IBBM
Financing with Asset-Backed Securities

Asset-Backed Commercial Paper

Prof. Ian Giddy
Stern School of Business
New York University
Trade Receivable Backed CP

- Over $700 billion outstanding in US alone
- Key feature is pooling of different companies’ trade receivables, allowing smaller companies to take advantage of ABS market
- Need two-tier legal structure – SPV at level of each company’s receivables pool, and at multi-company program (the “conduit”)
US Asset-Backed CP Market

ABCP as a Percentage of Overall USCP

Source: Fitch

ABCP – Asset-backed commercial paper. USCP – U.S. commercial paper.
Global ABCP Market

Source: Moodys
European Asset-Backed CP Market

ABCP Outstandings

Source: Moody's
Outstanding ABCP by Sponsor

Source: Moodys
Outstanding ABCP by Asset Type

Source: Moodys
Two Kinds of ABCP

- Single-seller ABCP
- Multiseller ABCP

Corporation A

Trade receivables

Corporation B

Trade receivables

Corporation C

Trade receivables

SPECIAL PURPOSE VEHICLE “CONDUIT”
Trade Receivable-Backed Commercial Paper (ABCP)
ABCP: Role of Banker

Corporation A
- Trade receivables

Corporation N
- Trade receivables

N Pool
- N Pool Credit Enhancement

Multiseller ABS Conduit
- Program Credit Enhancement

INVESTORS

Bank as initiator and structurer

Bank as screener of pool

Bank or other FI may provide credit enhancement

Bank as Administrator of Conduit

Bank provides liquidity support

Bank or other FI may provide credit enhancement

Bank as distributor
ABCP: Role of Rating Agency

Corporation A
Trade receivables

Corporation N
Trade receivables

N Pool
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Program Credit Enhancement

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Rating agency evaluates Originator, pool and legal structure

Rating agency evaluates conduit and legal structure

Rating agency evaluates Administrator

Rating agency monitors Conduit
Conduit versus Term Execution

<table>
<thead>
<tr>
<th></th>
<th>Conduit Execution</th>
<th>Term Execution</th>
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</thead>
<tbody>
<tr>
<td><strong>Optimal Deal Size</strong></td>
<td>$20-$500 million</td>
<td>$50 million or more</td>
</tr>
<tr>
<td><strong>Typical Life</strong></td>
<td>1-3 years</td>
<td>1-10 years</td>
</tr>
<tr>
<td><strong>Typical Execution Time</strong></td>
<td>8-10 weeks</td>
<td>12-14 weeks</td>
</tr>
<tr>
<td><strong>Accounting Treatment</strong></td>
<td>Off-balance Sheet</td>
<td>Off-balance Sheet</td>
</tr>
<tr>
<td><strong>Funding Rate Basis</strong></td>
<td>Spread off of CP or LIBOR indices, basis can be swapped</td>
<td>Fixed or floating (LIBOR), basis can be swapped</td>
</tr>
<tr>
<td><strong>Rating Requirements</strong></td>
<td>Rating agency review is usually required prior to closing. A very few experienced conduits have only annual post-closing reviews</td>
<td>At least one rating is required for a private placement. Depending on circumstances, two ratings may be advisable</td>
</tr>
<tr>
<td><strong>Credit Enhancement</strong></td>
<td>Transactions are typically not structured to AAA level, therefore a lower level of enhancement may be required. Enhancement often takes the form of overcollateralization, reserve accounts, letters of credit, or surety bonds</td>
<td>Transactions may be structured to AAA levels, requiring greater enhancement. Enhancement often takes the form of subordination, overcollateralization and dynamic reserves</td>
</tr>
<tr>
<td><strong>Liquidity Facility</strong></td>
<td>Required</td>
<td>Not required</td>
</tr>
<tr>
<td><strong>Uses Available bank Credit</strong></td>
<td>Yes. Although usually at a lesser rate than direct obligations of the borrower</td>
<td>No</td>
</tr>
<tr>
<td><strong>Portfolio Performance Reporting Requirement</strong></td>
<td>Monthly, or more frequently depending on specific circumstances</td>
<td>Daily</td>
</tr>
<tr>
<td><strong>Prepayment</strong></td>
<td>Usually no penalty for payments or facility reductions made on payment dates</td>
<td>Other than ‘clean-up’ calls, sponsor initiated prepayments are not allowed</td>
</tr>
<tr>
<td><strong>Costs Up Front</strong></td>
<td>Low to moderate</td>
<td>Moderate to high</td>
</tr>
<tr>
<td><strong>Ongoing</strong></td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td><strong>All-In</strong></td>
<td>Moderate</td>
<td>Moderate to high</td>
</tr>
</tbody>
</table>

Source: ABN AMRO
A Third Kind of ABCP

- Single-seller arbitrage conduit

Bank or Funds Manager

Loans or bonds

Conduit

Loans or bonds
Commercial paper

Profit from spread
Synthetic ABCP

ING's Mane Funding Corp is a single-seller program: it provides credit protection to ING in respect of rated ABS and corporate bonds. The Prime-1 rating of Mane is based on, among other factors, Moody's Aa1 rating of the swap, a Loss Threshold of 2.75% and cease issuance triggers/acceleration events upon a downgrade of the swap below A1.

Source: Moody's
Basel II

- Introduction of a capital charge for short term liquidity facilities
- Ratings-based risk capital calculations for liquidity lines and conduit level credit enhancement.
- FASB (FIN 46) requires consolidation of ABCP liquidity facilities for accounting purposes.
**Basel II: What Can Banks Do?**

- Synthetics ABS
- Third-party provision of liquidity lines and conduit level credit enhancement.
- Extendible Credit Notes – investors may not be apid back on maturity date, to avoid need for liquidity facility
- Pricing increase to reflect cost
FIN 46/IAS 39: What Can Banks Do?

- First-loss risk taken by a third party – must exceed variable expected loss (VEL)
- Sellers retain first loss – complex “silo” structure allocating liabilities to each seller’s asset share
- Bank consolidates conduit’s assets on its own balance sheet (but get regulatory capital relief).
Case Study: Diner’s Club

- Diners agrees to regularly sell receivables to a specialized financing company (“SPV”)
- SPV funds receivables by either issuing commercial paper (“CP”), or rated ABS Notes. (For CP issuance bank facilities are required reflecting 100% of amount to be issued)
- Diners services sold receivables
- SPV is off-balance sheet (for both arranger and issuer)
ABCP: Examples

- CAST
- Bavaria
Corporate Australasian Securitisation Transactions Pty Ltd.

**Summary**

Corporate Australasian Securitisation Transactions Pty Ltd.’s (CAST) A$1 billion commercial paper program is rated ‘F1+’. The rating is based on the high quality of receivables and other assets purchased by Corporate Receivables Securitisation Pty Ltd. (CRS), the required reserves dedicated to each receivables pool, a 10% fungible layer of credit enhancement, the liquidity support provided by Citibank, N.A. (Citibank) and other highly rated financial institutions, a sound legal structure, and Citicorp Capital Markets Australia Ltd.’s (CCMAL) strong servicing capabilities.

CAST is a special purpose, bankruptcy-remote entity established for the sole purpose of issuing commercial paper notes with maturities of up to 364 days. Net proceeds of the sale of commercial paper will be used to make loans to CRS. In turn, CRS, a special purpose, bankruptcy-remote entity incorporated in New South Wales (NSW), will use these proceeds to purchase pools of receivables from approved sellers or purchase highly rated asset-backed securities.

CRS will invest in high-quality receivables from a diversified group of Australasian sellers. Transactions will be structured to an investment-grade level. Primary targets will be drawn from Citibank Australia’s existing customer base. Sellers rated below investment grade (or deemed below investment grade) may be eligible, as long as the purchased asset pools will have no adverse effect on CAST’s ratings.
CAST (Citi Australia A$1billion ABCP Program)

- Corporation A
  - Trade receivables
- Corporation B
  - Trade receivables
- Corporation C
  - Trade receivables

CAST Ltd ("CONDUIT")
- Minimum loss reserve 5%

- Credit enhancement Provider
  - UBS
- Sponsor/Administrator
  - CCMAL
- Legal owner
  - Fecamp
- Liquidity facility Providers
  - Citi & UBS

Loans, collateralized by A/R

ABCP

F1+ rating

INVESTORS

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ZUSAMMENFASSUNG:

Emittentin: Bavaria Securitisation Limited, Jersey ("BAVARIA")

Ratings: Moody’s P-1, Standard & Poor’s A-1+

Programmvolumen: EURO 5 Mrd. (ungefähr US$ 5.4 Mrd.)

Arrangeur: Bayerische Hypo- und Vereinsbank Aktiengesellschaft ("HypoVereinsbank")


US Plazierungsagent: Bayerische Hypo- und Vereinsbank AG Filiale New York

Emissions- und Zahlstelle: Citibank N.A., London Office / Citibank AG

Form der Schuldverschreibung: Nicht austauschbare Inhabersammelurkunden
ABSresearch.com

Ian H. Giddy
Stern School of Business
New York University
44 West 4th Street, New York, NY 10012, USA

ian.giddy@nyu.edu
http://giddy.org

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