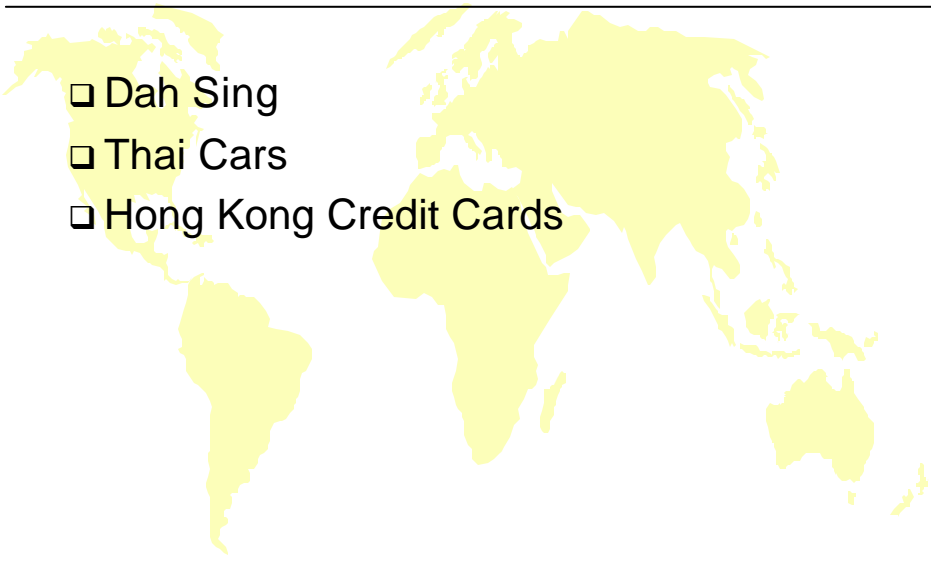


IBBM  
Financing with Asset-Backed Securities

***Asset-Backed Financing:  
Asian Applications***

Prof. Ian Giddy  
Stern School of Business  
New York University

***Selected Asian Case Studies***



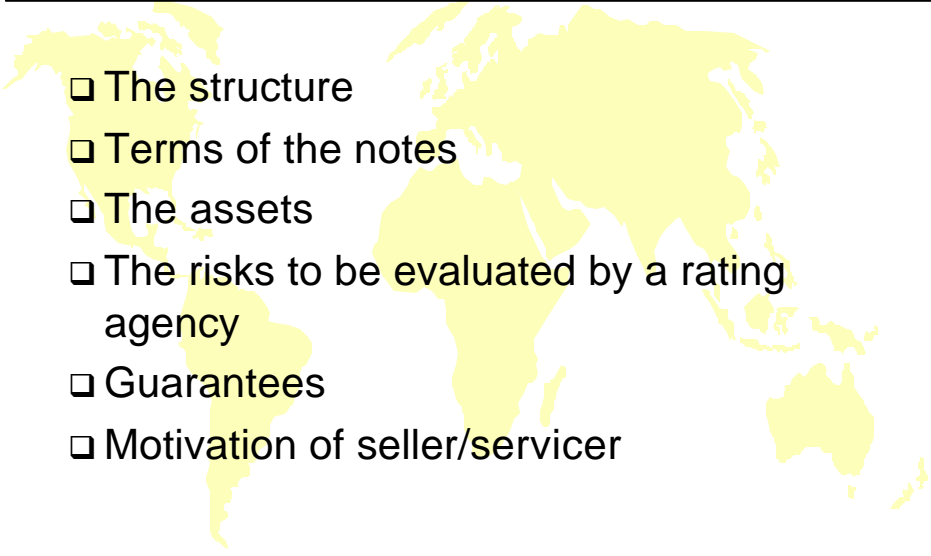
- ☐ Dah Sing
- ☐ Thai Cars
- ☐ Hong Kong Credit Cards

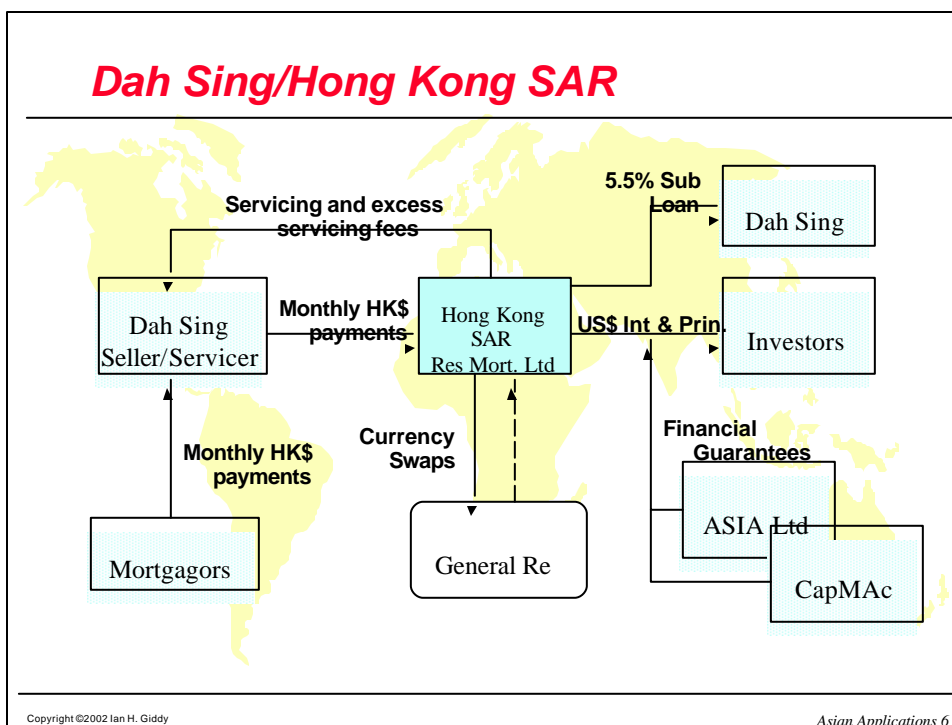
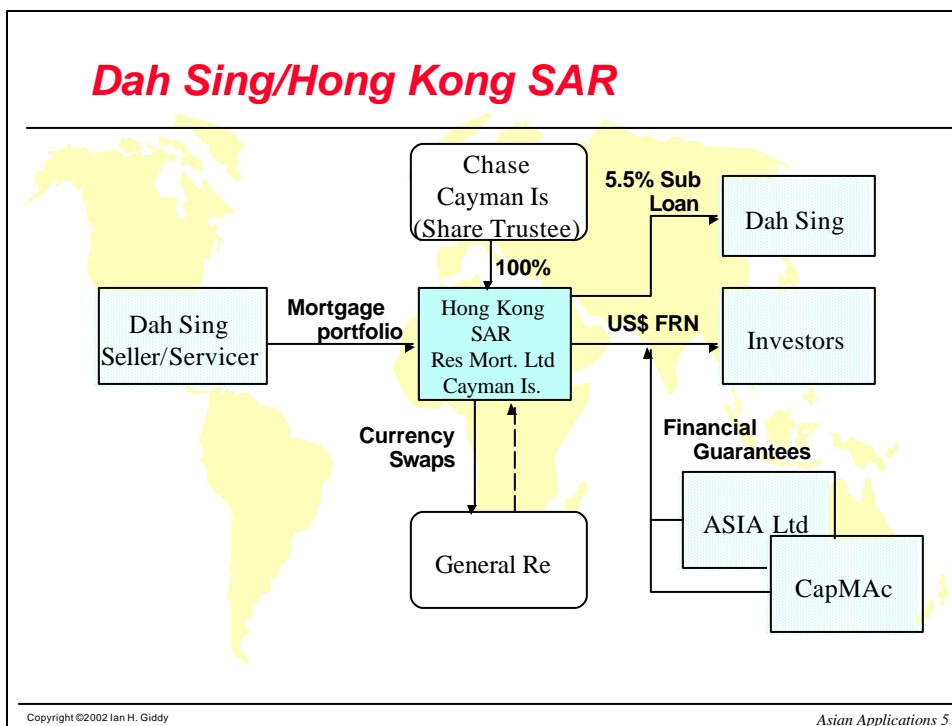
Copyright ©2002 Ian H. Giddy

*Asian Applications 2*

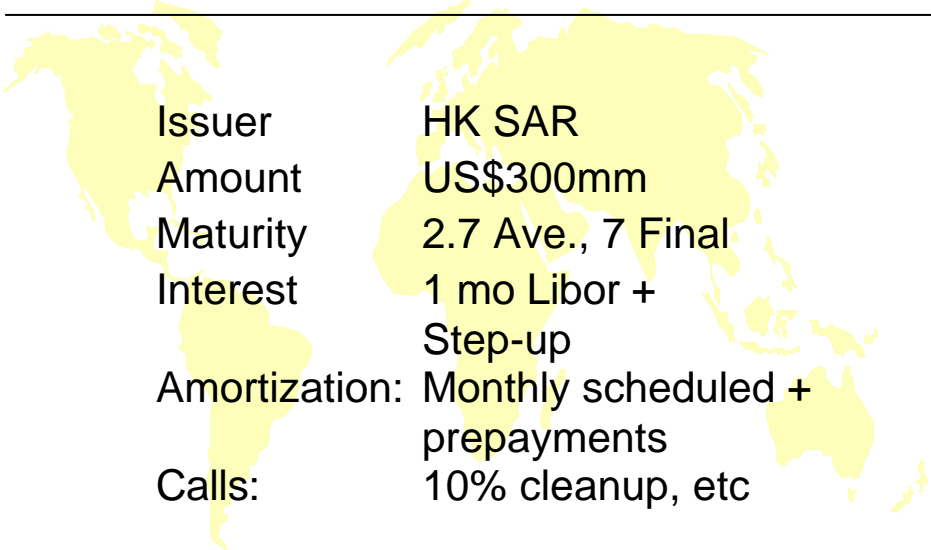
## ***Hong Kong SAR Mortgage-Backed Securities (Dah Sing)***

### ***Dah Sing Mortgage-Backed Securities***

- 
- ☐ The structure
  - ☐ Terms of the notes
  - ☐ The assets
  - ☐ The risks to be evaluated by a rating agency
  - ☐ Guarantees
  - ☐ Motivation of seller/servicer



### Key Terms

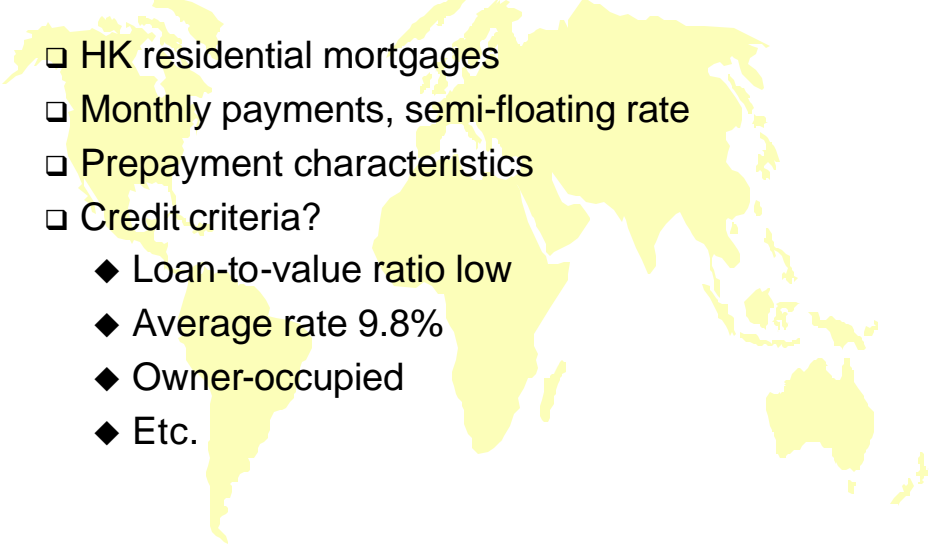


Issuer	HK SAR
Amount	US\$300mm
Maturity	2.7 Ave., 7 Final
Interest	1 mo Libor + Step-up
Amortization:	Monthly scheduled + prepayments
Calls:	10% cleanup, etc

Copyright ©2002 Ian H. Giddy

Asian Applications 7

### The Assets?

- 
- ☐ HK residential mortgages
  - ☐ Monthly payments, semi-floating rate
  - ☐ Prepayment characteristics
  - ☐ Credit criteria?
    - ◆ Loan-to-value ratio low
    - ◆ Average rate 9.8%
    - ◆ Owner-occupied
    - ◆ Etc.

Copyright ©2002 Ian H. Giddy

Asian Applications 8

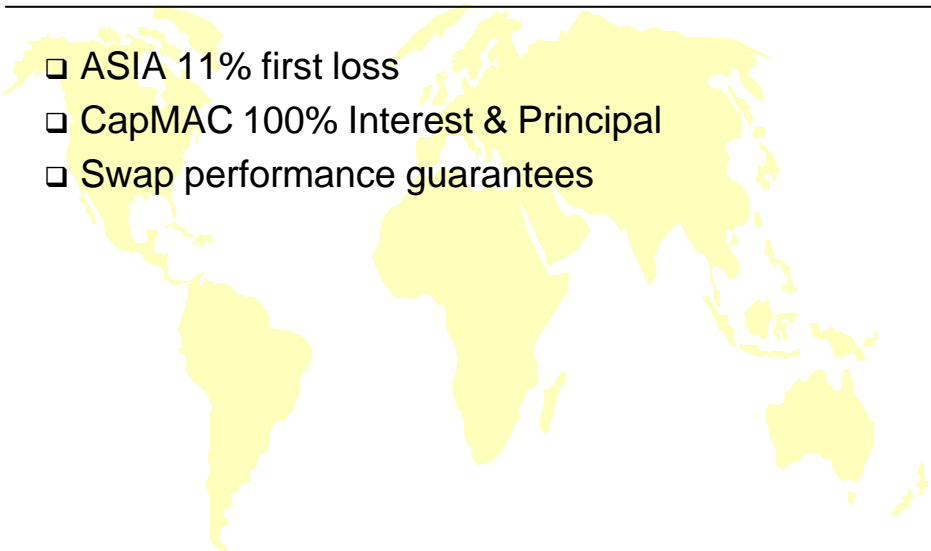
### ***The Risks?***

- 
- ☐ Credit risks
  - ☐ Liquidity risk
  - ☐ Servicer performance risk
  - ☐ Swap counterparty risk
  - ☐ Guarantor risk
  - ☐ Legal risks
  - ☐ Sovereign risk
  - ☐ Interest rate and currency risks
  - ☐ Prepayment risks

Copyright ©2002 Ian H. Giddy

*Asian Applications 9*

### ***The Guarantees?***

- 
- ☐ ASIA 11% first loss
  - ☐ CapMAC 100% Interest & Principal
  - ☐ Swap performance guarantees

Copyright ©2002 Ian H. Giddy

*Asian Applications 10*

### ***Benefits to the Seller?***

- ❑ Capital requirement reduction
- ❑ Service fees
- ❑ Excess servicing fees, which depend on keeping default losses and other costs low

Copyright ©2002 Ian H. Giddy

*Asian Applications 11*

### ***Benefits to the Seller?***

- ❑ Capital requirement reduction
- ❑ Service fees
- ❑ Excess servicing fees, which depend on keeping default losses and other costs low
  
- ❑ But...does the originator's asset quality deteriorate as a result of the asset securitization?
  - ◆ Some of best assets sold
  - ◆ Retained 5.5% of assets, subordinated
  - ◆ Excess service fees depend on defaults

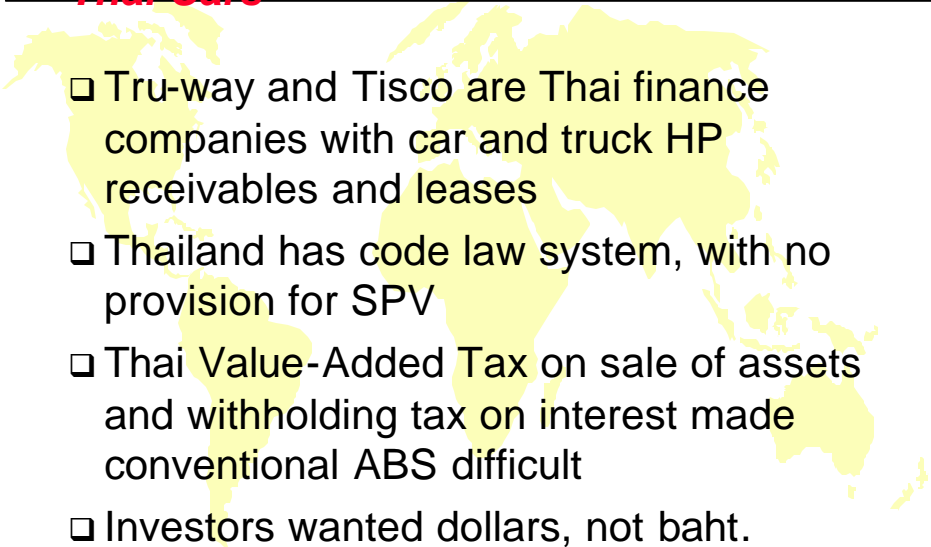
Copyright ©2002 Ian H. Giddy

*Asian Applications 12*

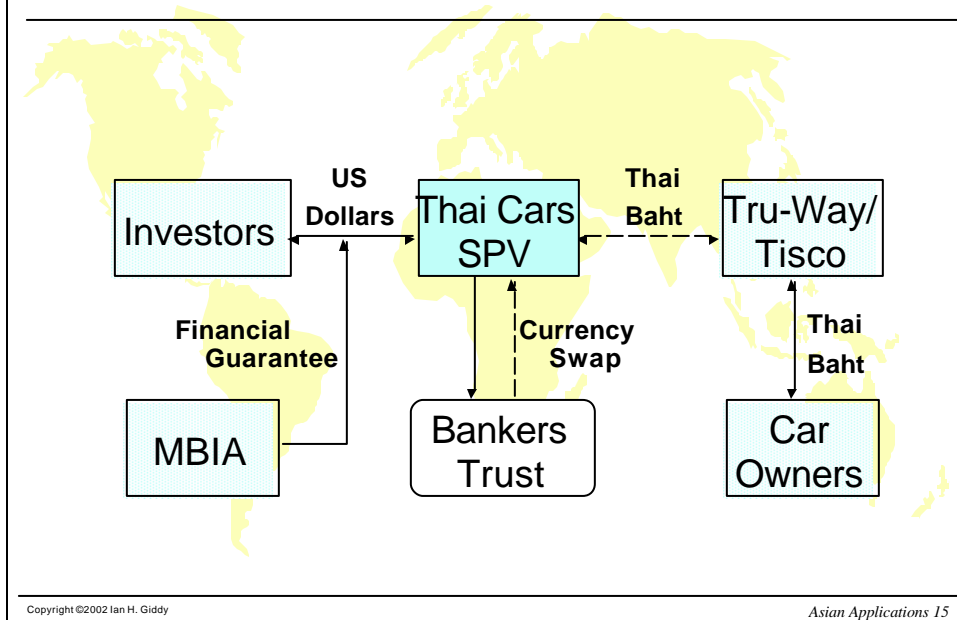


## ***Thai Cars***

### ***Auto Hire-Purchase Securitization: Thai Cars***

- 
- ❑ Tru-way and Tisco are Thai finance companies with car and truck HP receivables and leases
  - ❑ Thailand has code law system, with no provision for SPV
  - ❑ Thai Value-Added Tax on sale of assets and withholding tax on interest made conventional ABS difficult
  - ❑ Investors wanted dollars, not baht.

### Thai Cars: How it Should Be



### Thai Cars

- ❑ How was the transfer of assets and funds structured?
  - ❑ Where is the SPV, and what are its assets and liabilities?
  - ❑ Show how the swaps worked.
- Copyright ©2002 Ian H. Giddy Asian Applications 16



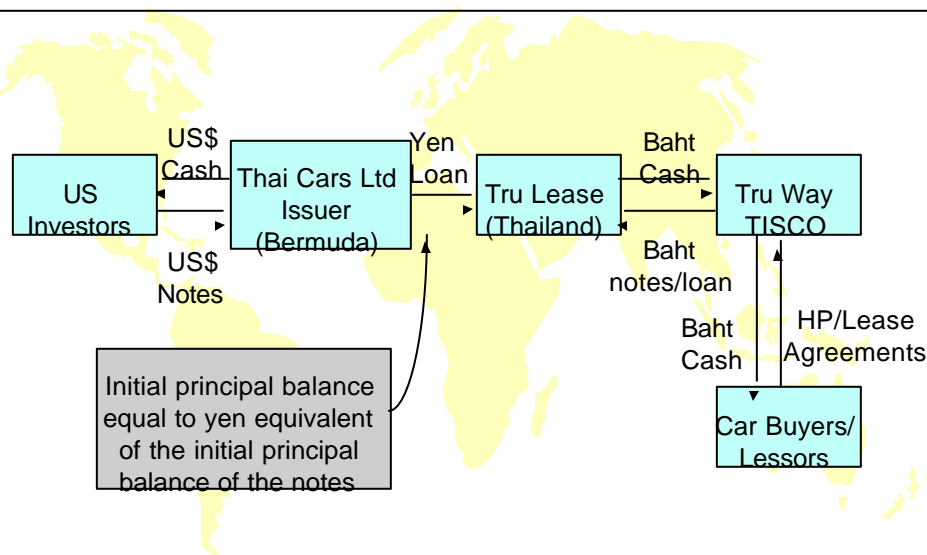
### **Thai Cars: A “Secured Loan,” Not True Securitization**

- ❑ The assets, the hire purchase loans and leases, remained in the possession of Tru Way and TISCO.
- ❑ These Thai baht assets were assigned to Tru Lease, another Thai company, which made a loan to Tru Way/Tisco
- ❑ Tru Lease sold the rights to the cash receipts to Thai Cars Limited, a special-purpose Bermuda company
- ❑ Thai Cars paid for these rights in Japanese yen, and issued floating-rate notes denominated in US dollars.

Copyright ©2002 Ian H. Giddy

Asian Applications 17

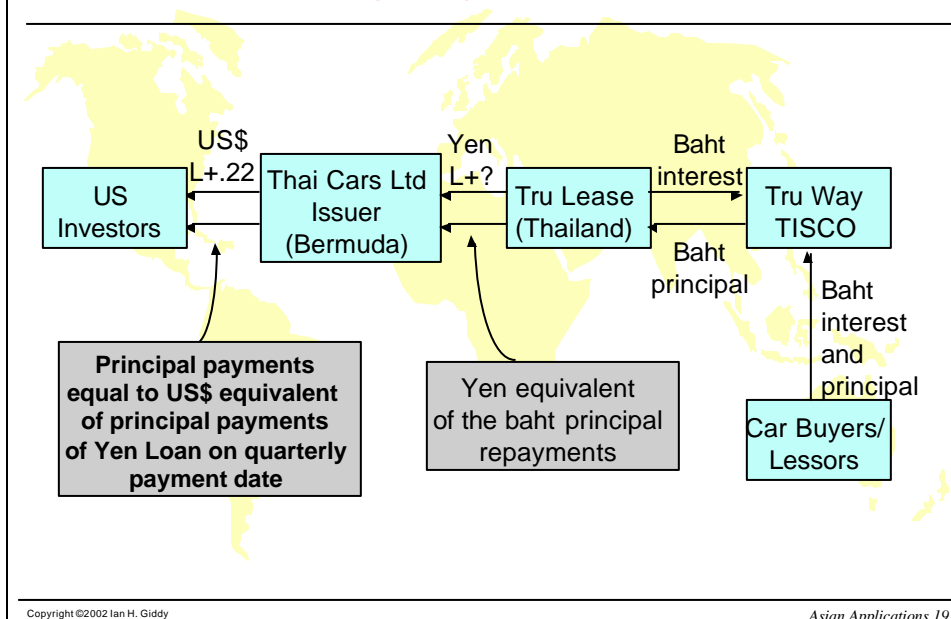
### **Thai Cars: Initial Exchanges**



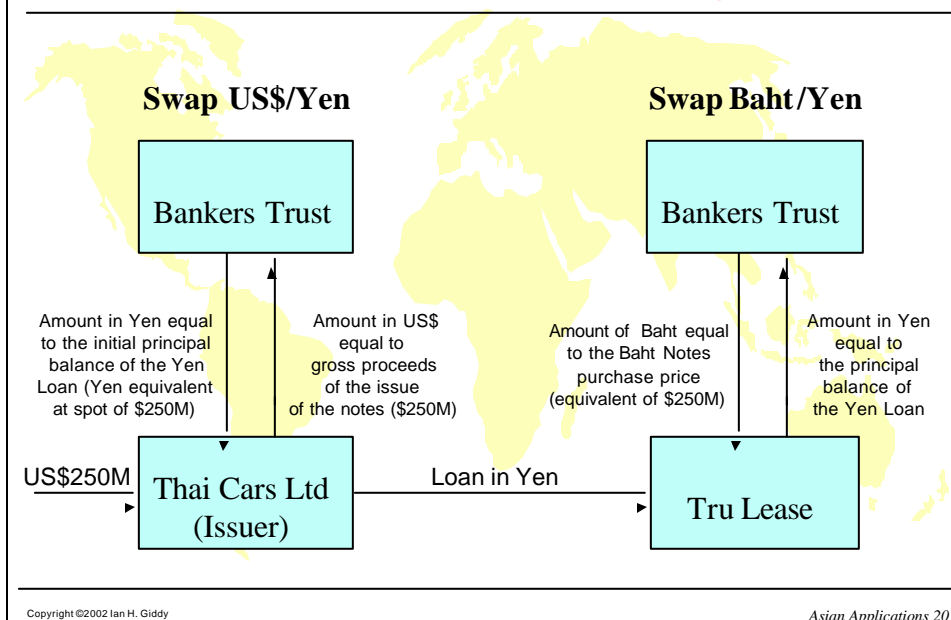
Copyright ©2002 Ian H. Giddy

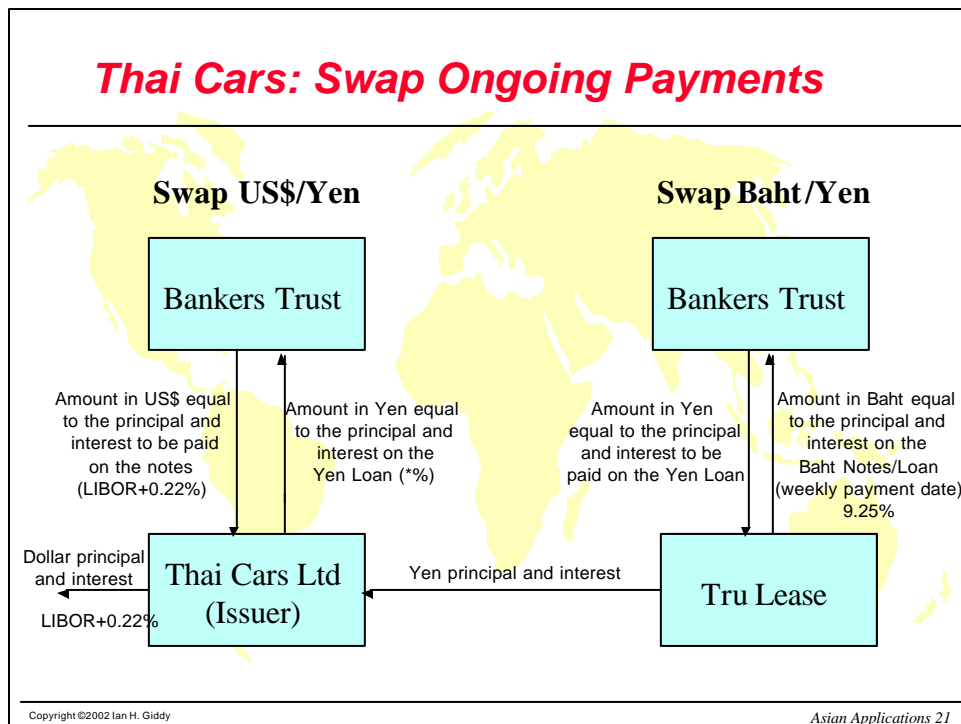
Asian Applications 18

### Thai Cars: Ongoing Flows



### Thai Cars: Swap Initial Exchanges



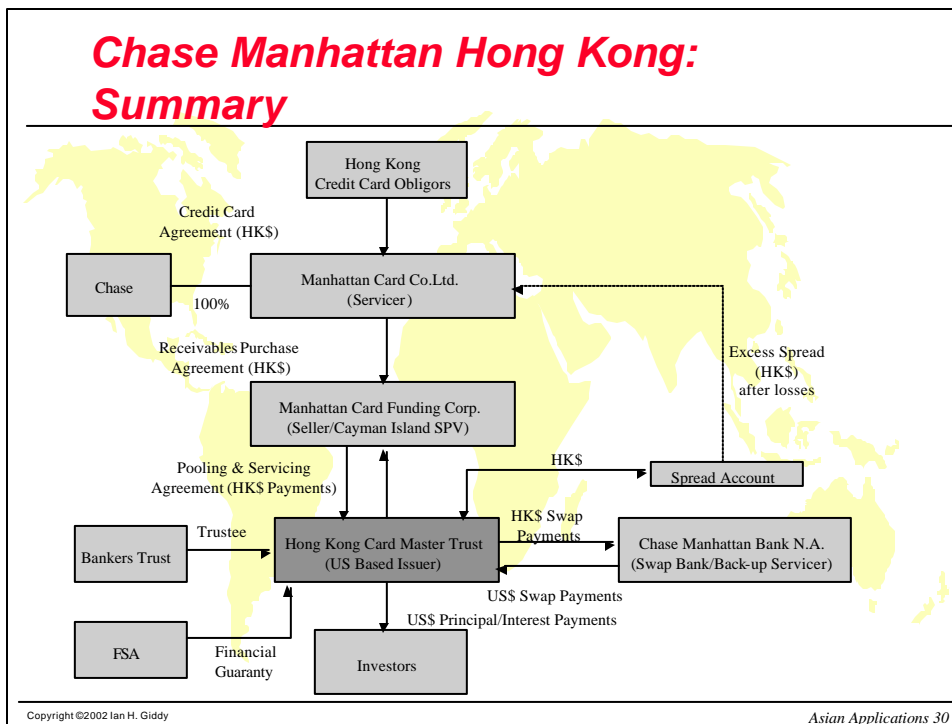


**Case Study:**  
***Hong Kong Card Master Trust***

**Case Study:**  
***Hong Kong Card Master Trust***

- ☐ What is the relationship among the parties in this deal? (Draw a diagram)
- ☐ How are investors protected? And FSA?
- ☐ How are the interest rate and currency risks managed?
- ☐ Can you quantify the costs and benefits to Chase?

## 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***

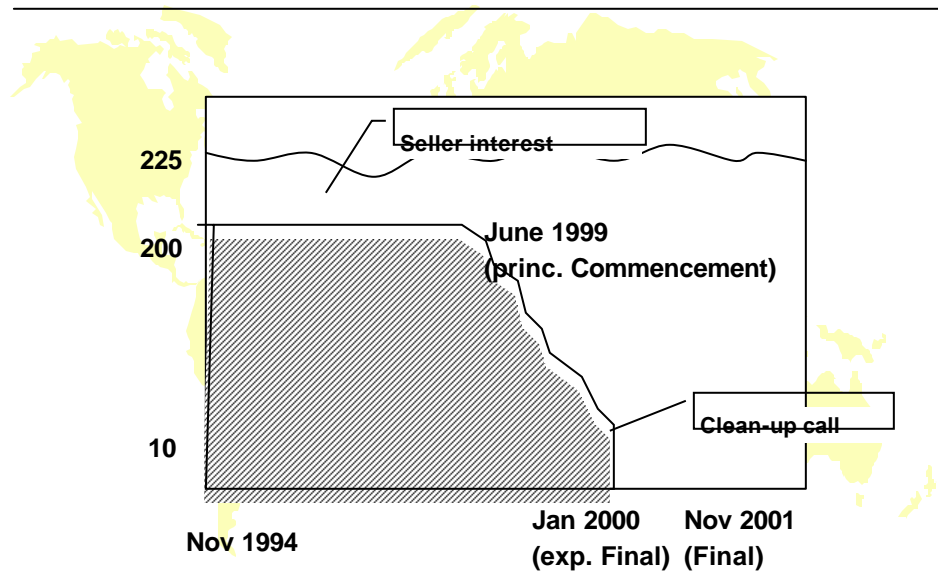
What is the credit quality of the assets?

- ❑ 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

Copyright ©2002 Ian H. Giddy

Asian Applications 32

## ***Paydown Structure***



Copyright ©2002 Ian H. Giddy

Asian Applications 33

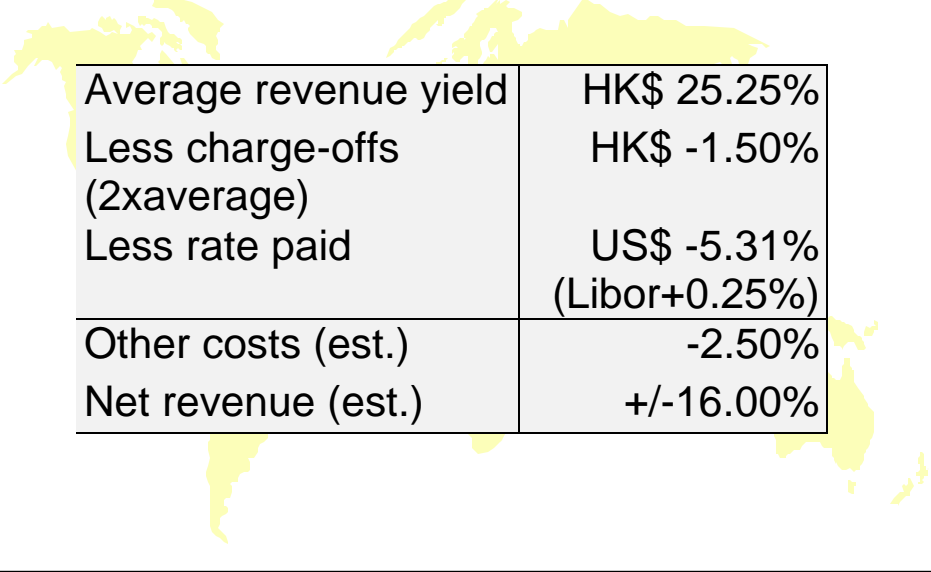
### **Other Risks**

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

Copyright ©2002 Ian H. Giddy

Asian Applications 34

### **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%

Copyright ©2002 Ian H. Giddy

Asian Applications 35

**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>