

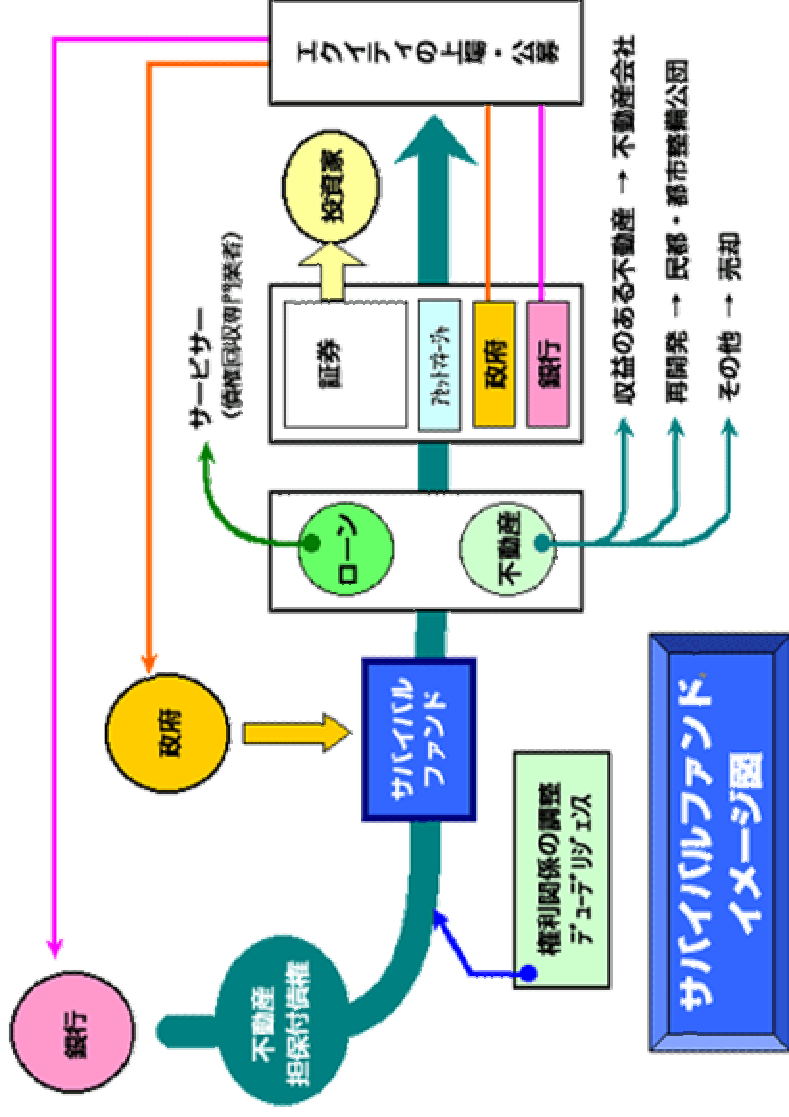
New York University/IDC

Asset-Backed Securities I

Dr. Ian Giddy

NYU Stern School of Business

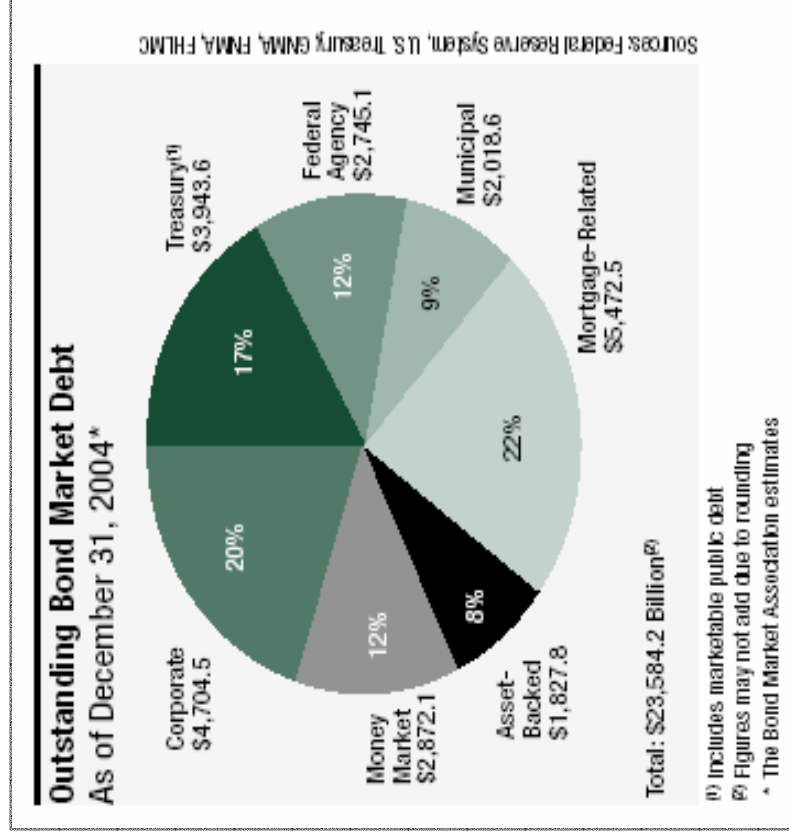
Asset-Backed Securities Made Simple



Asset-Backed Securities

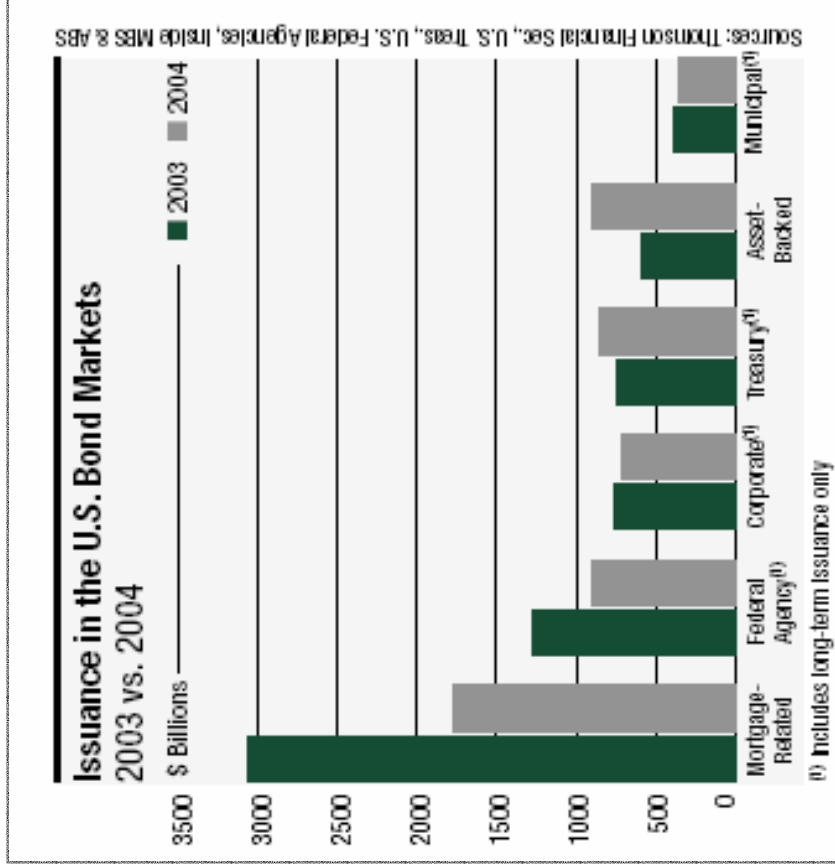
- ❑ Asset-backed securities (ABS) are bonds that represent pools of loans.
- ❑ The loans are usually of similar types, duration and interest rates, so that their risks can be understood.
- ❑ By selling their loans to ABS packagers, the original lenders recover cash quickly, enabling them to make more 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



Source: bondmarkets.com, Research Quarterly

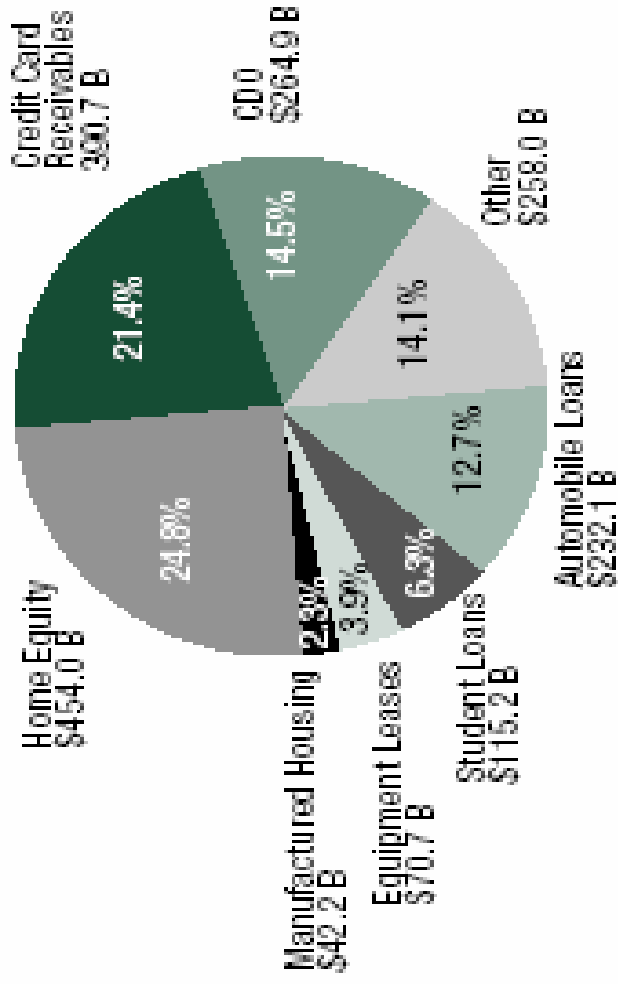
Asset-Backed Issuance Growing Faster



Source: bondmarkets.com, Research Quarterly

Consumer Finance Dominates

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



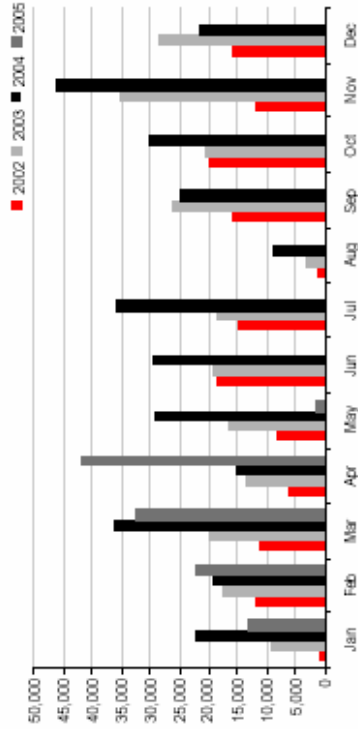
Total: \$1,827.8 Billion

Sources: Federal Reserve System, The Bond Market Association

Source: bondmarkets.com, Research Quarterly

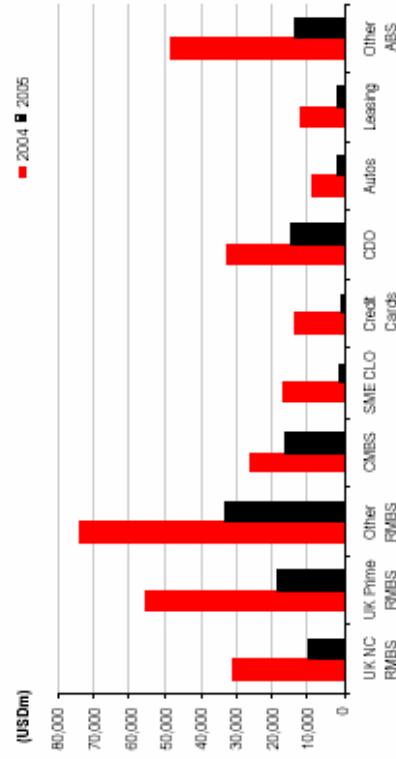
The European Market

Monthly ABS issuance



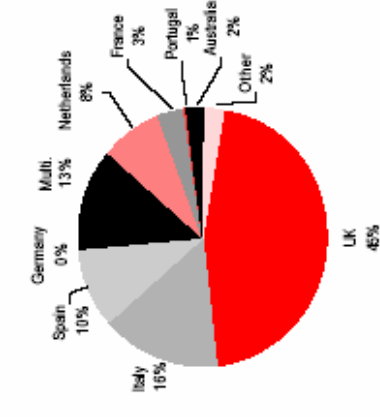
Source: HSBC, Bondware, Bloomberg

ABS issuance by asset type



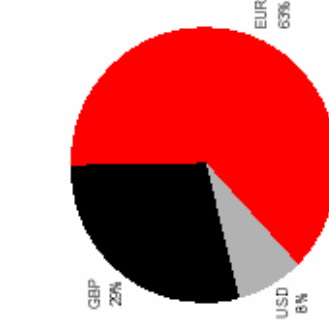
Source: HSBC, Bondware, Bloomberg

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



Source: HSBC, Bondware, Bloomberg

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



Note: this chart uses USD million to calculate percentages. Actual issuance volumes are

	2004	2005
Euro	158	127
Sterling	40	25
US dollar	46	38

Source: HSBC Market Update on absnet.net

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

	Class A Notes	Class B Notes	Class C Notes
Principal Amount	\$699,000,000	\$39,000,000	\$12,000,000
Interest Rate	2.18% per year	2.51% per year	One-Month LIBOR <i>plus</i> 1.35% per year
First Interest Payment			
Date	April 15, 2003	April 15, 2003	April 15, 2003
Expected Principal Payment			
Date	February 15, 2006	February 15, 2006	February 15, 2006
Final Maturity Date	February 15, 2008	February 15, 2008	February 15, 2008
Price to Public	\$698,959,262 (or 99.994172%)	\$38,990,394 (or 99.975369%)	\$12,000,000 (or 100.000%)
Underwriting Discount	\$1,223,250 (or 0.175000%)	\$87,750 (or 0.225000%)	\$36,000 (or 0.300%)

Used to Finance Many Things

Auto Loans and Leases

Commercial Assets

Aircraft
Franchise Loans
Equipment Leases
Timeshare Loans
Entertainment/Intellectual Property
SBA Loans
Trade Receivables
Mutual Fund Fees
Healthcare Receivables

Consumer Loans

Credit Cards

Mortgages

Home Equity Loans

Manufactured Housing

Subprime Mortgages

Student Loans

Insurance Related

Securitizations

Life Settlements

Catastrophic Risk

Insurance Premiums

Structured Settlements

Sports Receivables

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

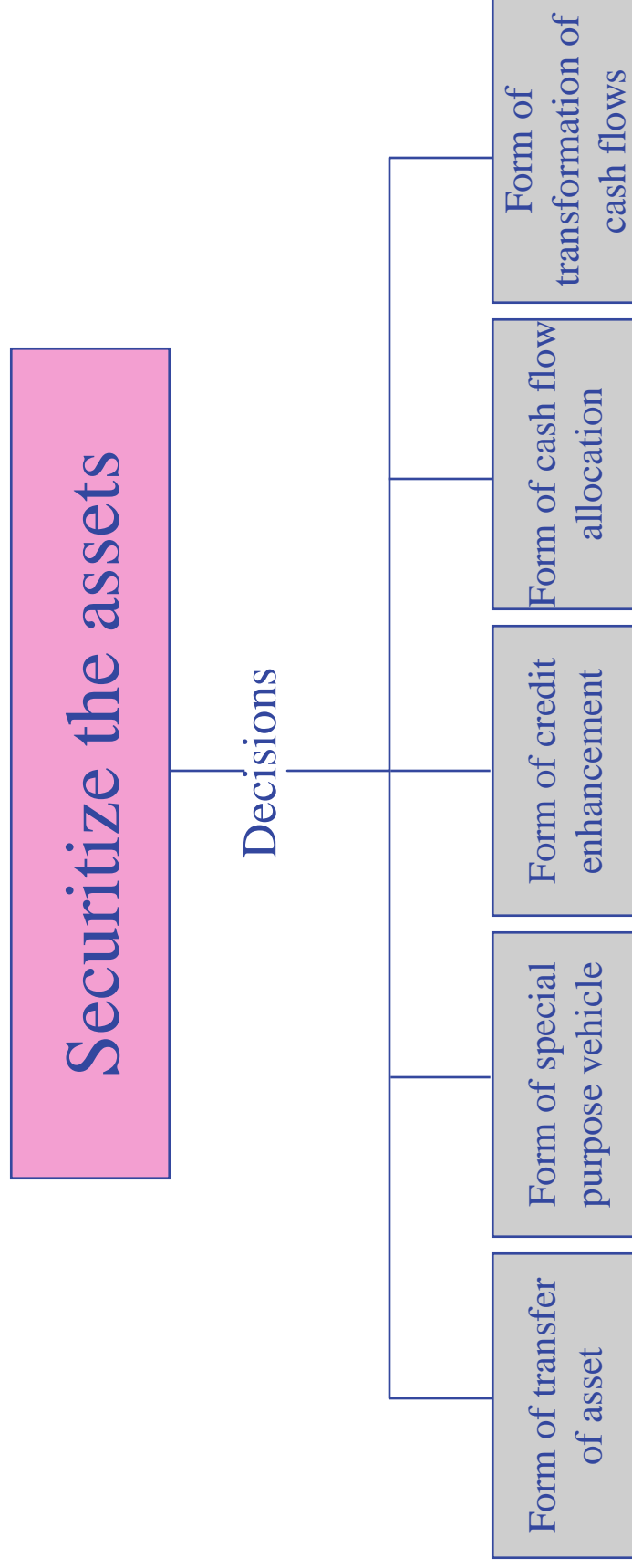
Choose a Structure to Suit the Type of Assets to be Securitized

- ❑ Mortgage Securitization
- ❑ Non-Mortgage ABS
- ❑ Collateralized Debt Obligations
- ❑ Synthetic ABS and Credit-Linked Notes
- ❑ Intangibles
- ❑ Infrastructure and Project Financing

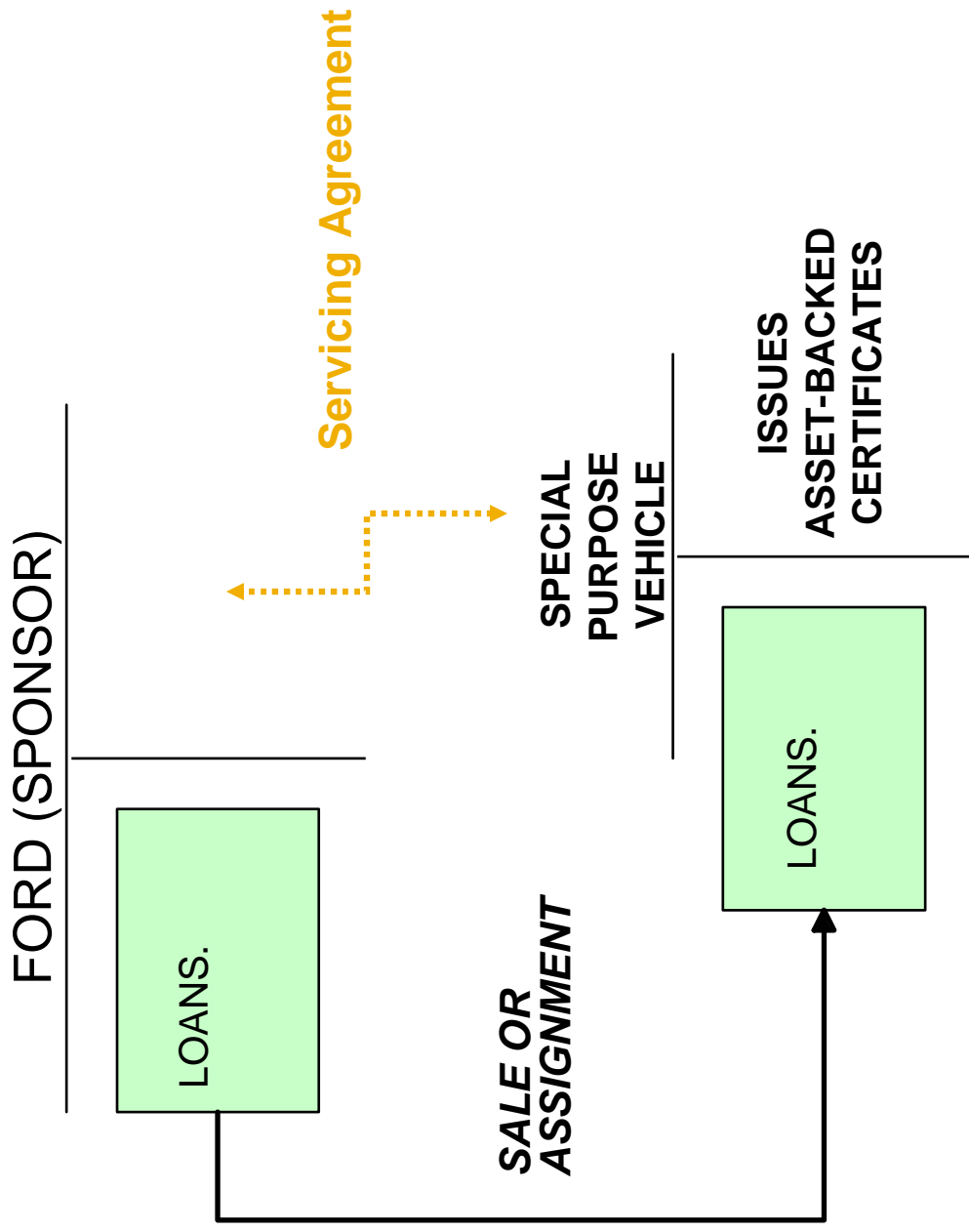
Case Study: The Company (Finance Company Limited)

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

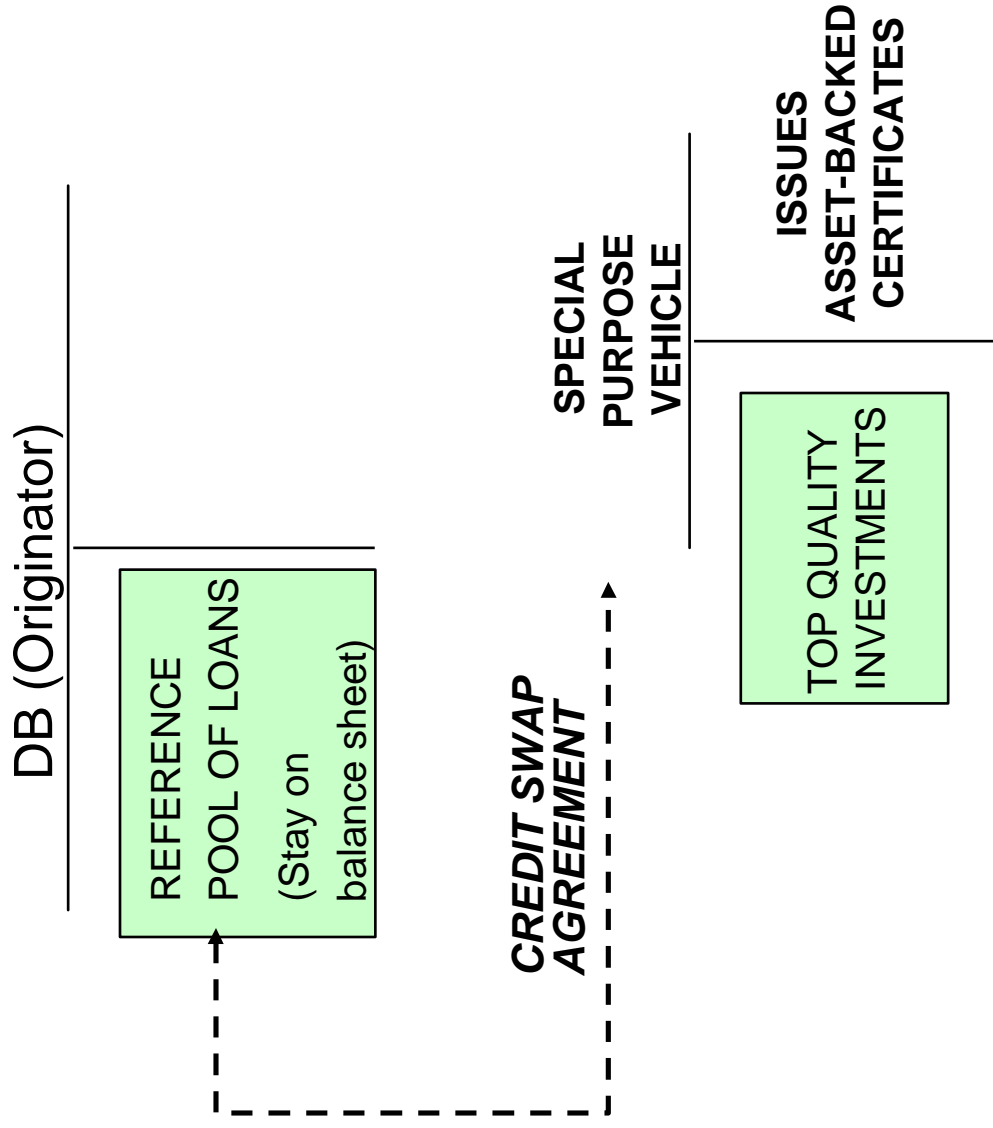
Key Decisions



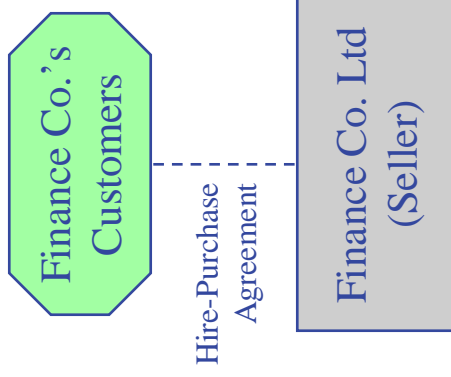
Asset-Backed Securities: The Typical Structure



The Alternative: Synthetic ABS



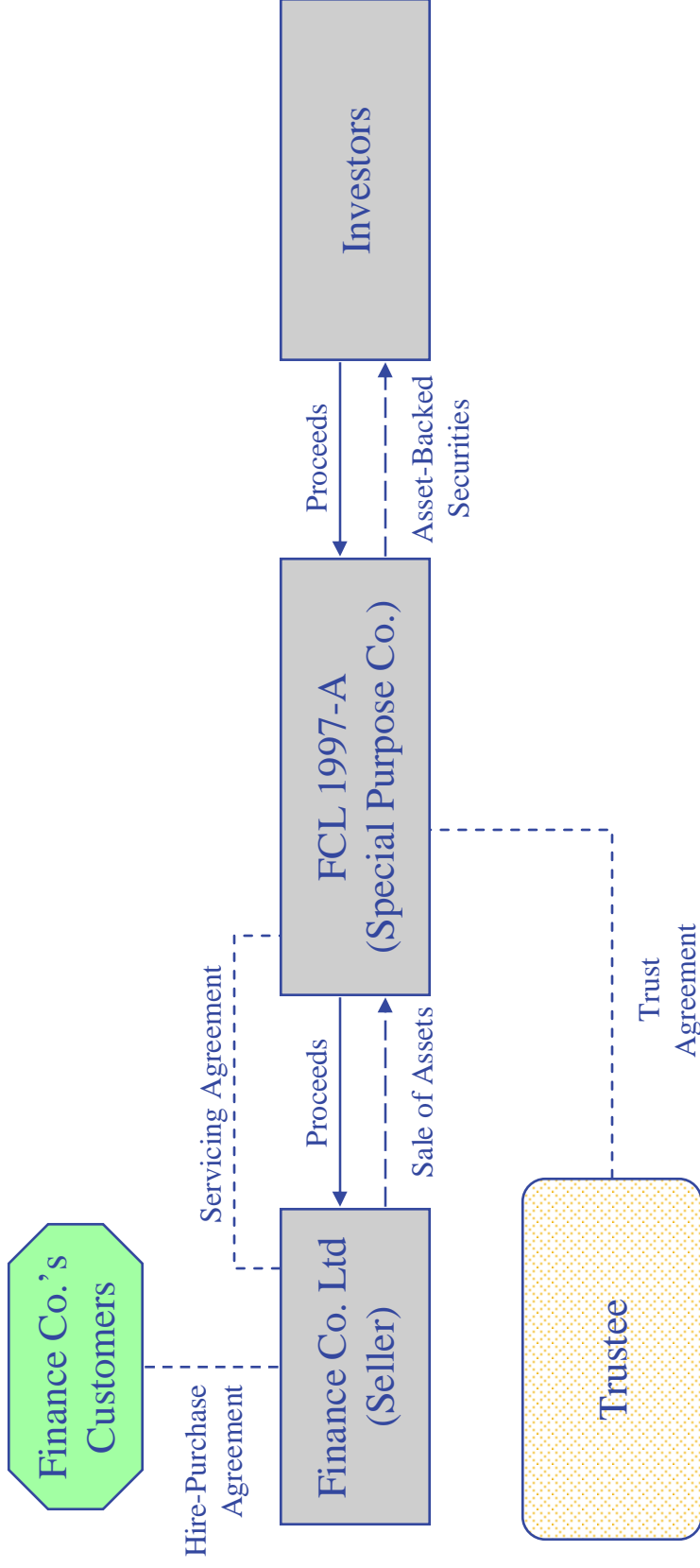
Case Study: Initial Exchanges



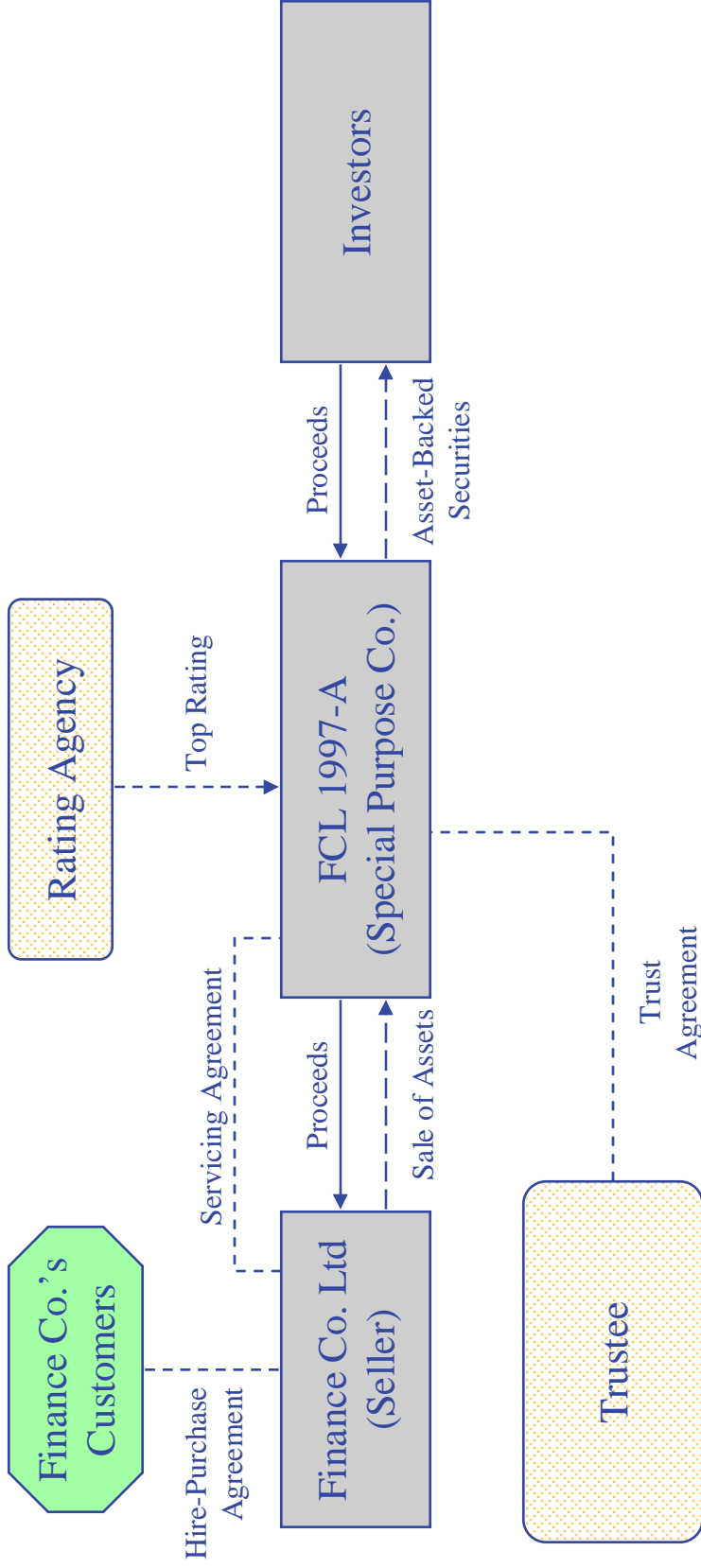
Case Study: Initial Exchanges



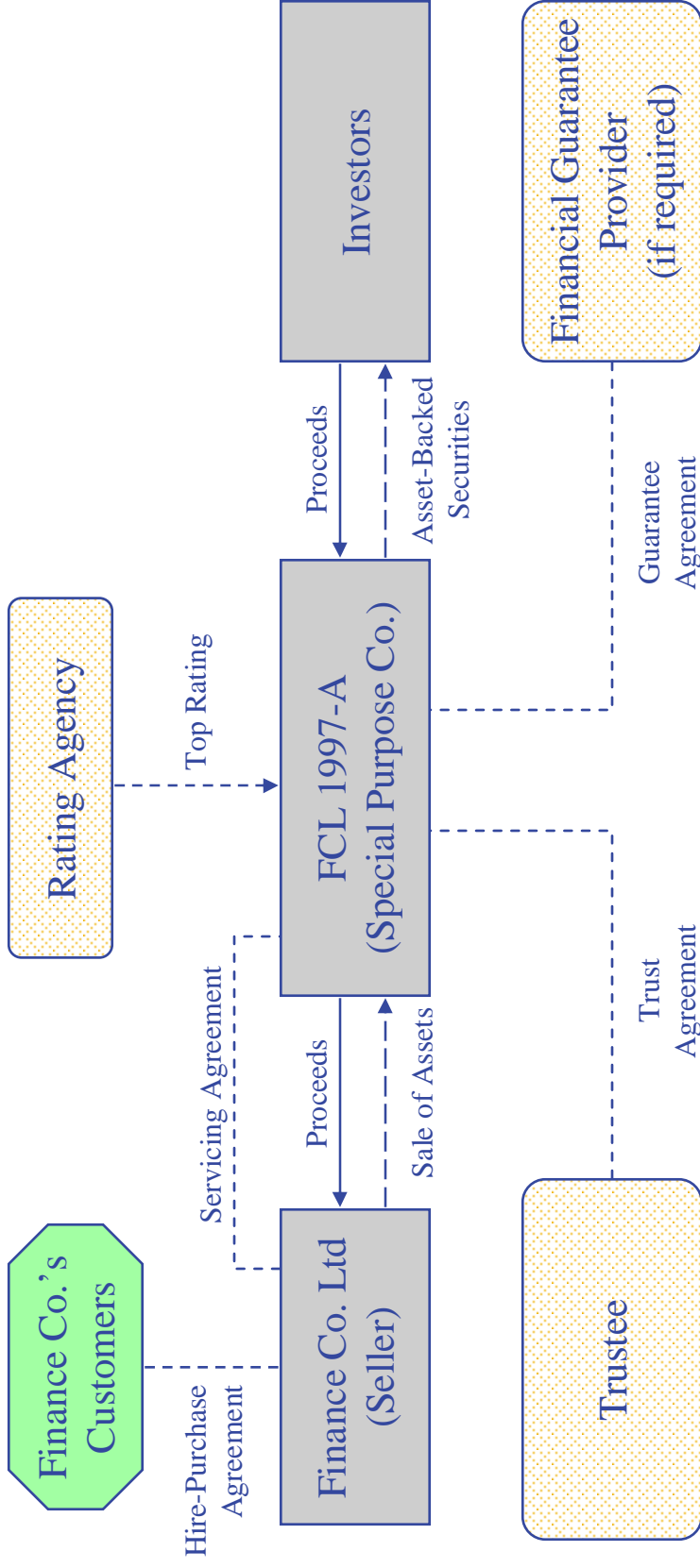
Case Study: Initial Exchanges



Case Study: Initial Exchanges



Credit Enhancement: Guarantee Method



Credit Enhancement: An Alternative Approach

Rating Agency

Top Rating

Senior

Lower Rating

Subordinated

No Rating

More Subordinated

FCL 1997-A
(Special Purpose Co.)

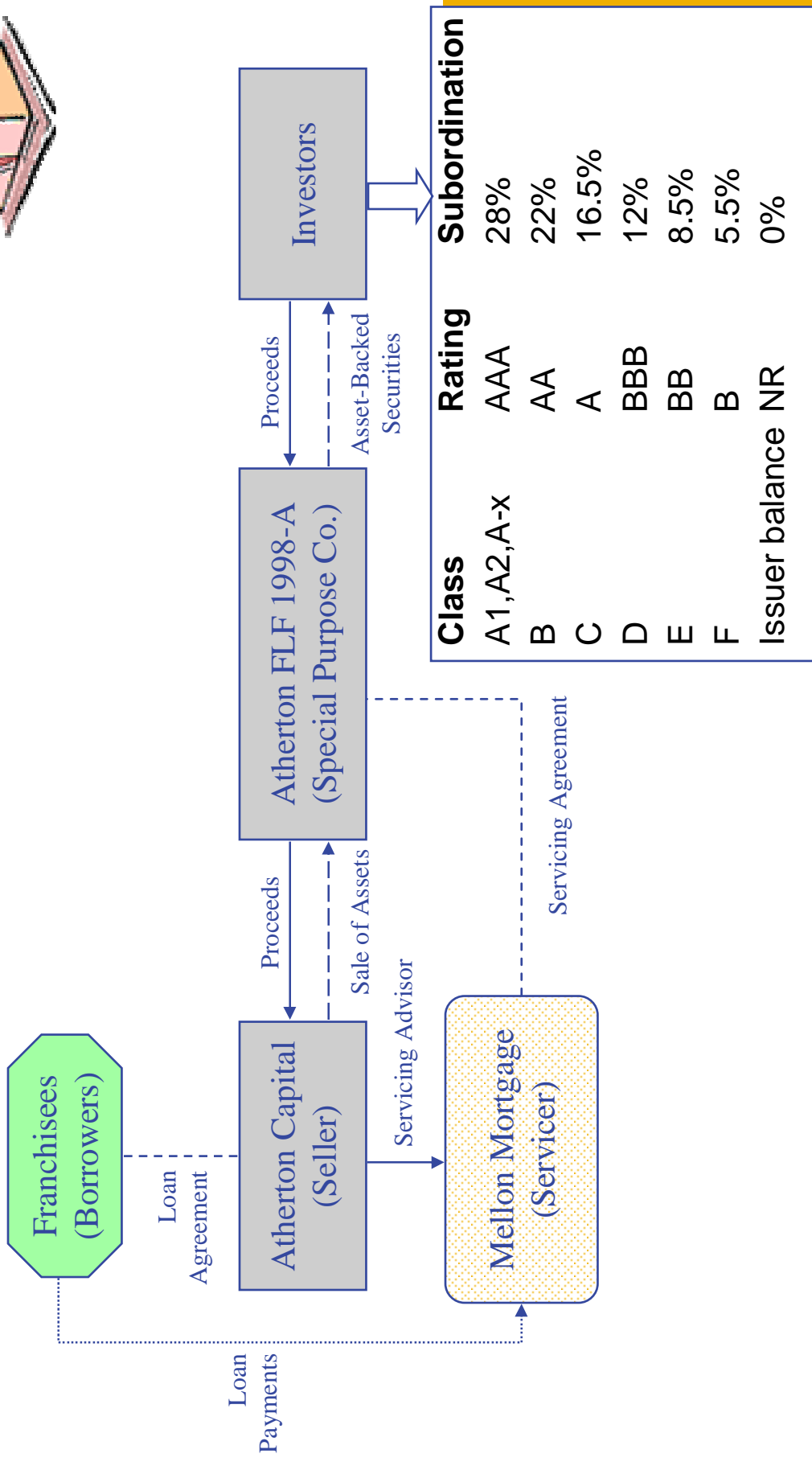
Finance Co. Ltd
(Seller)

Proceeds
Sale of Assets

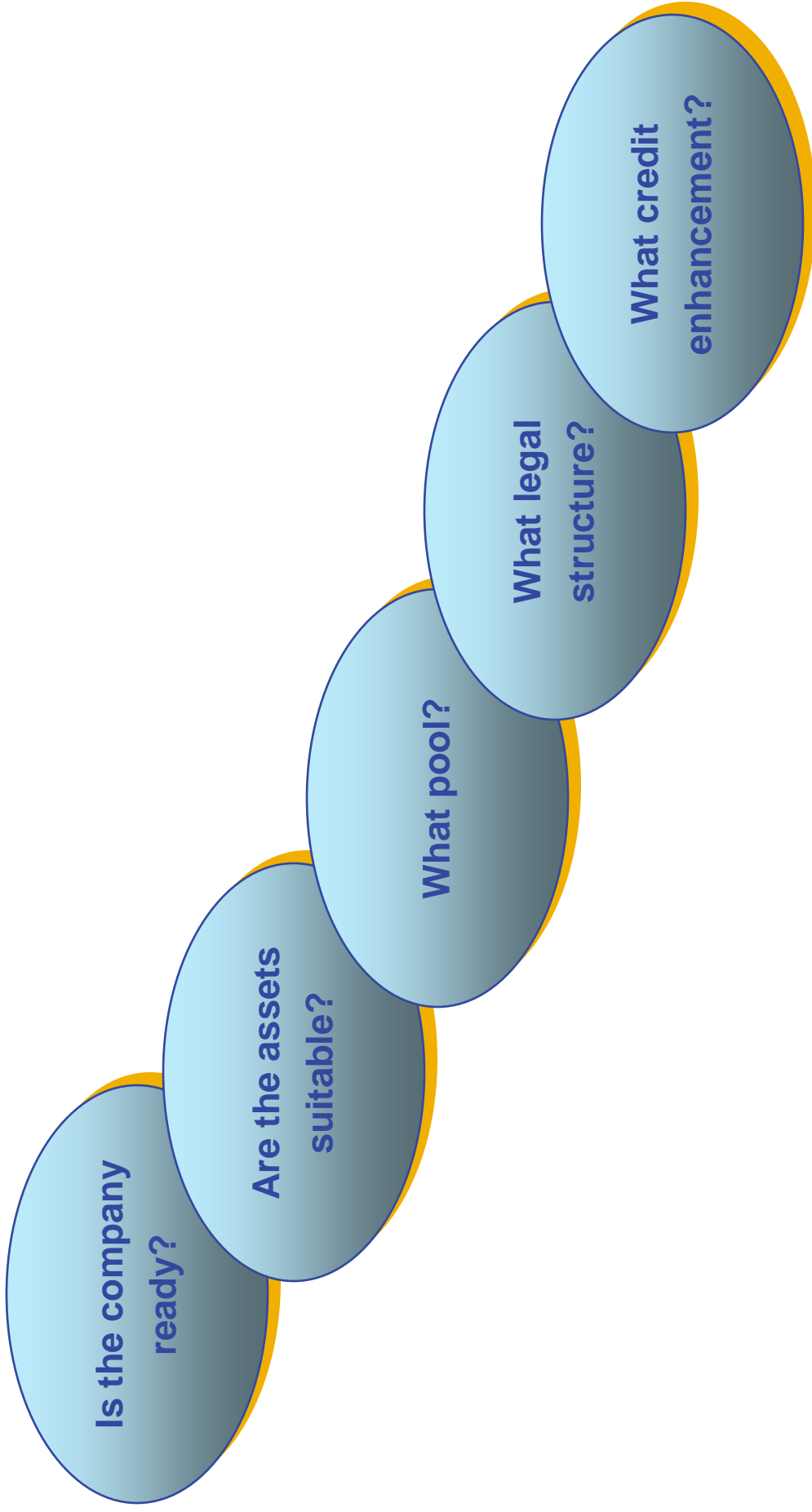
Financial Guarantee
Provider
(if required)

Guarantee
Agreement

Example: Franchise Loan Securitization



The Process



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

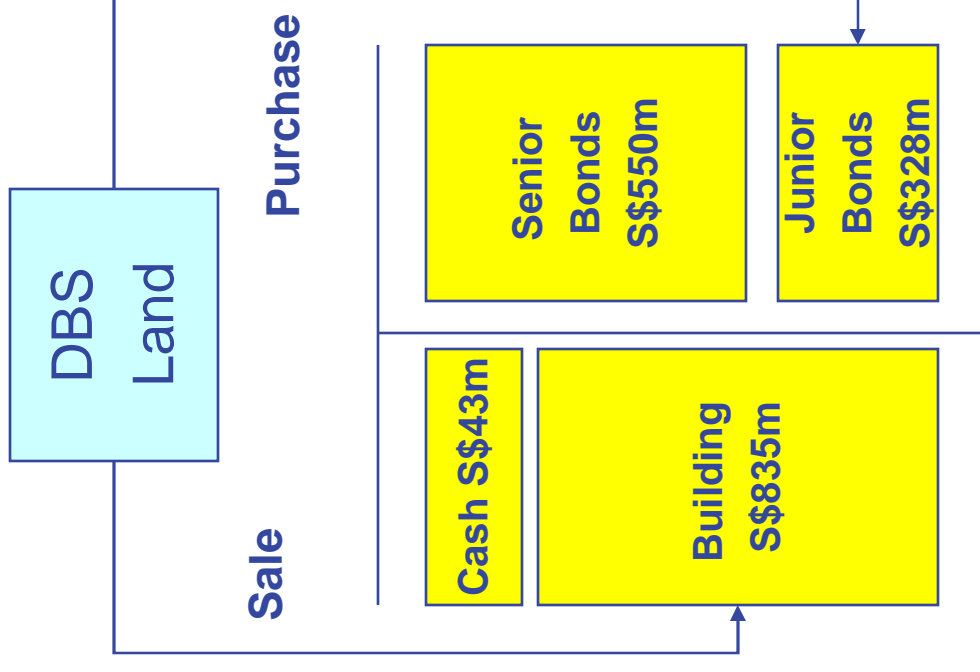
- The transfer must be a true sale, or its legal equivalent. If originator is only pledging the assets to secure a debt, this would be regarded as collateralized financing in which the originator would stay directly indebted to the investor.
- The assets must be owned by a special-purpose corporation,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



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.

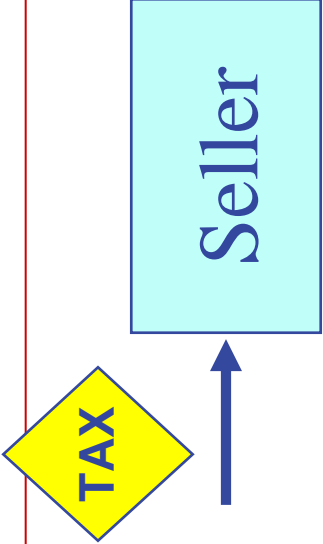
Taxation Aspects

- ❑ 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

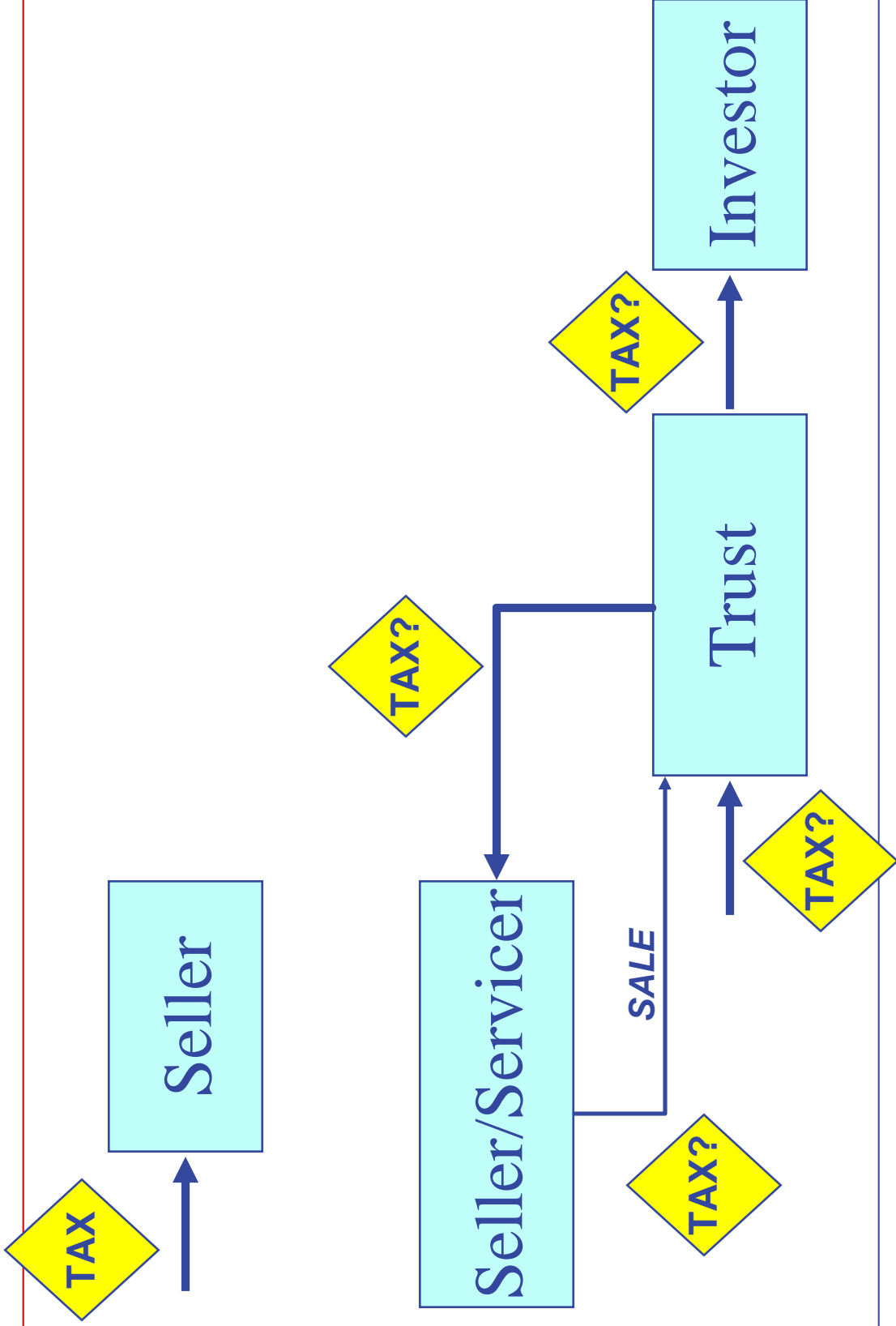
Must avoid double taxation of

- ❑ Seller/servicer
- ❑ Trust or special-purpose corporation
- ❑ Investors

Taxation: Before



Taxation: Before and After



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)


Basel 2 for Investing Banks

AAA to AA-	20%
A+ to A-	50%
BBB+ to BBB-	100%
BB+ to BB-	150%
B+ and below	Deducted from capital

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.
Seller

Ford Motor Credit
Company
Servicer

The trust will issue the following securities:

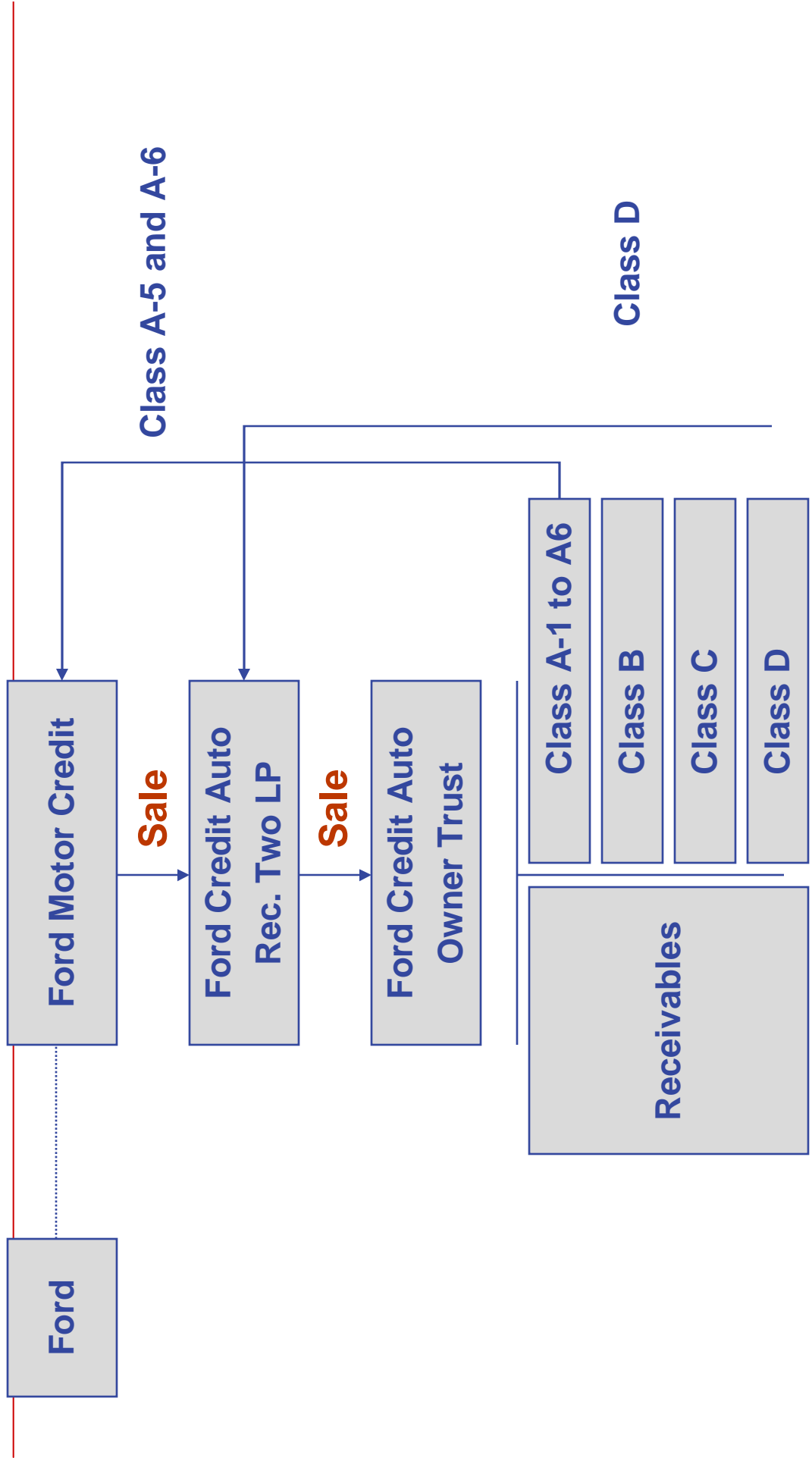
	Principal Amount	Interest Rate	Final Maturity Date
Class A-1 Notes	\$250,000,000	5.010%	July 15, 1999
Class A-2 Notes	\$296,000,000	5.089%	January 18, 2000
Class A-3 Notes	\$495,000,000	5.31%	April 16, 2001
Class A-4 Notes	\$313,767,000	5.31%	November 15, 2001
Class A-5 Notes (1)	\$250,000,000	5.38%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

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

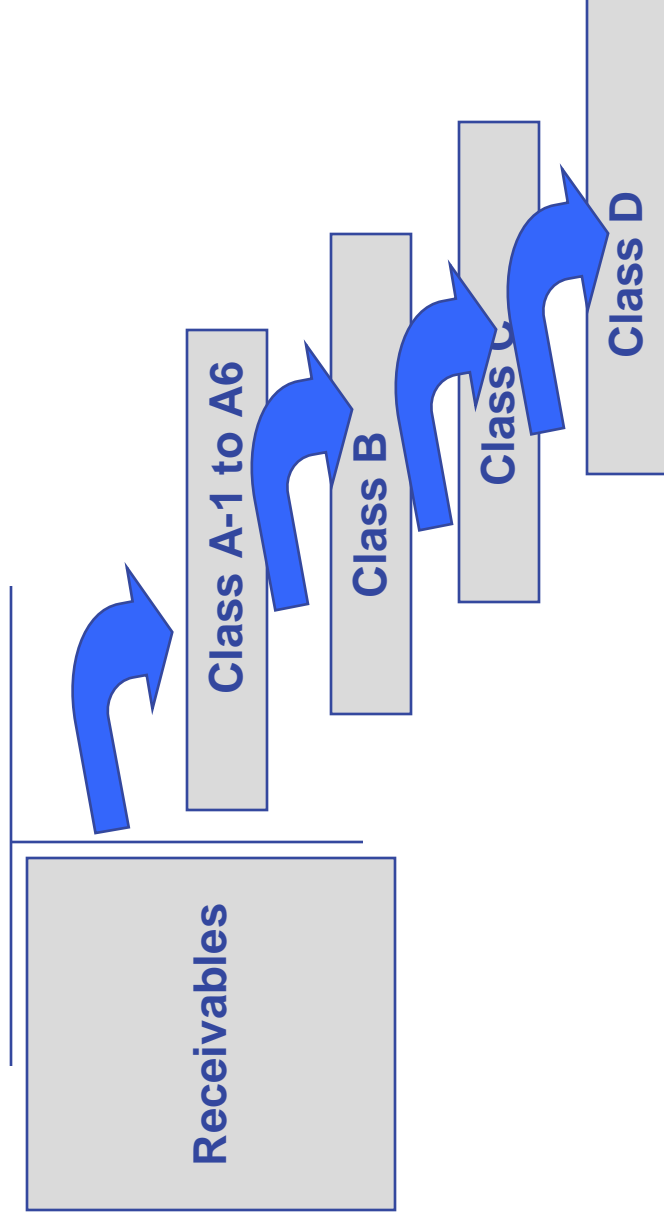
(1) The Class A-5 Notes, the Class A-6 Notes and the Class D Certificates are not being offered by this prospectus supplement.

- 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.
- The trust will pay principal sequentially to the earliest maturing class of securities then outstanding until paid in full.

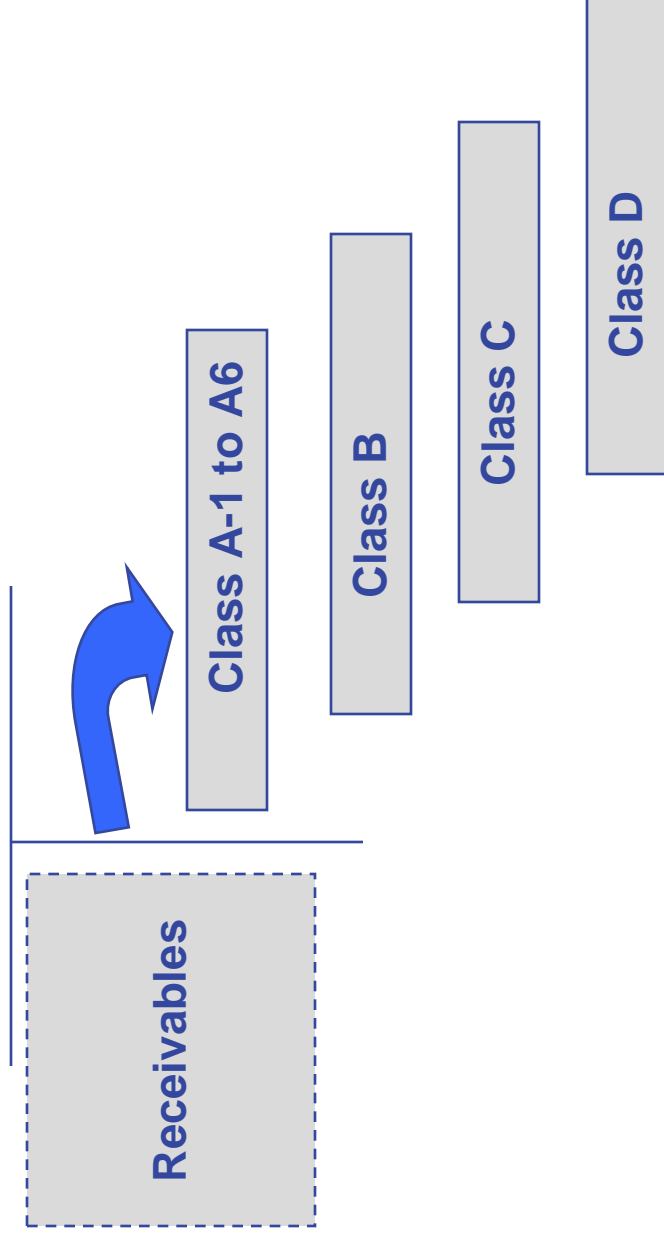
Ford Structure



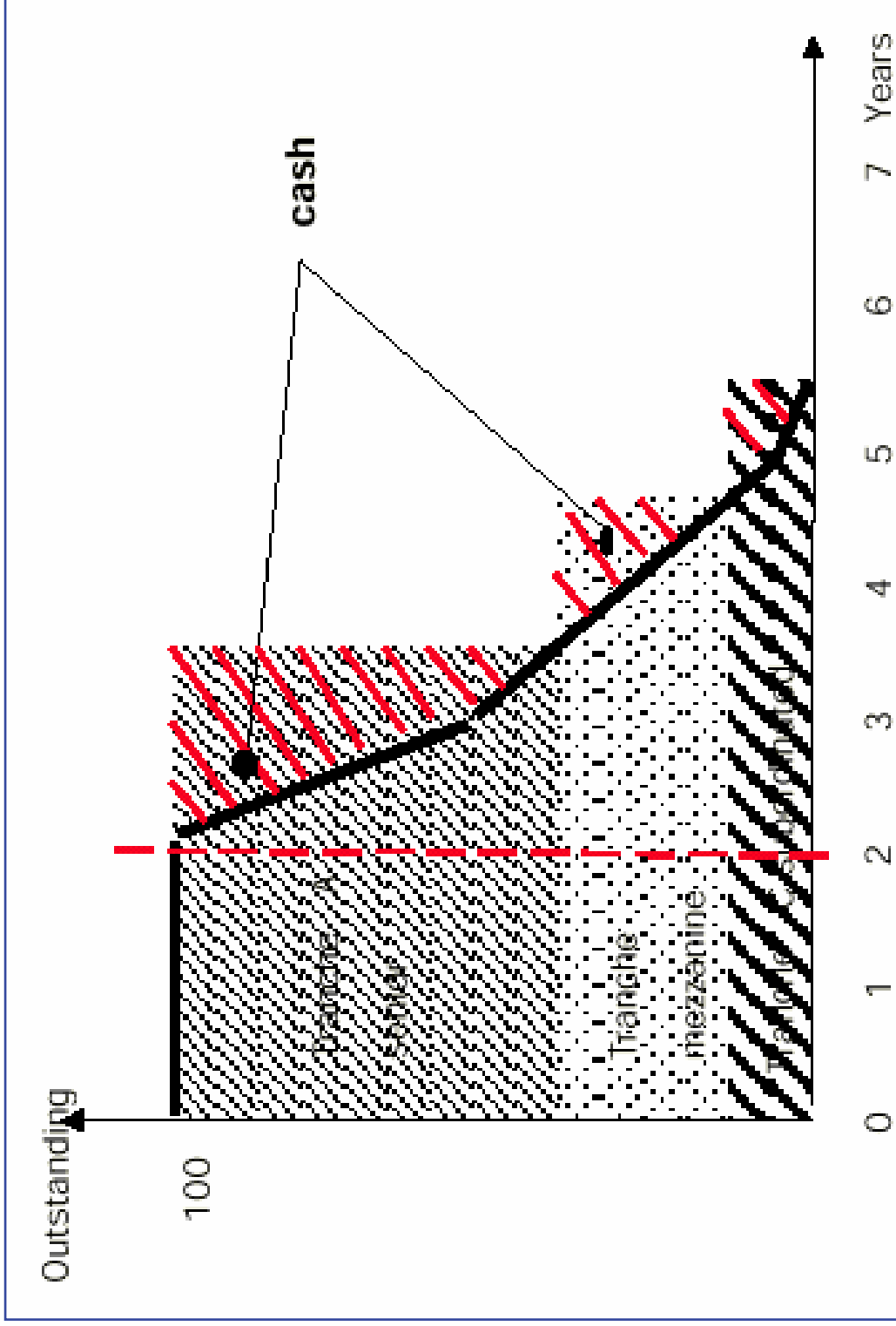
Ford Structure: Waterfall



Ford Structure: Default or Loss?



Paydown: Soft Bullet Structure



- **Moody's**
- **Standard & Poors**
- **Fitch**

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 finalized
- 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	FI+
Asset-Backed Notes.....	FI+
\$456,000,000 Class A-2	AAA
Asset-Backed Notes.....	AAA
\$431,000,000 Class A-3	AAA
Asset-Backed Notes.....	AAA
\$301,000,000 Class A-4	AAA
Asset-Backed Notes.....	AAA
\$47,514,648 Asset-Backed Certificates*	NR

*Retained by seller. NR - Not rated.

Analysts

Andrew Chou

Summary

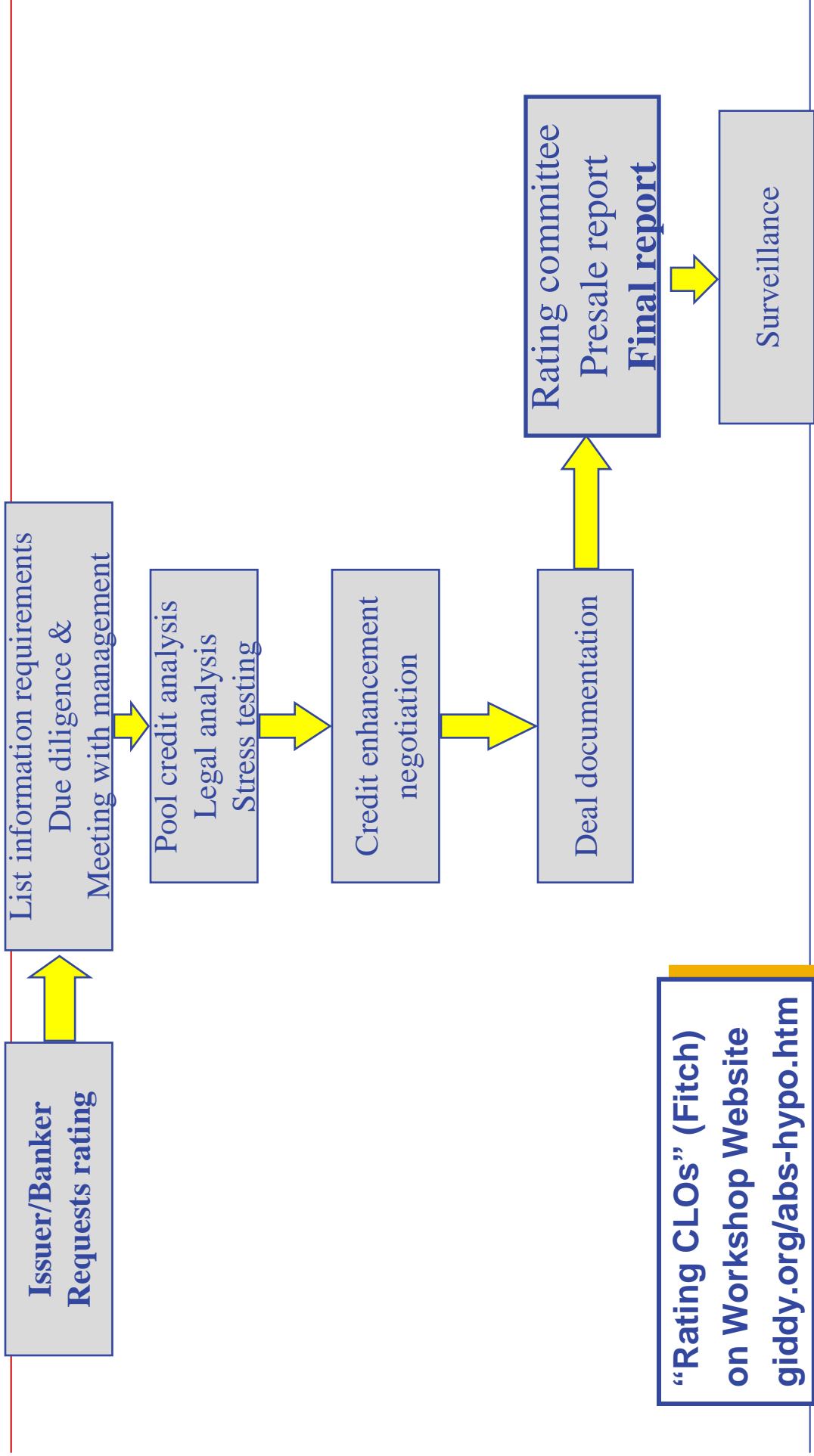
Fitch Ratings expects to rate the Honda Auto Receivables 2004-1 Owner Trust (the trust) notes as listed at left. The trust is also issuing \$47.5 million in certificates that are unrated and retained by the seller. Fitch's ratings address the likelihood that noteholders will receive full payments of 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																								
Agency	Investment Grade							Speculative Grade																
	S&P	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC	C	D	
Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca	C			
Fitch	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC	C	DDD	DD	D

Rating Process



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

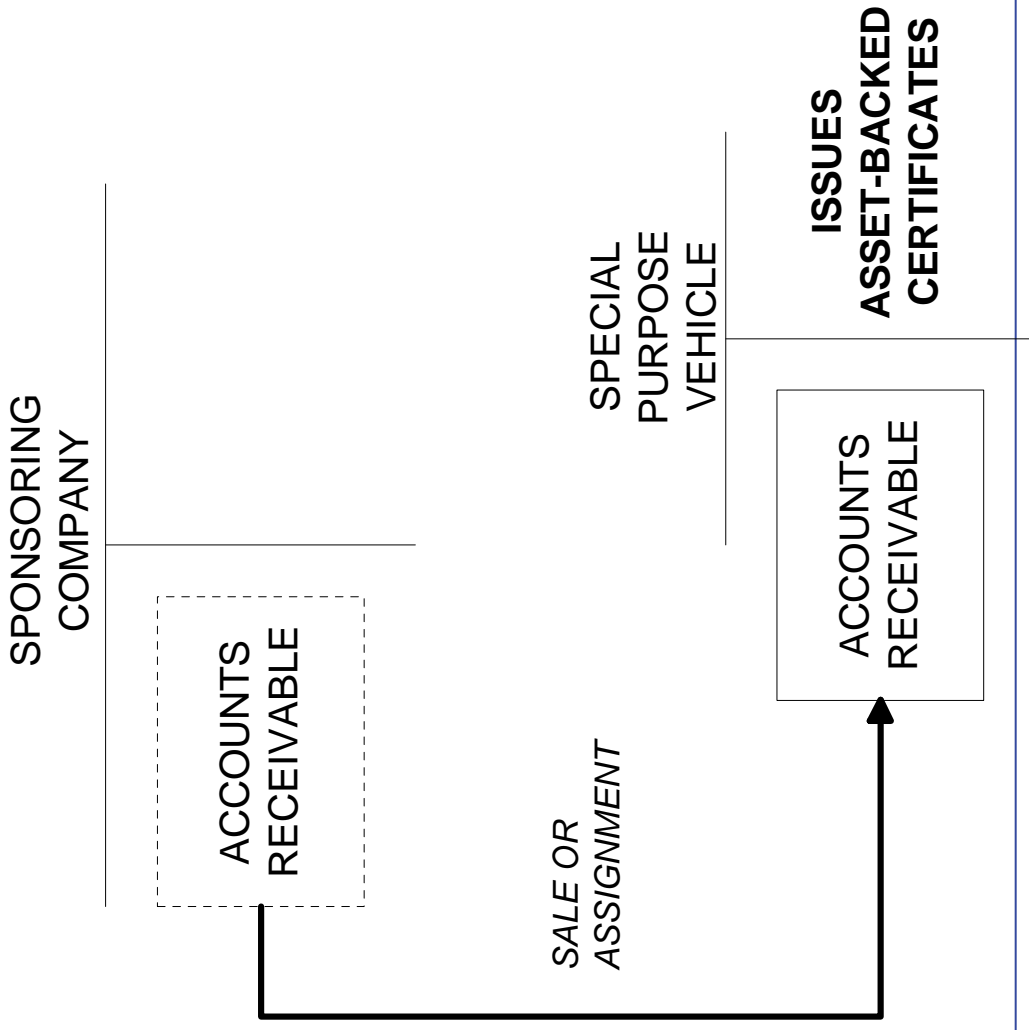
Stress Testing

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

Cost-Benefit Analysis

- ❑ Banks
- ❑ Corporations
- ❑ Investors

Separation of Two Businesses: Origination and Lending



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

For banks:										
Credit Enhancement Calculation										
Assets										
Loan Portfolio										
				<i>From A</i>	<i>From BB</i>	<i>From B</i>				
A	50	AAA	47.5	52.5	32.8	132.8				
BB+	100	AA				0				
B	100	NR				117.2				
	250					250				
Capital	20						Capital	9.376		
Cost							Cost			
Debt	7%						ABS	5%		
Equity	15%						Debt	8%		
							Equity	16%		
Total	7.64%						Total	6.71%		

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

Ford Credit Auto Owner Trust

FORD 1999-A	Size	\$ 1,462,716							
	Underwriting fees	\$ 2,311,593	0.08%						
	Other costs	\$ 1,000,000	0.03%						
	Total upfront costs		0.11%						
	WAM		3.941667 years						
	Ford Credit								
	Receivables								
	Ford Credit Auto Rec 2 LP								
	Receivables								
	Trust 1998-B								
	Receivables								
	Class A - AAA 93%			1855	93%	5.20%	4.82%		
	Class B - AA 3%			69	3%	5.79%	0.20%		
	Class C - BBB 2%			39	2%	6.52%	0.13%		
	Class D - NR 2%			39	2%	8.00%	0.16%		
				2002			5.30%		

For Investors, Spread Analysis

Asset Class		Description		Spread History		Changes		52-Week Statistical Analysis				All-In Yields							
Rating	Avg. Life	Benchmark	6/6/03	5/30/03	5/16/03	Last Week	4-Week	YTD	High	Low	Avg.	Std. Dev	Std. Dev From Avg.	Trend ¹	6/6/03	Last Week Change	52-Week High	52-Week Low	
Credit Cards																			
AAA	1	E	3	3	3	3	3	3	12	-3	6	3.9	-0.7	+	1.16	-0.07	2.38	1.16	
AAA	2	Swap	4	4	4	4	4	4	10	-2	5	2.5	-0.3	=	1.47	-0.07	3.35	1.47	
AAA	3	Swap	5	5	5	5	5	5	9	1	5	1.6	-0.1	=	1.86	-0.06	3.94	1.86	
AAA	5	Swap	10	10	10	10	10	10	17	8	11	2.1	-0.7	+	2.69	-0.02	4.69	2.69	
AAA	7	Swap	18	18	18	18	18	18	30	15	22	3.9	-1.0	+	3.31	-0.03	5.18	3.31	
AAA	10	Swap	25	28	28	28	28	28	40	22	30	4.0	-1.3	+	3.94	-0.07	5.61	3.94	
AAA	3-Sub	Swap	32	33	33	33	33	33	44	32	37	3.0	-1.5	+	2.13	-0.07	4.26	2.13	
A	3-Sub	Swap	36	37	37	37	37	37	50	36	41	3.5	-1.6	+	2.95	-0.03	4.37	2.95	
BBB	3-Sub	Swap	100	103	103	103	103	103	110	88	103	6.8	-0.4	+	2.81	-0.09	4.81	2.81	
BBB	5-Sub	Swap	110	113	113	113	113	113	120	92	111	7.8	-0.2	+	3.69	-0.05	5.54	3.69	
Autos Prime																			
<i>Owner Trust</i>																			
AAA	1	E	7	7	7	7	7	7	16	3	9	3.2	-0.7	-	1.20	-0.07	2.44	1.20	
AAA	2	Swap	6	5	5	4	4	4	13	6	16	3	9	3.6	-1.0	-	1.49	-0.06	3.39
AAA	3	Swap	6	4	4	3	3	3	12	6	18	2	9	4.5	-0.7	-	1.87	-0.04	3.96
A	3-5-Sub	Swap	30	30	30	33	33	33	55	30	43	8.3	-1.6	+	2.53	-0.03	4.67	2.53	
Autos Prime 1																			
<i>Soft Bullet</i>																			
AAA	1	E	3	2	2	2	2	2	11	2	6	2.9	-1.0	-	1.16	-0.06	2.41	1.16	
AAA	1.5	E	3	2	2	2	2	2	11	2	6	3.0	-1.0	-	1.16	-0.06	2.42	1.16	
AAA	2	Swap	3	3	3	3	3	3	12	3	7	3.1	-1.1	=	1.46	-0.07	3.36	1.46	
Autos Non-Prime																			
<i>Wrapped</i>																			
AAA	1	E	10	10	10	10	10	10	28	10	19	6.1	-1.4	+	1.23	-0.07	2.52	1.23	
AAA	2	Swap	20	22	22	18	18	18	47	18	32	10.4	-1.2	-	1.63	-0.09	3.57	1.63	
AAA	3	Swap	23	25	25	28	28	28	55	23	37	10.3	-1.4	+	2.04	-0.08	4.16	2.04	
Home Equity Loans																			
AAA	1	E	45	45	45	45	45	45	70	43	53	8.7	-0.9	=	1.58	-0.07	2.87	1.58	
AAA	2	Swap	38	40	40	40	40	40	72	38	54	9.9	-1.6	+	1.81	-0.09	3.74	1.81	
AAA	3	Swap	40	45	45	45	45	45	75	40	59	10.4	-1.9	+	2.21	-0.11	4.39	2.21	
AAA	5	Swap	60	65	65	65	65	65	90	58	77	10.1	-1.7	+	3.19	-0.07	5.24	3.19	
AAA	7	Swap	105	100	100	100	100	100	125	75	102	13.4	+0.2	+	4.18	+0.02	5.91	4.17	
AAA	10	Swap	115	115	115	115	115	115	142	86	114	14.2	+0.0	+	4.84	+0.04	6.32	4.53	
AAA	6-NAZ	Swap	60	65	65	65	65	65	90	55	71	10.1	-1.1	+	3.48	-0.08	5.43	3.48	
AA	6-NAZZ	Swap	150	150	150	155	155	155	182	150	158	15.1	+0.8	+	4.38	-0.03	6.04	4.38	
A	6-NAZZ	Swap	190	190	190	195	195	195	200	145	182	17.8	+0.4	+	4.78	-0.03	6.44	4.78	
BBB	6-Sub	Swap	325	325	310	300	300	300	325	180	255	49.2	+1.4	-	6.13	-0.03	6.91	5.67	
Rate Reduction Bonds																			
AAA	1	E	7	7	7	7	7	7	17	7	12	3.2	-1.7	+	1.20	-0.07	2.48	1.20	
AAA	2	Swap	7	7	7	7	7	7	19	7	14	4.4	-1.6	+	1.50	-0.07	3.42	1.50	
AAA	3	Swap	7	7	7	7	7	7	15	7	15	4.7	-1.6	+	1.88	-0.06	4.01	1.88	
AAA	5	Swap	12	12	12	12	12	12	25	12	19	5.0	-1.4	+	2.71	-0.02	4.74	2.71	
AAA	7	Swap	25	25	25	25	25	25	40	23	32	5.1	-1.7	+	3.36	-0.05	5.27	3.36	
AAA	10	Swap	28	32	32	32	32	32	45	26	37	5.6	-1.7	+	3.97	-0.08	5.66	3.97	
Equipment 1																			
AAA	1	E	14	21	21	21	21	21	30	14	23	5.8	-1.6	-	1.27	-0.14	2.59	1.27	
AAA	2	Swap	25	28	28	28	28	28	35	25	38	7.6	-1.5	+	1.68	-0.10	3.66	1.68	
AAA	3	Swap	33	38	38	38	38	38	45	33	44	8.7	-1.9	+	2.14	-0.11	4.27	2.14	
AA	3-Sub	Swap	95	105	105	105	105	105	125	80	100	13.7	-0.9	+	3.79	-0.06	5.14	3.79	
AA	3-Sub	Swap	145	165	165	165	165	165	185	130	159	18.9	-0.7	+	3.26	-0.26	5.74	3.26	
BBB	3-Sub	Swap	200	200	200	200	200	200	225	175	206	15.0	-0.4	+	3.81	-0.06	5.67	3.81	

¹ Data Series start from March 9, 2003. ² Tighter spreads indicate a positive trend (+), (e) the 3 week average is less than the 6-week average.

European Spreads

European ABS spread matrix

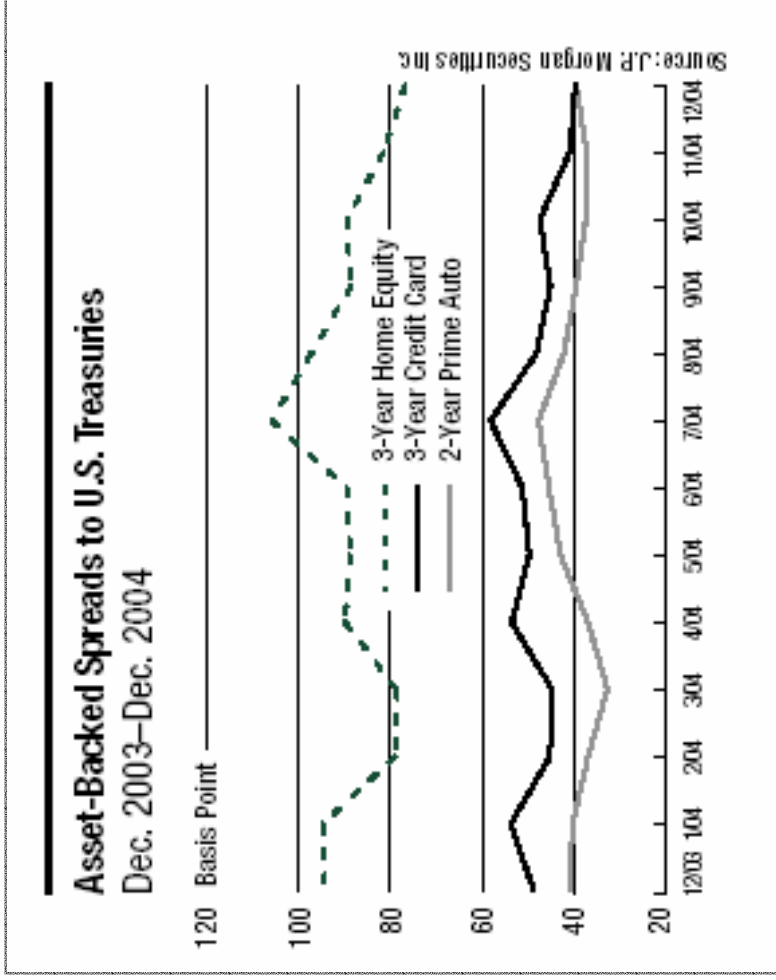
	AAA				A				BBB			
	WAL	Mid	1wk	1M	WAL	Mid	1wk	1M	WAL	Mid	1wk	1M
Floater over Libor/Euribor	3.9	12.0	11.2	8.5	3.8	22.5	22.5	22.5	4.2	47.0	47.0	47.0
UK Prime RMBS	3.2	17.1	17.5	13.5	4.1	42.5	42.5	42.5	4.3	72.5	72.5	72.5
UK NC RMBS	5.2	13.7	12.7	9.6	6.0	22.5	22.5	22.5	6.1	47.7	47.7	47.7
Dutch RMBS	5.2	13.0	12.5	9.5	9.9	27.5	27.5	27.5	8.8	52.5	52.5	52.5
Spanish RMBS	1.8	6.5	6.5	6.5	3.5	27.5	27.5	27.5	5.0	65.0	65.0	65.0
Autos	3.3	11.8	11.5	8.5	7.1	32.2	32.2	32.2	6.1	57.5	57.5	57.5
Leasing	3.9	8.0	6.2	6.2	4.9	32.5	32.5	32.5	6.7	47.5	47.5	47.5
Credit cards	1.0	1.0	1.0	1.0	1.5	3.0	10.0	10.0	N/A	N/A	N/A	N/A
Italian public sector (real estate)	5.0	28.0	28.0	28.0	5.0	90.0	90.0	90.0	10.0	150.0	150.0	150.0
CDO ABS	2.0	16.9	16.9	16.9	2.2	61.3	61.3	61.3	2.2	175.8	175.8	175.8
SME CLO	4.1	19.9	18.9	17.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CMBS	6.4	19.0	19.0	19.0	5.9	77.4	77.4	77.4	5.9	150.9	150.9	150.9
Healthcare	0.8	32.5	32.5	32.5	3.7	98.5	98.5	98.5	3.9	218.9	218.9	218.9
Water	5.9	25.5	25.5	23.5	4.9	71.2	71.2	71.2	6.6	97.0	97.0	97.0
Pub	11.5	53.8	53.0	49.3	11.9	98.1	98.1	92.6	8.2	155.3	154.3	148.7
GBP Fixed-over Gilts	11.2	52.0	49.5	44.1	5.0	95.0	95.0	95.0	10.9	148.1	150.6	130.4
CMBS (fixed)	11.2	56.8	56.3	51.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Healthcare (fixed)	12.9	56.4	56.4	49.7	11.3	81.8	82.4	78.9	5.6	92.2	92.2	87.4
PFI	8.3	54.6	52.4	46.1	8.7	75.0	75.1	66.9	10.8	142.2	129.4	118.2
Water (fixed)												
Pub (fixed)												
Gilt asset swap levels (bp)			5Y: 34.5		7Y: 33.5		10Y: 32.3					15Y: 28.3

Notes: Spreads are calculated as weighted average of indicative mid-secondary levels for the recent 'Benchmark' transactions.
CDO spreads are indicative primary spreads.

Source: HSBC ABS Trading, Bloomberg

Source: HSBC Spread Matrix on absnet.net

All AAA Are Not Equal



Source: bondmarkets.com, Research Quarterly

on the receivables are paid when due, commencing one month from January 1, 1999 and (3) no prepayments on the receivables are made.

Servicer 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 balances of the Class A 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;
- (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 balance 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 less 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

Distribution Date	Class A-1 Notes			Class A-2 Notes			Class A-3 Notes						
	0.5%	1.0%	1.5%	0.5%	1.0%	1.5%	0.5%	1.0%	1.5%				
Closing Date	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
2/15/1999	78.10	73.61	68.66	65.43	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
3/15/1999	58.91	48.12	38.43	32.11	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
4/15/1999	35.90	22.99	8.77	0.00	100.00	100.00	100.00	99.57	100.00	100.00	100.00	100.00	100.00
5/15/1999	14.94	0.00	0.00	0.00	100.00	98.41	82.76	72.54	100.00	100.00	100.00	100.00	100.00
6/15/1999	0.00	0.00	0.00	0.00	96.02	77.66	58.55	46.07	100.00	100.00	100.00	100.00	100.00
7/15/1999	0.00	0.00	0.00	0.00	77.48	57.14	34.74	20.19	100.00	100.00	100.00	100.00	100.00
8/15/1999	0.00	0.00	0.00	0.00	60.02	36.86	11.38	0.00	100.00	100.00	100.00	100.00	96.86
9/15/1999	0.00	0.00	0.00	0.00	42.64	16.84	0.00	0.00	100.00	100.00	100.00	100.00	93.79
10/15/1999	0.00	0.00	0.00	0.00	25.34	0.00	0.00	0.00	100.00	100.00	100.00	100.00	81.46
11/15/1999	0.00	0.00	0.00	0.00	8.11	0.00	0.00	0.00	100.00	99.50	89.35	69.35	56.21
12/15/1999	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	98.68	79.05	57.47	43.40	30.90
1/15/2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	89.57	68.72	45.82	30.90	18.70
2/15/2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	80.47	58.52	34.40	18.70	6.81
3/15/2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	71.40	48.44	23.23	6.81	0.00
4/15/2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	62.35	38.48	12.29	0.00	0.00
5/15/2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	53.32	28.66	1.56	0.00	0.00
6/15/2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	44.32	18.96	0.00	0.00	0.00
7/15/2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	35.35	9.39	0.00	0.00	0.00
8/15/2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	26.40	0.00	0.00	0.00	0.00
9/15/2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17.94	0.00	0.00	0.00	0.00
10/15/2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.30	0.00	0.00	0.00	0.00
11/15/2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.74	0.00	0.00	0.00	0.00
12/15/2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1/15/2001	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2/15/2001	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3/15/2001	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4/15/2001	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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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