 2.07 1.16
  - S: 45 45 45 45 +0 -1 -20 79 42 52 8.7 -0.9 - 1.58 -0.07 2.07 1.16
- **AAA**
  - L: 45 45 45 45 +0 -1 -20 79 42 52 8.7 -0.9 - 1.58 -0.07 2.07 1.16
  - S: 45 45 45 45 +0 -1 -20 79 42 52 8.7 -0.9 - 1.58 -0.07 2.07 1.16
- **AAA**
  - L: 45 45 45 45 +0 -1 -20 79 42 52 8.7 -0.9 - 1.58 -0.07 2.07 1.16
  - S: 45 45 45 45 +0 -1 -20 79 42 52 8.7 -0.9 - 1.58 -0.07 2.07 1.16

#### Rate Reduction Bonds

- **AAA**
  - L: 7 7 7 7 +0 -1 -6 17 7 12 3.2 -1 - 1.20 -0.07 2.48 1.20
  - S: 7 7 7 7 +0 -1 -6 17 7 12 3.2 -1 - 1.20 -0.07 2.48 1.20
- **AAA**
  - L: 7 7 7 7 +0 -1 -6 17 7 12 3.2 -1 - 1.20 -0.07 2.48 1.20
  - S: 7 7 7 7 +0 -1 -6 17 7 12 3.2 -1 - 1.20 -0.07 2.48 1.20
- **AAA**
  - L: 7 7 7 7 +0 -1 -6 17 7 12 3.2 -1 - 1.20 -0.07 2.48 1.20
  - S: 7 7 7 7 +0 -1 -6 17 7 12 3.2 -1 - 1.20 -0.07 2.48 1.20

#### Equipment

- **AAA**
  - L: 14 21 21 21 -7 -1 -15 39 14 23 3.8 -1.6 - 1.27 -0.16 2.59 1.27
  - S: 14 21 21 21 -7 -1 -15 39 14 23 3.8 -1.6 - 1.27 -0.16 2.59 1.27
- **AAA**
  - L: 14 21 21 21 -7 -1 -15 39 14 23 3.8 -1.6 - 1.27 -0.16 2.59 1.27
  - S: 14 21 21 21 -7 -1 -15 39 14 23 3.8 -1.6 - 1.27 -0.16 2.59 1.27

---

*Data series start from March 9, 2001.*

1. A higher spread indicates a better value (+). If the 1-week average is less than the FTR average.
## European Spreads

### European ABS spread matrix

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#### Gilt asset swap levels (bp)

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**Notes:** Spreads are calculated as weighted average of indicative mid-secondary levels for the recent ‘Benchmark’ transactions.

**Source:** HSBC ABS Trading, Bloomberg
All AAA Are Not Equal

Source: bondmarkets.com, Research Quarterly
on the receivables are paid when due, commencing one month from January 1, 1995 and (3) no prepayments on the receivables are made.

**Service of the Receivables**

Ford Credit will be the servicer of the receivables. The trust will pay the servicer a servicing fee each month equal to 1/12 of 1% of the principal balance of the receivables at the beginning of the previous month. In addition to the servicing fee, the trust will also pay the servicer a supplemental servicing fee equal to any late, prepayment, and other administrative fees and expenses collected during each month and any reinvestment earnings on any payments received on the receivables.

**Priority of Distributions**

From collections on the receivables during the prior calendar month and amounts withdrawn from the reserve account, the trust will pay the following amounts on each payment date in the following order of priority after reimbursement of advances made by the servicer for payments due from obligors but not received:

1. **Servicing Fee** — the servicing fee payable to the servicer;
2. **Class A Note Interest** — interest due on all the Class A Notes ratably to each class of the Class A Notes;
3. **First Allocation of Principal** — to the principal distribution account, an amount, if any, equal to the excess of (x) the principal balance of the receivables less the yield supplement overcollateralization amount specified for such payment date on the schedule on page S-44 of this prospectus supplement;
4. **Class B Interest** — interest due on the Class B Notes to the holders of the Class B Notes;
5. **Second Allocation of Principal** — to the principal distribution account, an amount, if any, equal to the excess of (x) the principal balances of the notes over (y) the principal balance of the receivables less the yield supplement overcollateralization amount specified for such payment date on the schedule on page S-44 of this prospectus supplement. This amount will be reduced by any amount deposited in the principal distribution account pursuant to clause (3) above;
6. **Class C Certificate Interest** — interest due on the Class C Certificates to the holders of the Class C Certificates;
7. **Class D Certificate Interest** — interest due on the Class D Certificates to the holders of the Class D Certificates;
8. **Reserve Account Deposit** — to the reserve account, the amount, if any, necessary to reinstate the balance of the reserve account up to its required amount;
9. **Regular Principal Allocation** — to the principal distribution account, an amount equal to the greater of (1) the sum of the principal balances of the Class A-1 Notes and the Class A-2 Notes and (2) the excess of (x) the sum of the principal balances of the notes and the certificates over (y) the principal balance of the receivables loss the target overcollateralization amount and less the yield supplement overcollateralization amount specified for such payment date on the schedule on page S-44 of this prospectus supplement. This amount will be reduced by any amounts previously deposited to the principal distribution account pursuant to clauses (3) and (5); and
10. any amounts remaining after the above distributions shall be paid to the seller.

**Distributions from the Principal Distribution Account**

From deposits made to the principal distribution account, the trust will pay principal on the securities in the following order of priority:

1. to the Class A-1 Notes until they are paid in full;
2. to the Class A-2 Notes until they are paid in full;
3. to the Class A-3 Notes until they are paid in full;
4. to the Class A-4 Notes until they are paid in full;
5. to the Class A-5 Notes until they are paid in full;
6. to the Class A-6 Notes until they are paid in full;
7. to the Class B Notes until they are paid in full;
8. to the Class C Certificates until they are paid in full;
9. to the Class D Certificates until they are paid in full; and
10. to the seller, any funds remaining.

For a more detailed description of the priority of distributions and the allocation of funds on each payment date, you should refer to “Description of the Transfer and Servicing Agreements — Distributions — Monthly Withdrawals from Collection Account” in this prospectus supplement.
## Ford Structure: Waterfall

### Percent of Initial Note Principal Amount or Initial Certificate Balance at Various ABS Percentages

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<th>Class A-3 Notes</th>
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Implications of Waterfall Upgrades

- The capital allocated to a well-balanced ABS portfolio should slowly decrease over time, whereas the same cannot be said of a similar corporate loan portfolio.
- Rating upgrades should be the norm in the ABS world, and downgrades the exception (currently, the situation is exactly the opposite). In the corporate world, we should rather expect downgrades to equal upgrades over long time intervals.
- An ABS portfolio should be traded much more actively than a corporate loan portfolio to take advantage of its inherent rating volatility.
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ian.giddy@nyu.edu
http://giddy.org