

Asset-Backed Securities

Deals

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Case Study:
FIAT

- What are the underlying assets, and why do they need to be financed in this manner?
- What is the legal relationship between the parties to the deal?
- How would you explain the risks to a potential investor?

Group work

Hong Kong Card Master Trust

- Using a diagram, show the relationships between the parties
- Define the terms of the deal
- What is the credit quality of the assets?
- What other risks must be reduced?
- How profitable is the ABS deal to the seller/servicer?

Case Study: Trains I PLC

- What are the underlying assets, and why do they need to be financed in this manner?
- What is the legal relationship between the parties to the deal?
- What are the benefits or risks to the borrower and investors?

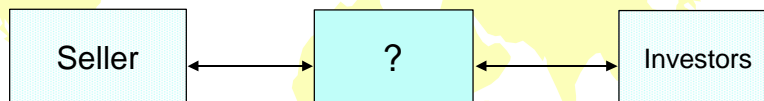
Group work

Case Study:
FILMS

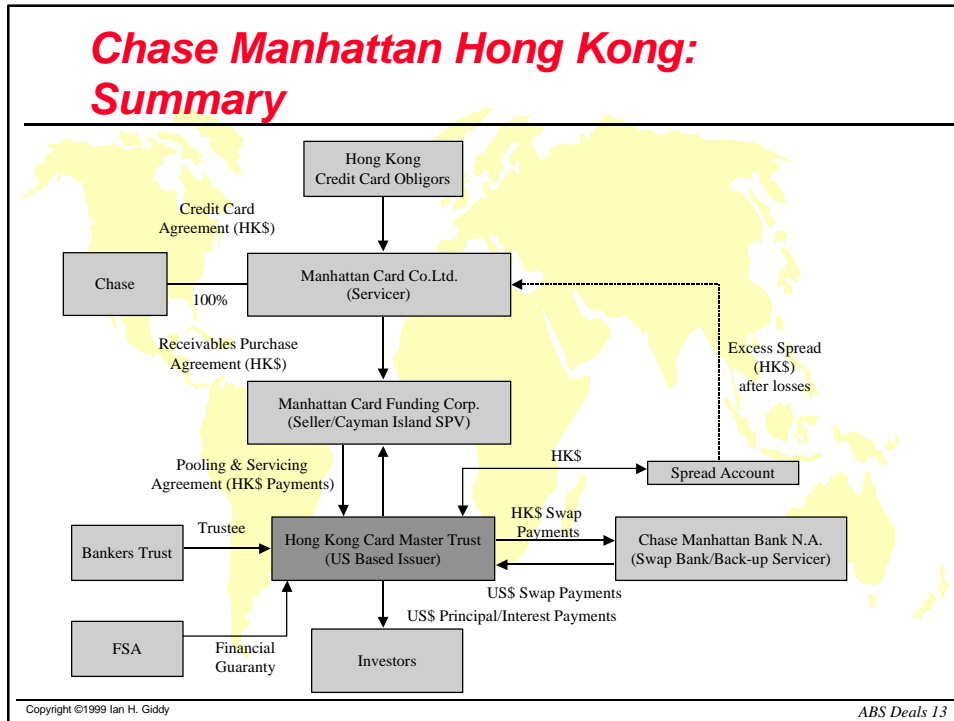
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Group work

FIAT Deal



Chase Manhattan Hong Kong: Summary



Summary of Terms

Issuer	Hong Kong Card Master Trust
Amount	US\$200mm
Paydown	4-7 years
Calls	5% Clean-up
Rate	Libor+0.25%
Collateral	\$255mm HK credit card receivables pool
Rating	AAA/Aaa (FSA guarantee)

The Assets: Credit Card Receivables

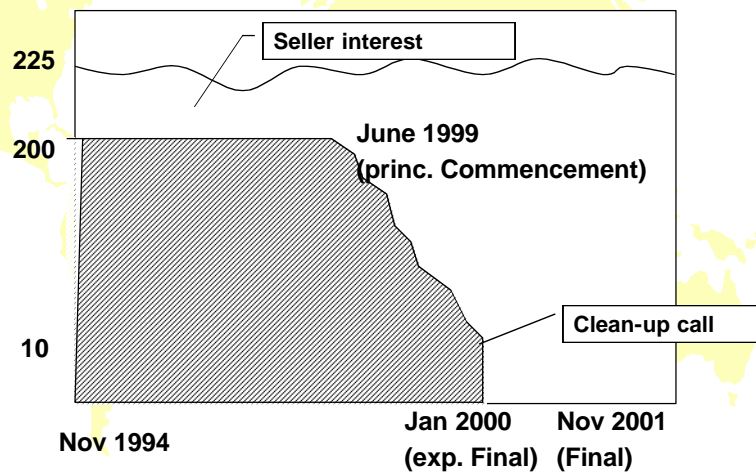
What is the credit quality of the assets?

- Diversified: 281,352 accounts
- Charge-offs (0.74%-2.70%)
- Delinquencies (2.2%-4.0%)
- Balance/Limit ratio 47%
- Age: 43% over 3 years
- Fraud: partial insurance from Visa/MC
- 25% overcollateralization
- Servicing: high quality

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Paydown Structure



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Other Risks

- Currency risk
- Interest rate risk
- Sovereign risk
- Legal risks
- Payment timing risks
- Swap counterparty risk
- Guarantor risk

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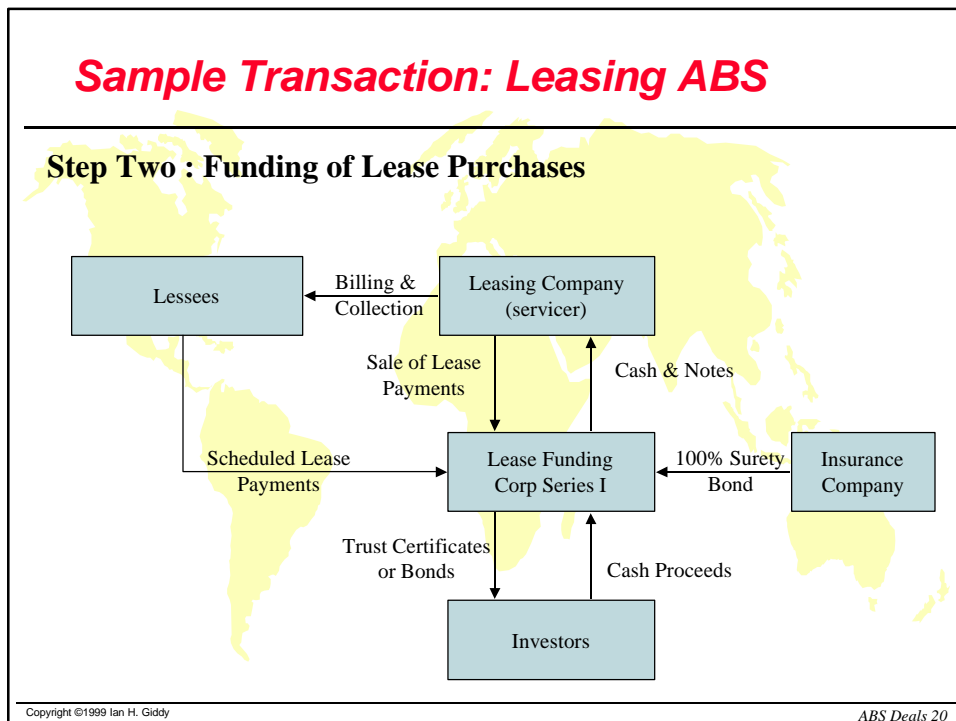
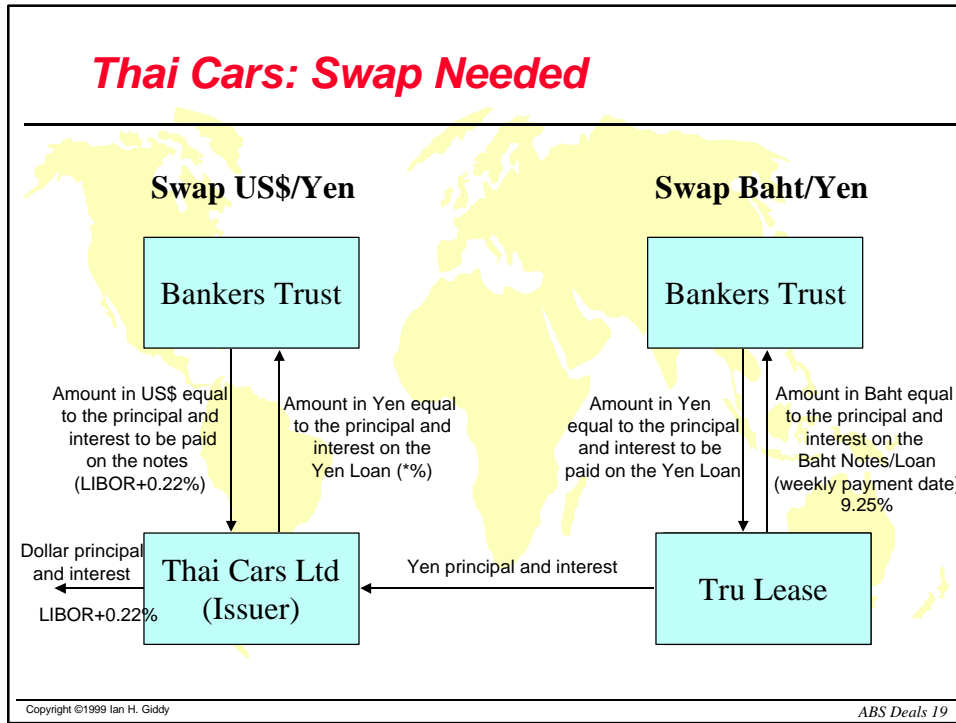
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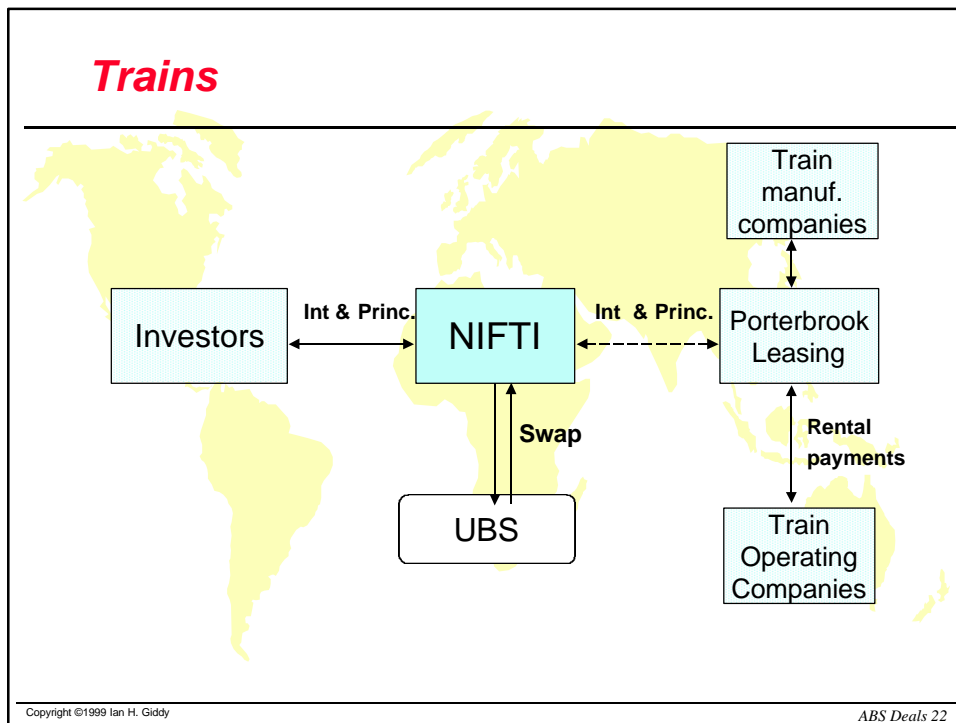
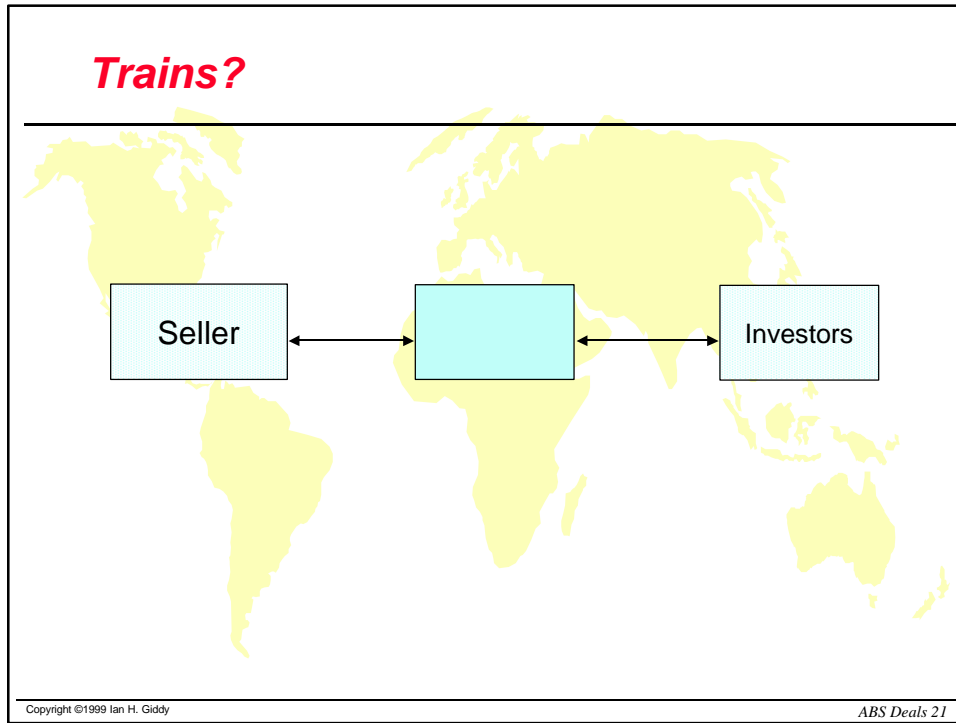
The Economics

Average revenue yield	HK\$ 25.25%
Less charge-offs (2xaverage)	HK\$ -1.50%
Less rate paid	US\$ -5.31% (Libor+0.25%)
Other costs (est.)	-2.50%
Net revenue (est.)	+/-16.00%

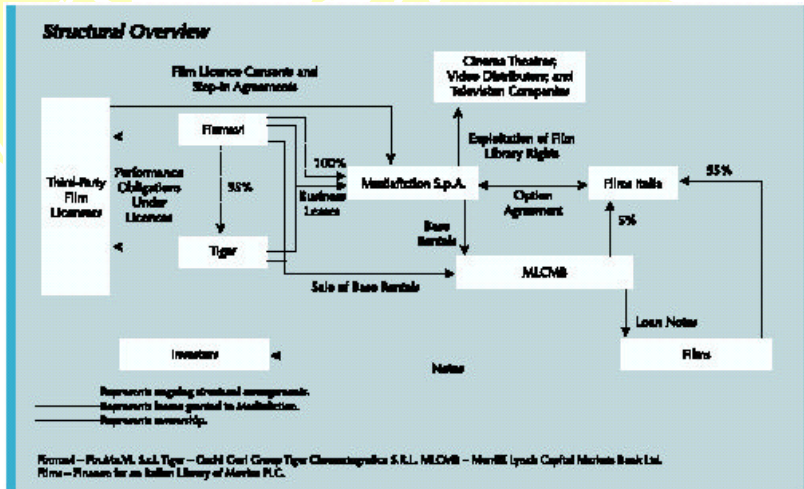
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Films (Finance for an Italian Library of Movies)



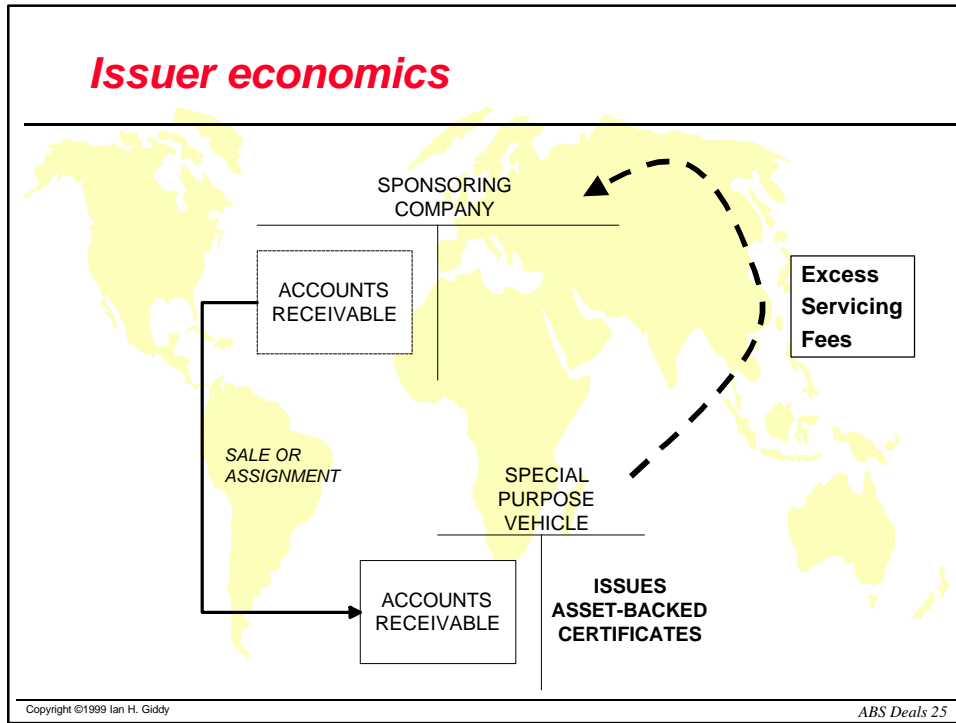
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Asset-Backed Securities

Summary

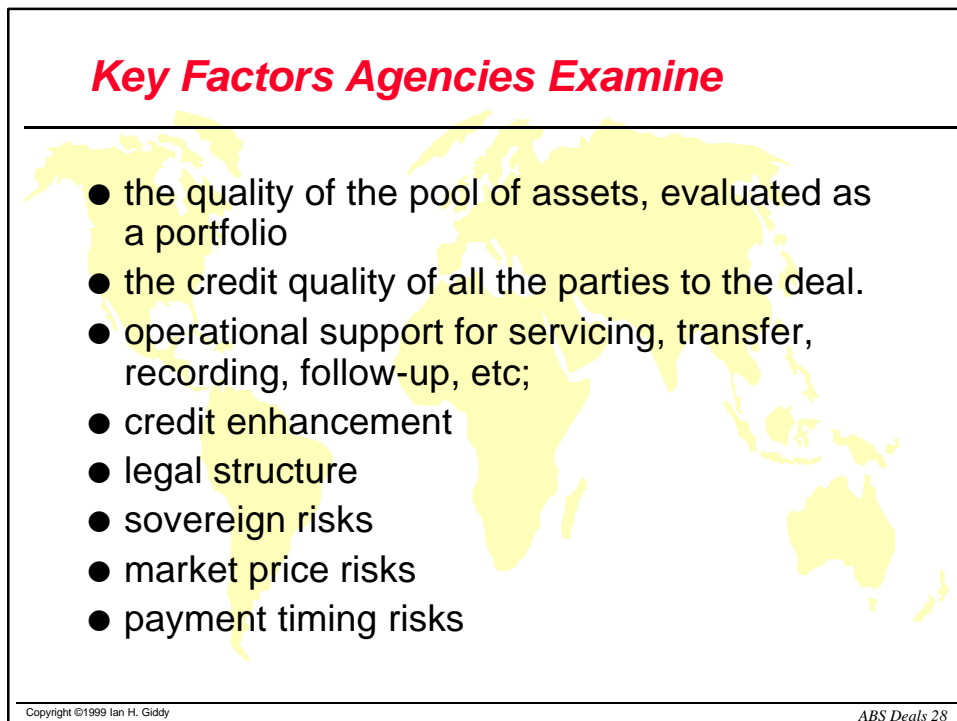
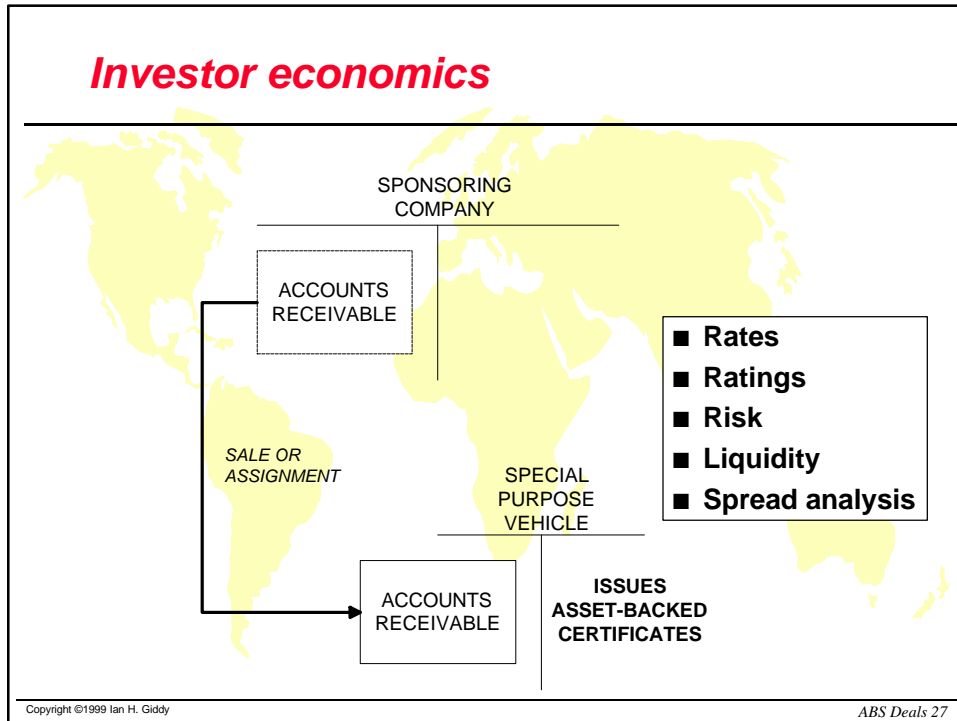
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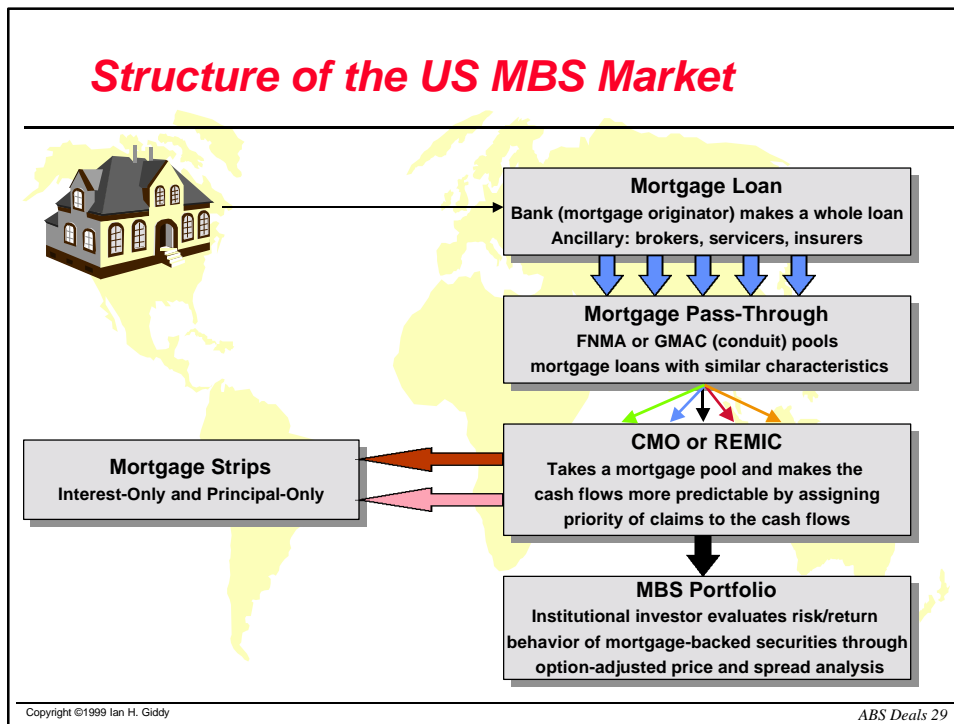
Sample Cost/Benefit Analysis

	With securitization	Without securitization
Portfolio yield	18.50%	18.50%
Funding cost	-7.22%	-9.00%
Default rate	-5.00%	-5.50%
Amortized upfront issuance costs	-0.10%	-0.05%
Amortized upfront securitization costs	-0.20%	
Annual costs of guarantees and credit lines	-0.25%	
Annual additional costs (systems, reporting, trustee fees, etc)	-0.25%	
Effect on sponsor's marginal cost of capital	0.00%	
Profits	5.48%	3.95%
Net savings from securitization	1.53%	per annum

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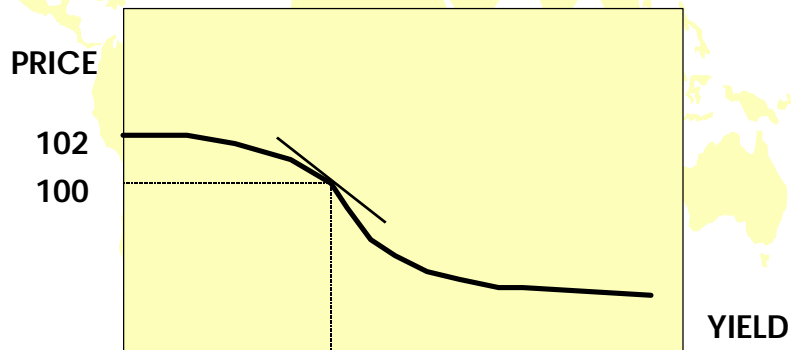


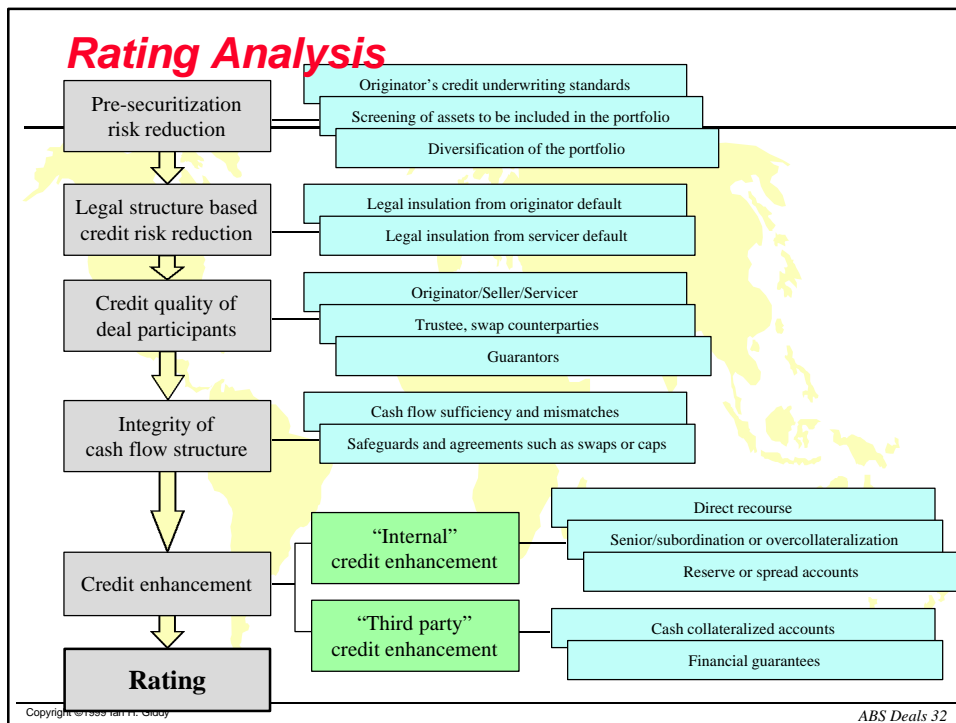
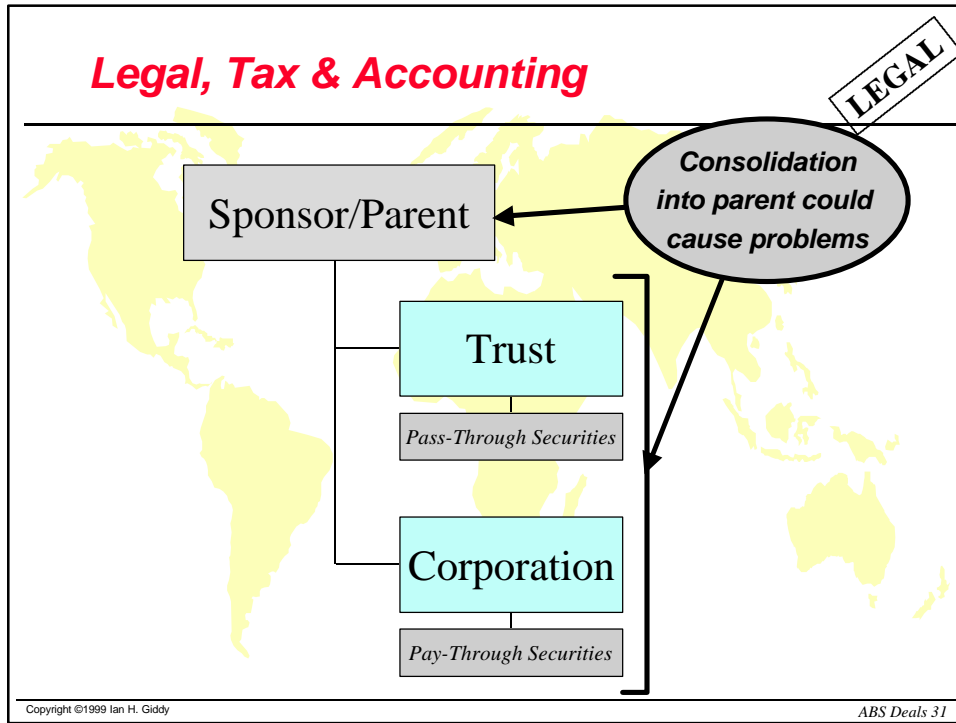
Structure of the US MBS Market

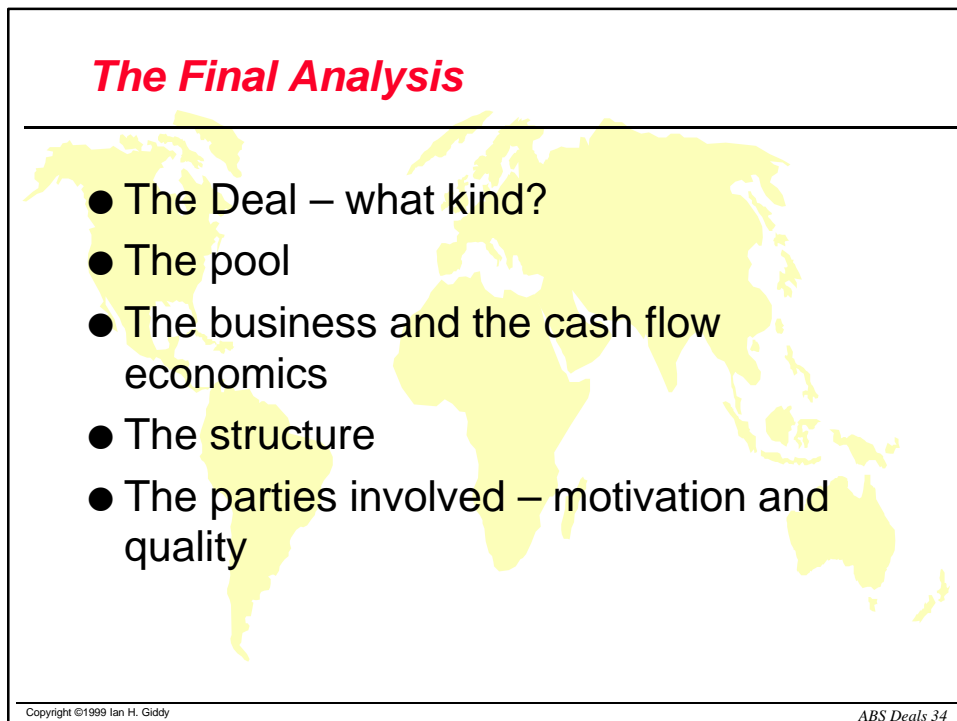
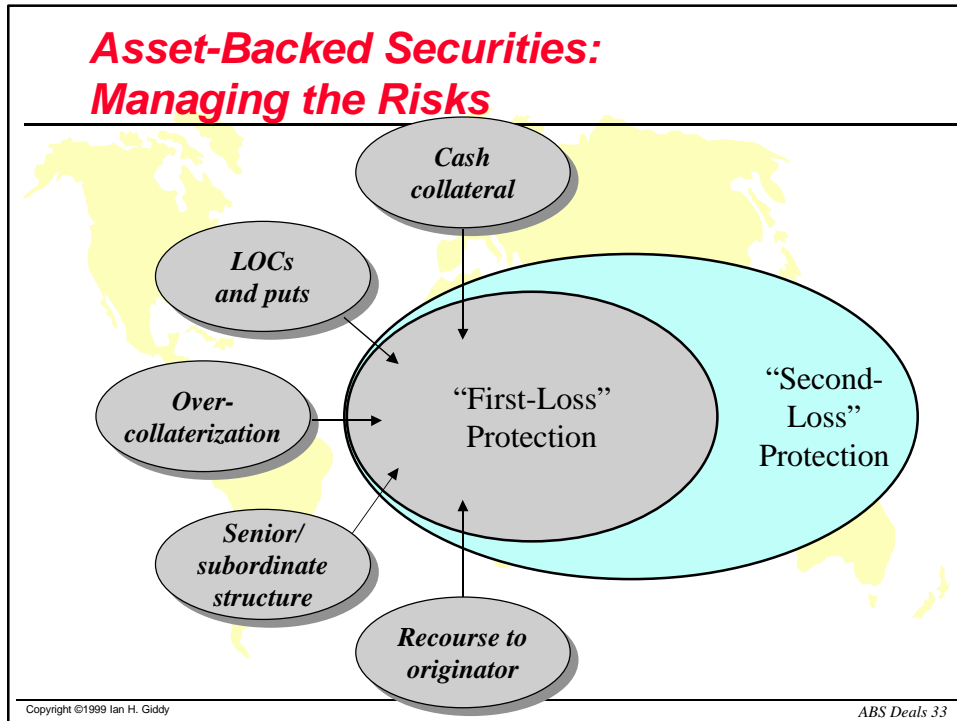


Convexity of Callables

Mortgage-backed securities and other callable bonds may have negative convexity which cushions a bond's price rise and accelerates its fall!







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