The ABCP Market in the Third Quarter of 1998: A Whole New Ball Game

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OVERVIEW

As the ABCP market drifted out of a drowsy summer into the raucous autumn of 1998, it became more and more apparent that the ABCP market was transforming itself. Two trends in ABCP hastened the transformation. First, there has been a sea-change in the types of assets backing ABCP. While ABCP issued just a few years ago was backed primarily by trade receivables and other short-term assets, ABCP issued today is increasingly backed by term receivables and publicly-rated securities. This change in the type of assets backing ABCP is making significant changes in the overall credit quality of ABCP programs and the risks inherent in these programs.

Second, new players are entering the ABCP market and some old players—principally, the monoline insurers—are enlarging their roles in the market. The changing players in the ABCP market have created new complexities in the risk analysis of programs that investors must now sort out. These trends in assets and players are changing the rules of the ABCP market. It's a whole new ball game.

Chart 1
ABCP Market: Average Quarterly Outstandings
(in $Billions)

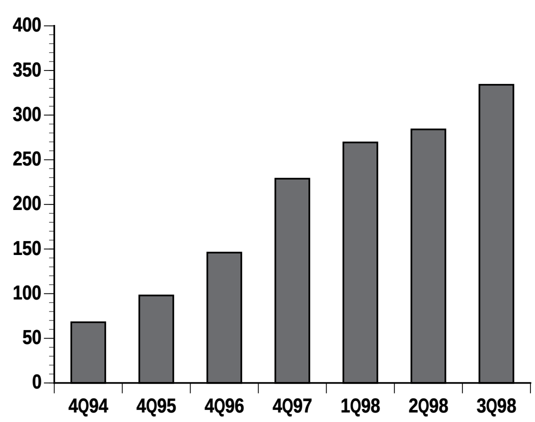


Chart 2
Types of Programs Established
In the Third & Fourth Quarter of 1998
(By Number of Programs)

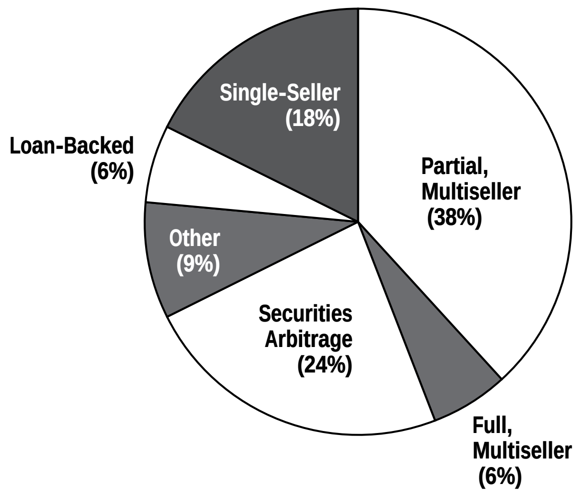
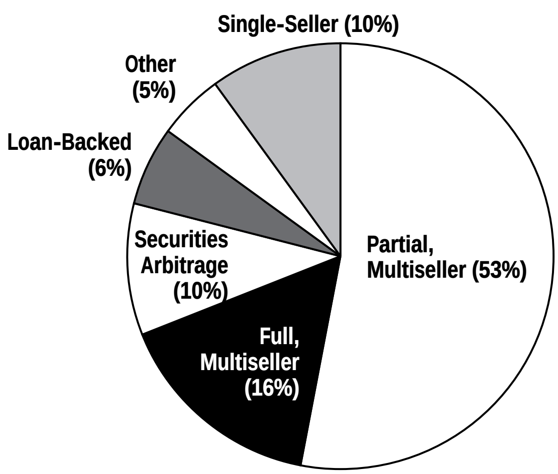


Chart 3
Total ABCP Market by Type of Program
Third Quarter 1998
(Average ABCP Outstanding)



BATTER UP: THE STATE OF THE ABCP MARKET

It is probably safe to say that August and September of 1998 will be remembered by participants in the capital markets for some time. The widespread liquidity crisis following Russia's default on its ruble-denominated debt substantially slowed—if not stopped—the bulls in both the equity and debt markets heading into the fourth quarter. No one seemed immune from the September flu. Even high quality debt fell victim to widening spreads.

The ABCP market was, however, luckier than many other markets. While the cost of issuing ABCP increased for most ABCP programs during September, October and November, the ABCP market nevertheless remained liquid and continued its robust growth. ABCP outstanding during the third quarter of 1998 averaged $334 billion, a very healthy 18% increase over the second quarter (see *Chart 1*). While figures for the fourth quarter are not yet in, the amount of ABCP outstanding appears to have continued to grow through the end of 1998.

The turmoil in other financial markets seems to have actually benefited the ABCP market. A significant portion of the growth in the ABCP market is reflected in the substantial increases in the size of existing ABCP programs. Only two years ago, the largest program in the market had average ABCP outstanding of $6.6 billion and only three programs had average ABCP outstanding of more than $5 billion. At the end of the third quarter of 1998, the average outstanding ABCP for the largest program in the market is more than $10 billion and the formerly exclusive "$5 billion" club now includes more than 20 ABCP programs as members. Much of this growth in existing programs has been fueled by the diversion to the ABCP market of deals originally intended for the term ABS market.

New ABCP programs have also continued to receive a warm welcome from the market. During the second half of 1998, Moody's assigned ratings to 17 new U.S. ABCP programs, 4 new Australian-based ABCP programs, 2 new Japanese Samurai CP programs and 5 new European CP programs. Again, growth in new ABCP programs shows no signs of abating in the fourth quarter of 1998. Of the 28 new programs established during the second half of 1998, 13 were established during the fourth quarter.

Many of the newly established programs, such as Greyhawk and Moriarty, are set up to take advantage of securities arbitrage opportunities. Others, such as Transamerica's TAFCO, provide innovative financing alternatives for their sponsors. However, approximately one-third of the newly established ABCP programs are partially supported, multiseller ABCP programs, the traditional mainstay of the ABCP market (see *Chart 2*). As *Charts 3* and *4* show, the ABCP market continues to be dominated by the partially supported, multiseller ABCP program.

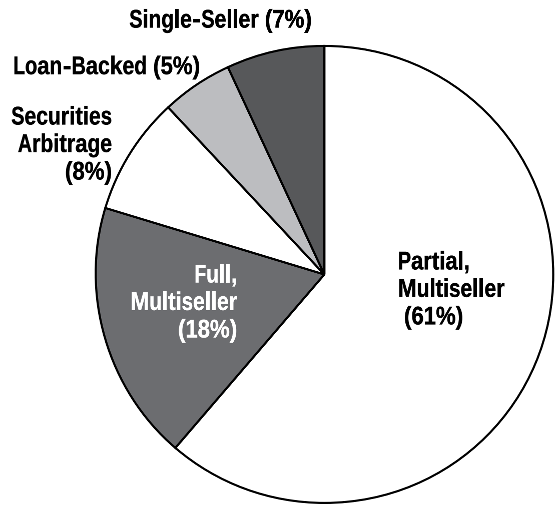
Although the ABCP market managed to sidestep the liquidity problems that plagued other asset-backed securities markets, it did not go untouched by the turmoil. During October and November 1998, many ABCP programs found their cost of funds increasing as investors became reluctant to accept sophisticated types of asset risk or analyze complex program structures without getting paid for it.

In a sense, the autumn financial turmoil has served as a useful wake-up call for both ABCP investors and issuers. The assets backing ABCP programs, program structures and risks involved are very different from what they were just two or three years ago. In many ways, the ABCP market at the end of 1998 is a whole new ball game.

Chart 4

36 Largest ABCP Programs by Program Type

(Average ABCP Outstanding 3Q98)



ABS ISSUERS STEP TO THE PLATE

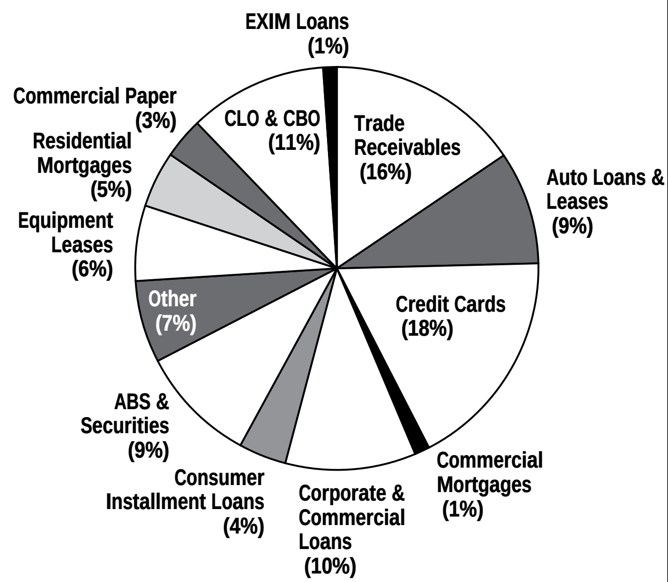
The presence of term assets—assets that will take one year or more to liquidate—in the investment portfolios of ABCP programs is nothing new. However, the amount of term assets backing ABCP programs as a proportion of the total investment portfolio is new. Term assets appear to have overtaken trade receivables as the predominate investment of many major ABCP programs. This shift in the types of assets backing ABCP is both good news and bad news for investors.

Chart 5 provides a glimpse into the mix of assets backing the ABCP market based upon the investment portfolios of the 50 largest ABCP programs in terms of ABCP outstanding. As *Chart 5* shows,[1] the ABCP of three or four years ago, backed primarily by trade receivables, has given way to ABCP backed by a kaleidoscopic asset mix. Approximately one-half of all assets backing the largest ABCP programs are term assets. Many of these assets are originated by the same companies who use the term ABS market as a primary means of raising capital.

Chart 5

Breakdown of the 50 Largest Programs by Asset Type

(Total: $319 billion)



The stream of term ABS issuers using ABCP as a financing source turned into a flood at the end of 1998. During the second half of 1998, more than 12 asset interests of $500 million or more were purchased by ABCP programs. These deals involved asset types such as credit card receivables, prime auto loans and corporate loans, that have traditionally dominated the term ABS market. While some ABS issuers may perceive ABCP as a temporary shelter from the term market rain-out, others perceive ABCP as a more permanent financing tool. Avis and World Omni use both the term ABS and the ABCP market as financing sources. In 1998, they were joined by Cendant which established its first ABCP program, Bishop's Gate, as an adjunct to its MBS financing.

1 Chart 5 is based upon the investment portfolios of the 50 largest ABCP programs. Among these large programs are fully supported programs, partially supported programs and programs that are a combination of both. There are also several specialized programs, such as CLO ABCP programs, securities arbitrage programs, loan-backed programs and single-seller programs. This chart is based on a broader survey of programs than has previously appeared in Moody's publication.

There are both benefits and drawbacks to investors from ABCP programs' growing investment in term assets. On the positive side, the term asset deals being purchased by many ABCP programs share the collateral and structural features of high credit quality ABS transactions. In most instances, the asset pools are well diversified by obligor and geographic region. The assets may also be backed by valuable collateral, such as residential property or automobiles, that can provide a source of protection against defaults. Finally, the ABCP deals often borrow the structural protections against loss, such as rapid amortization, found in the high credit quality term ABS deals. All of these factors provide additional protection to investors. As a result, the growing presence of term assets in ABCP investment portfolios may actually improve the overall credit quality of some ABCP programs.

While the overall credit quality of the term assets in ABCP programs is very good, these assets can create some risks for ABCP investors, as well. The term asset deals that are being securitized in ABCP as an alternative to ABS tend to be very large. Of the nine $500 million-plus assets purchased by ABCP programs in October, November and December of 1998, four involved investments of more than $1 billion. CIBC's SPARC topped all ABCP programs during 1998 by purchasing the $4.75 billion senior interest of a single CLO. Several major partially supported, multiseller ABCP programs including GE's Edison, Barclays' Sheffield, Morgan's Delaware Funding and UBS' Monte Rosa, have one or more $1 billion dollar investments in a single pool of assets.

As a result of these large investments, many ABCP programs have become bigger but not necessarily better diversified. This "lumpiness" in an investment portfolio can make an ABCP program more vulnerable to financial weakness in a single large asset originator or servicer.

ABCP PROGRAMS SWING FOR THE FENCES: ABCP PROGRAMS AS ABS INVESTORS

In addition to acting as an alternative to the term ABS market, ABCP programs have become leading investors in publicly-rated ABS. While the high credit quality of most ABS can be a benefit to an ABCP program, ABS investments may also increase a program's exposure to other risks, such as interest rate risk.

A number of large, multiseller ABCP programs, such as Société Générale's Barton, FNBC's PREFCO, Falcon and ISC, and Bank of America's RCC have long had the ability to purchase highly-rated ABS. In 1998, these programs were joined by a number of other ABCP programs. State Street's Clipper, a program that has traditionally focused on the trade receivables of middle market companies, amended its program documentation to make it easier to purchase highly-rated ABS. Since the amendment, Clipper has made three purchases of publicly-rated ABS.

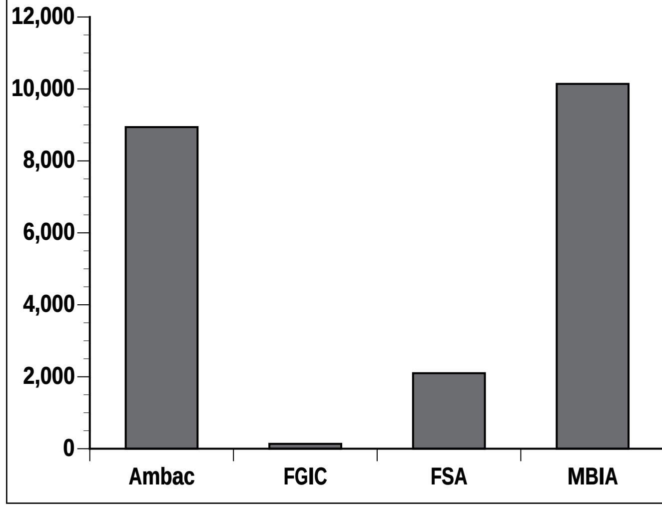
Nesbitt Burns' Fairway and Morgan's Asset Portfolio Funding (AP Funding) are two other newcomers that have jumped into the ABS market. While Fairway and AP Funding are nominally multiseller ABCP programs, both have focused on ABS investments. By September 30, 1998, Fairway's and AP Funding's investment portfolios had grown to $1.7 billion and $1.14 billion, respectively.

Along side the large multiseller ABCP programs, a spate of new programs have been established to invest exclusively or primarily in ABS. During 1998, fourteen programs were established for the purposes of investing in securities. The history to date of three of these programs is notable. Westdeutsche Landesbank's Greyhawk, Bayerische Landesbank's Giro and Abbey National's Moriarty were all established during the second half of 1998 to invest primarily in asset-backed and mortgage-backed securities. In less than six months, Greyhawk's investment portfolio was nearly $5 billion while Giro's and Moriarty's investments totaled more than $1 billion each. More arbitrage programs in the mold of Giro, Moriarty and Greyhawk are expected in early 1999.

ABS Investments are not Riskless

While most of the ABCP programs investing in ABS have stuck to the highly-rated senior tranches of ABS deals, these investments are not without risk. For the most part, the yield on highly-rated senior ABS tranches is quite low. As a result, most ABCP programs realize razor thin profits on ABS investments. These razor thin profits have come under increasing pressure as ABCP discount has widened. Without other structural protections, then, an ABCP program investing in ABS could find itself "striking out" (program cost exceeding yield on assets).

Chart 6
Monoline Insurers' Shares of Individually Wrapped Deals
As of September 30, 1998
(Total: $21.3 billion)
(in $ Millions)



A number of the large, multiseller ABCP programs can tolerate the interest rate risk associated with ABS purchases because they have substantial program-level credit support to absorb interest rate costs. However, a significant number of the newer ABCP programs have little or no program credit support to absorb interest rate risk. These programs deal with interest rate risk in varying ways. For example, AP Funding's program-level credit support can not be drawn to fund interest rate mismatches. Instead, AP Funding relies on a cost-of-funds swap with Morgan to protect it from interest rate risk. Greyhawk and Giro have entered into hedging arrangements with their sponsors that effectively insulate them from interest rate risk.

MONOLINE INSURERS TAKE THE FIELD

Recent developments are expanding monoline insurers' opportunities in the ABCP market. These expanding opportunities have some interesting—and unexpected—implications for investors.

Monoline Insurers Quietly Take on a Large Role in ABCP

By the third quarter of 1998, monoline insurers were quietly playing a large role as credit support providers to the ABCP market. At September 30, 1998, the four major Aaa-rated monoline insurers—Ambac Assurance Corp. (Ambac), MBIA Insurance Corp. (MBIA), Financial Guaranty Insurance Corp. (FGIC), and Financial Security Assurance (FSA)—guaranteed individual ABCP deals with total purchase limits of approximately $21.3 billion. *Chart 6* illustrates each major insurer's share of individually insured ABCP deals at the end of the third quarter of 1998.

In addition to individually insured deals, many ABCP programs have made significant investments in publicly-rated securities that are insured by the "Big Four" monoline insurers. A good example of this is the securities arbitrage ABCP program, Greyhawk Funding. Approximately 55% of Greyhawk's $3 billion in assets consisted of monoline-insured securities as of September 30, 1998. Other securities arbitrage programs specializing in highly-rated assets, such as Giro and Abbey National's Moriarty, also have significant exposure to monoline insurers.

Monoline insurers also provide program-level credit enhancement to a number of partially supported ABCP programs including ASCC, CAFCO, Ciesco and PAR Capital. Typically, surety bonds used as program-level credit support are sized as a percentage of the program's authorized amount or of program ABCP outstanding. The program surety bond is in a second loss position. That is, the surety bond is itself protected from defaults on the underlying assets by pool-specific credit enhancement acting as the primary shield against losses.

Changing Circumstances Breed Opportunity for the Monolines . . .

The expansion of the ABCP market and the introduction of the new investment diversification requirements of Rule 2a-7 have resulted in even more opportunities for the monoline insurers. The Rule 2a-7 diversification requirements have made it increasingly difficult for some programs to own some very large single assets without disclosing the assets to ABCP investors. At least two ABCP programs, UBS' Monte Rosa and Barclays' Sheffield, have sought to solve this disclosure problem by having all or part of the asset insured and simply disclosing the name of the insurer.

The sheer size of many ABCP programs is also becoming problematical to some program sponsors. In most instances, program-level support is provided solely by the program sponsor through a letter of credit, cash collateral account, or loan commitment. As ABCP programs top $10 billion in assets, the sponsors' credit support commitments have gone into extra innings. Typically, ABCP programs with $10 billion in assets have between $600 million and $1 billion in program-level credit enhancement. As a consequence, some sponsors are now seeking to share the credit support burden with other parties. Monoline insurers are a logical choice. In December of 1998, two large multiseller ABCP programs, Société Générale's Barton and Barclays' Sheffield, restructured a portion of the program-level credit support as a surety bond from Aaa-rated Ambac. At present, Ambac's program-level commitments to Barton and Sheffield are $450 million and $400 million, respectively.

. . . With Surprising Consequences

The most obvious consequence of these developments is that ABCP investors' direct and indirect exposure to the credit risk of monoline insurers is increasing and is likely to continue to do so. Although diversification in the asset types backing ABCP programs (see Chart 5) may be increasing, this is not necessarily an indication that ABCP programs' risks are similarly being diversified. With the increase in the use of monoline insurance as credit support, more and more of the credit risk in some ABCP programs is becoming risk to the credit quality of the monoline insurers. This may result in a correlation of the ratings of the ABCP program with those of one or more monoline insurers.

Other consequences of monoline insurers' expanding role in the ABCP market are more subtle. In many ABCP programs, program-level credit support provides an additional layer of protection against program bankruptcy as well as protection against credit risk. In these programs, program-level credit support can be used to pay incidental costs and expenses that could cause an insolvency. The cushion program-level support provides against insolvency allows the program more operational flexibility.

Programs that rely solely on a surety bond, by contrast, may not have the same operational flexibility. Typically, surety bonds are available only to fund actual credit losses, and not to fund incidental program expenses such as hedging costs and mismatches in the timing of income and expense. In order to avoid the potential problems associated with the limited availability of surety funds, a number of ABCP programs have put into place other structural protections as a cushion against insolvency. Morgan's AP Funding has, for example, supplemented its program-level Ambac surety bond with a swing-line credit facility from Morgan Guaranty. The swing-line credit facility can be used to pay unanticipated program expenses.

Another consequence is the direct result of the cost of monoline credit support. Increasingly, programs that are using monoline insurance as program credit support are excluding some highly-rated assets from the benefit of this support. While a number of programs no longer count highly-rated assets—assets publicly rated **Aa2** or better by Moody's—from the calculation of program credit support, most programs may still draw on program support to fund losses on highly-rated assets. However, a small but increasing number of ABCP programs, including Citibank's CAFCO and CRC and CIBC's SPARC, are unable to draw on program-level credit support to fund losses on highly-rated assets. In these programs, a default on a highly-rated asset would directly result in a loss to ABCP investors.

The fact that program-level credit enhancement is not available to fund losses on highly-rated assets is a structural weakness in an ABCP program. Currently, the credit quality of programs with this uncommon structural feature is consistent with a **Prime-1** rating for two principal reasons. First, all of the programs purchase assets of high investment-grade credit quality. Therefore, the probability of a loss on these assets is extremely small. Second, the number of these sorts of “at risk” assets held by the programs is very small. This is a positive feature as the chances of any one asset suffering a loss increases with the number of these types of assets held by the program.

A Bumper Crop of Rookies

The players in the ABCP market are changing. As the number of programs expand, new entities are entering the market as program sponsors and administrators. Since sponsor and administrator backgrounds and levels of expertise now vary more than ever before, investors’ analyses of ABCP sponsors’ and administrators’ role in managing program risk is becoming increasingly complex.

The changing face of ABCP is evident from a comparison of the list of the current top ten ABCP program administrators (*Table 1*) with the list from just two years ago (*Table 2*). Since 1996, GMAC, Industrial Bank of Japan, Credit Suisse First Boston and NationsBank have all fallen out of the top ten to be replaced by ABN AMRO, Société Générale, Deutsche Bank and Liberty Hampshire.

Even more interesting is the loss of market share by three of the most well-known and well-established players in ABCP: Citibank, First National Bank of Chicago (FNBC) and Canadian Imperial Bank of Commerce (CIBC). Just two years ago, in the third quarter of 1996, programs administered by Citibank, FNBC and CIBC accounted for 35% of the ABCP outstanding. By the third quarter of 1998, Citibank, FNBC and CIBC sponsored ABCP programs accounted for only 24% of the ABCP outstanding.

The loss of market share by the big three ABCP program administrators is just one indicator of the growing variety of entities entering the ABCP market. During 1998, 18 ABCP programs were established by entities who had never previously sponsored or administered an ABCP program before. Traditionally, most ABCP sponsors are banks or bank affiliates. While the new crop of program sponsors include a number of banks, a surprising number of new sponsors (10) are either companies or investment management firms. For example, three large insurance companies, Sumitomo Marine & Fire, Swiss Re and Transamerica, all took the plunge as ABCP program sponsors in 1998.

By far the most interesting trend is that of investment banking or management firms sponsoring ABCP programs.

In 1998, IBEX Capital, an investment boutique specializing in securitization, established its first ABCP program, AriesOne Metafolio. AriesOne purchased its first asset, a $440 million interest in a CLO, in August 1998. In addition to IBEX, the securitization boutique, Liberty Hampshire and the investment management firms, Alliance Capital and Trust Company of the West, and the investment banking boutique, Llama Company, LP, sponsor ABCP programs.

The presence of an investment boutique program sponsor can complicate the evaluation of the risks inherent in an ABCP program. Traditionally, program sponsors have also acted as program administrators. Because the program sponsors were well-capitalized banks or companies, they had resources sufficient to put in place systems to ensure that ABCP investors were paid in full and on time and to repay investors in the event of an error. The analysis was relatively simple as it reduced to an evaluation of a single entity’s capabilities.

Table 1
Ten Largest ABCP Program Administrators
(3Q98 Average ABCP Outstanding)

Administrator	$Millions	Market Share (%)
Citibank	48,577	14.5%
Union Bank of Switzerland	17,737	5.3%
First National Bank of Chicago	17,298	5.2%
ABN AMRO Bank N.V.	17,155	5.1%
Societe Generale	15,939	4.8%
Deutsche Bank	12,558	3.8%
Chase Manhattan Bank	12,505	3.7%
Canadian Imperial Bank of Commerce	11,708	3.5%
Liberty Hampshire Company	11,160	3.3%
Gordian Knot	10,567	3.2%
All Other	159,001	47.6%
Total	**334,205**	**100.0%**

Table 2
Ten Largest ABCP Program Administrators
(3Q96 Average ABCP Outstanding)

Administrator	$Millions	Market Share(%)
Citibank	30,784	24.0%
First National Bank of Chicago	8,131	6.0%
Canadian Imperial Bank of Commerce	6,651	5.0%
GMAC	6,636	5.0%
Bank of Tokyo-Mitsubishi Ltd.	5,825	5.0%
Union Bank of Switzerland	5,208	4.0%
Gordian Knot Ltd.	5,147	4.0%
Industrial Bank of Japan	4,618	4.0%
Credit Suisse First Boston	4,453	3.0%
NationsBank	4,443	3.0%
All Other	47,536	37.0%
Total	**129,432**	**100.0%**

The newer boutique ABCP sponsors, Liberty Hampshire and IBEX, are smaller than traditional ABCP sponsors by several orders of magnitude. Small sponsors often lack the resources to administer the program internally. As a consequence, program administration duties are split up among two or more entities. For the ABCP investor this means that the role of each entity providing administrative services along with its qualifications to do so and, most importantly, the servicer provider's commitment, legal and otherwise, to the program must be examined separately, significantly complicating the program risk analysis.

Bottom of the Ninth, Two Outs (a.k.a., the "Conclusion")

The ancient Chinese saying, "may you live in interesting times", has not proven to be a curse for the ABCP market. In many respects, the vibrancy of the ABCP market, even during tough times, reflects two unique benefits that ABCP presents to investors. The structure and flexibility of ABCP allows the investor the opportunity to invest in a diversified portfolio of asset-backed investments safely. While the growth and diversification of the ABCP market increase investment complexity, they also present new opportunities for the savvy investor.

Press Coverage of Newly Established ABCP Programs

The attached Appendix contains press releases for recently established **Prime-1**-rated ABCP programs (press releases are in alphabetical order by name of the program). More detailed research reports about each program will be forthcoming.

Moody's disseminates rating actions taken by the ABCP group weekly. Each Thursday, Moody's issues a press release which summarizes the various rating actions taken on ABCP programs during the previous week. In addition to the weekly press release, Moody's issues separate press releases on rating actions taken on new ABCP programs and rating actions on existing programs following major events, such as program restructurings.

APPENDIX

MOODY'S ASSIGNS PRIME-1 RATING TO BANCO SANTANDER ABCP PROGRAM

Authorized Issuance Amount: US$3.0 Billion

Moody's has assigned a credit rating of **Prime-1** to the first ABCP program established in Spain, Cantabric Financing Plc. The Cantabric program is sponsored by Banco Santander S.A. (**Aa3**/**Prime-1**/**B+**).

Fondo de Titulización de Activos Santander 1 (a Spanish securitization fund represented by the Gestora Santander de Titulización SGFT) will issue **Prime-1**-rated ABCP denominated in Ptas or in Euros. The ABCP will be mainly acquired by Cantabric (the Issuer), a special purpose company incorporated in Ireland. Cantabric will in turn issue Euro commercial paper (Euro ABCP) with exactly the same equivalent face value, issue and maturity dates as the ABCP it simultaneously acquires from the Spanish securitization fund.

The **Prime-1** rating of the Euro ABCP to be issued by Cantabric is based on (1) the structural protections built into the program including the bankruptcy-remoteness of Cantabric and the Spanish SPV; (2) the credit enhancement and liquidity facility provided by Banco Santander to the credit quality paper acquired by Cantabric; and (3) the ability of Banco Santander to manage the program.

MOODY'S ASSIGNS PRIME-1 RATING TO CERTAIN FUNDING ABCP PROGRAM

Authorized Issuance Amount: US$5 billion.

Moody's Investors Service has today assigned **Prime-1** ratings to Certain Funding Limited's US, Euro and French ABCP program, managed by Société Générale.

Assigning the **Prime-1** rating reflects :

(1) The credit quality and the characteristics of the securities held by Certain Funding Limited;

(2) The credit enhancement facility provided by Société Générale (**Aa3**/**Prime-1**/**B**) whose size is adjusted dynamically (Currently US$ 100 million or 41% of the CP outstanding);

(3) The **Aa3** and **Prime-1** rating of Société Générale which acts as liquidity provider, swap counterparty, manager, operating bank and custodian;

(4) The integrity of the structure.

PROGRAM OVERVIEW

Certain Funding is a partially supported program launched in January 1995 that issues US ABCP, Euro Commercial Paper and Billets de Trésorerie (French ABCP) to purchase securities, thereby taking advantage of the arbitrage between funding in the ABCP market and the yield on the securities. Although Certain Funding Limited can sell some securities anytime, it has not been designed as a short term arbitrage vehicle. As a result, it will hold most of its securities until their redemption.

Currently, Certain Funding Limited holds two pools of securities:

- a large pool consisting of Asset or Mortgage Backed Securities and
- a smaller one consisting of bonds issued by corporates, financial institutions or sovereign entities.

Certain Funding Limited is not authorized to purchase securities rated below **A3** or **Prime-1**. Moody's will monitor the characteristics and the credit quality of the portfolio of securities and will review each security purchase or sale.

LIQUIDITY FACILITY

The liquidity facility is available to compensate any liquidity shortfall. It is available in particular to redeem ABCP with a same day notice if a rollover cannot be made. The funding basis of the liquidity facility is limited to non defaulted assets.

CREDIT ENHANCEMENT

The credit enhancement facility is available to cover asset defaults (also with same date notice) up to its amount which depends on the portfolio credit quality (currently US$ 100 million).

THE ISSUERS

Certain Funding Limited is a bankruptcy remote special purpose company incorporated in Jersey. Certain Funding Corp. is a 100% subsidiary of Certain Funding Limited incorporated in the State of Delaware.

MOODY'S INVESTORS SERVICE ASSIGNED A PRIME-1 RATING TO CONNECTIX INVESTISSEMENT FULLY SUPPORTED ABCP PROGRAM.

Authorized Issuance Amount: Approximately US$1.0 Billion

Moody's Investors Service assigned a **Prime-1** rating to the Billets de Trésorerie (BTs)—French ABCP—issued by Connectix Investissement. These BT are backed by obligations issued by Framatome Connectors International (FCI) and guaranteed by Framatome. FCI issues these bonds to fund the acquisition of Berg Electronics.

The **Prime-1** rating assigned by Moody's is based on the credit facility provided to Connectix Investissement by a syndicate of a maximum of twenty **Prime-1** rated banks and on the integrity of the structure. The credit facility covers both the credit risk of the bonds held by Connectix Investissement and the liquidity risk due to the rollover of BTs.

Connectix Investissement is a bankruptcy remote special purpose vehicle owned by an independent company, The Connectix Trust. Connectix Investissement is administered by Crédit Commercial de France (**Aa3**/**Prime-1**/**B**).

MOODY’S RATES ABN AMRO’S GRAND FUNDING II PRIME-2

Authorized Issuance Amount: US$0

Moody’s has assigned a **Prime-2** rating to ABN AMRO’s (**Aa2**/**Prime-1**/**B+**) newest partially supported ABCP program, Grand Funding Corporation II. Grand Funding II is one of only two securities arbitrage ABCP programs designed to purchase subordinated tranches of asset-backed securities exclusively. With the addition of Grand Funding II, ABN AMRO now sponsors and administers 7 ABCP programs in the U.S., Europe and Australia.

Moody’s senior analyst Ann Joyce Holtwick said that Grand Funding II is unlike most other ABCP programs in that it will not have the benefit of a program-level third-party credit support commitment. Rather, Grand Funding II will rely, in part, on the credit quality of its underlying assets to achieve its **Prime-2** rating. It is intended that Grand Funding II will purchase subordinated tranches of ABS rated at least **Baa1** by Moody’s. Grand Funding II will also rely on a liquidity support commitment from **Prime-1**-rated ABN AMRO to ensure timely repayment of maturing ABCP.

Grand Funding II’s investment strategy is complimentary to that of its sister program, Grand Funding I. While Grand Funding I invests only in the senior, highly rated tranches of ABS deals, Grand Funding II is designed to focus exclusively on investment-grade subordinated ABS tranches. In addition, Grand Funding I and Grand Funding II are similarly structured. Both programs rely on the credit quality of their investment portfolios and are not supplemented by third-party credit support.

Grand Funding II will be administered by ABN AMRO Bank. The bank is a proven administrator of ABCP programs. ABN AMRO has established a global presence in the ABCP market with its seven programs in Australia, Europe and the U.S.

MOODY'S ASSIGNS PRIME-1 RATING TO PNC'S JEFFERSON STREET FUNDING CORPORATION

Authorized Issuance Amount: US$0

Moody's has assigned a **Prime-1** rating to Jefferson Street Funding Corporation, a new, partially supported, asset-backed commercial paper program sponsored and administered by PNC Bank, N.A. (**A1**/**Prime-1**/**C+**). Jefferson Street is a limited purpose ABCP program: it's sole business will be to make short-term secured loans, primarily
to small- and medium-sized mortgage bankers. All Jefferson Street loans will be secured by mortgages orginated by borrowers that are part of the program.

Moody's Vice President, Ann Joyce Holtwick, said that mortgage warehousing facilities like those backing Jefferson Street ABCP raise unique risks for investors. Unlike the typical MBS transaction, the mortgage collateral securing the loans is revolving which may result in credit quality variability over time. Moreover, warehouse finance facilities are designed to be short-term rather than long-term arrangements. A lengthening of the warehouse loan tenor may result in increased risk of loss. Jefferson Street has implemented several structural protections to mitigate these risks. The program also has the benefit of a cash collateral account to provide additional protection against losses.

STRUCTURAL PROTECTIONS ENSURE CONSISTENT CREDIT QUALITY

In order to control variability in the credit quality of underlying assets, Jefferson Street has implemented investment guidelines. These investment criteria limit the types of borrowers to which Jefferson Street can make loans and the types of mortgage collateral it may accept as security for the loans. Furthermore, the program must meet certain portfolio diversification requirements. These borrower, collateral and portfolio guidelines are designed to ensure consistency in the credit quality over time.

Jefferson Street also uses program termination triggers to protect ABCP investors against deterioration in the credit quality of its asset portfolio. These triggers include limitations on the tenor of outstanding assets. If these triggers are violated, Jefferson Street stops issuing ABCP and the program winds down. In essence, the triggers operate as an early warning system against significant deterioration in asset quality.

CREDIT SUPPORT SHIELDS ABCP INVESTORS FROM LOSSES

Jefferson Street's structural protections are supplemented by program-level credit support in the form of a cash collateral account. The cash collateral account will be used to absorb any losses on Jefferson Street's underlying asset portfolio. The amount available in the cash collateral account must be equal to the greater of $45 million or 6% of the aggregate amount of loans Jefferson Street has made. If funds available in the cash collateral account do not equal at least 75% of the required amount of program credit support, Jefferson Street must cease issuing ABCP and the program will be terminated.

Jefferson Street ABCP investors will also have the benefit of a liquidity commitment from **Prime-1**-rated PNC. The liquidity commitment will be equal to at least 100% of the face amount of outstanding ABCP. Liquidity support is designed to ensure timely repayment of outstanding ABCP.

Jefferson Street will be administered by PNC. In addition to being an experienced ABCP program administrator, PNC is an established mortgage warehouse lender. Through its mortgage warehouse lending group located in Louisville, Kentucky, PNC has been underwriting secured loans to mortgage banks for over ten years. PNC's mortgage warehouse lending group will be responsible for originating loans for Jefferson Street.

MOODY'S ASSIGNS PRIME-1 RATING TO MORIARTY LIMITED ABCP PROGRAM

Authorized Issuance Amount: US$5 Billion

Moody's assigned a **Prime-1** rating to the asset-backed commercial paper (ABCP) of Moriarty Limited (Moriarty). Moriarty is a newly established, partially supported ABCP program sponsored by Abbey National Treasury Services plc (ANTS) (**Aa2**/**Prime-1**), the treasury and wholesale banking operation of Abbey National plc (**Aa2**/**Prime-1**/**B+**).

Moriarty will use the proceeds of the sale of ABCP to invest in a portfolio of highly rated corporate and asset-backed term securities, subject to a set of predetermined investment guidelines which specify credit quality and concentration restrictions. Assets are intended to be held for the long-term. Interest rate, currency and program expense exposures are to be covered by hedging arrangements. The initial portfolio is expected to consist of approximately $1 billion of assets rated **Aa2** or higher.

RATING OPINION

The **Prime-1** rating of Moriarty's ABCP is based on, among other factors, the following:

- the high credit quality of the portfolio of securities purchased, as required by the investment guidelines;
- dynamic credit enhancement, initially zero, but which increases depending on the asset portfolio's credit quality;
- structural protections, including a requirement to fund all outstanding ABCP through the liquidity facility if the portfolio does not comply with the investment guidelines, or the program credit enhancement is not at the required level, and these conditions are not corrected within five days;
- a liquidity loan facility provided by **Prime-1**-rated banks available in an amount equal to the face amount of ABCP;
- a swing line facility from a **Prime-1**-rated bank covering any shortfall or payment delay under the liquidity facility because of time zone differences between London and New York;
- a hedging agreement with ANTS which covers interest rate and currency risk, and which guarantees that funds will be available to pay maturing ABCP and program expenses; and
- the capabilities of ANTS as sponsor, in its roles as program administrator, liquidity agent, liquidity bank, collateral agent, hedging agent and counterparty, investment advisor and letter of credit provider.

CREDIT ENHANCEMENT

The initial amount of program credit enhancement will be zero, according to Everett Rutan, a Vice President at Moody's. This is similar to Bayerische Landesbank's Giro Funding US Corporation (Giro) ABCP program. Both programs have tightly focused investment strategies, which permit only highly rated assets to be purchased without Moody's having reviewed them previously. Giro has no program level credit enhancement, but is required to immediately sell or fund with liquidity any asset which is downgraded below **A1**.

Conversely, Moriarty must increase its credit enhancement depending upon the credit quality of the portfolio. In addition, Moriarty has strict concentration limits, by both credit rating level and obligor, which effectively prevent any significant accumulation of lower-rated assets. If the actual credit enhancement is less than the required credit enhancement, or if the portfolio is not in compliance with the investment guidelines, Moriarty must stop issuing ABCP. Moriarty has five days to correct the situation or must draw on its liquidity facility to immediately fund all outstanding ABCP. Moody's believes that the extremely low probability of a highly rated asset going directly into default defined as a rating of **Caa1** or below prior to its being sold or covered by credit enhancement, is consistent with a **Prime-1** rating.

LIQUIDITY

The liquidity loan facility is provided by ANTS, which is located in London. In order to prevent timing problems between London and New York which could negatively affect the ability to draw under the liquidity facility, Moriarty has a swing line facility equal to 15% of outstanding ABCP, in addition to the liquidity facility equal to 100% of outstanding ABCP. Both facilities are provided by **Prime-1**-rated banks. Moriarty is required to manage the issuance of ABCP so that no more than 15% of ABCP matures in any three-day period. Should liquidity funding be unavailable or delayed for any reason, the swing line facility would cover any shortfall. The Chase Manhattan Bank (**Aa2**/**Prime-1**/**B+**) provides the swing line facility and acts as depositary for the issuance and payment of ABCP.

KEY PARTIES

Abbey National Treasury Services plc (**Aa2**/**Prime-1**) is the treasury and wholesale banking subsidiary of Abbey National plc. As of June 30, 1998, ANTS had total assets of $129.3 billion. Abbey National plc (**Aa2**/**Prime-1**/**B+**) is the fifth largest bank in the United Kingdom, with $271.7 billion of assets as of June 30, 1998. ANTS will act as program administrator, investment advisor, liquidity agent, liquidity bank, collateral agent and letter of credit provider. This is Abbey National's first ABCP conduit.

The Chase Manhattan Bank (**Aa2**/**Prime-1**/**B+**) acts as depositary and provides the swing line liquidity facility. One of the largest banks in the United States, as of December 31, 1997, Chase had $297.1 billion in assets.

MOODY'S ASSIGNS PRIME-1 RATING TO MUSTANG NO. 1 TRUST NEW ABCP PROGRAM

Authorized Issuance Amount: $A0

Moody's has assigned a **Prime-1** rating to Mustang No. 1 Trust, a newly created, special purpose issuer of Australian dollar asset backed commercial paper (ABCP). Mustang No. 1 Trust was established by NMFM Lending Pty Limited. NMFM Lending is ultimately owned by National Mutual Holdings Limited and manages National Mutual's property and mortgage assets.

The master trust deed entered into between Perpetual Trustee Australia Limited and NMFM Lending provides for the creation of an unlimited number of Mustang trusts and the ability to issue ABCP or medium term notes to fund the assets of the trust. Each Mustang trust is a separate and distinct trust and will have separate liquidity facilities and credit enhancement (if necessary). The assets of each trust are only available to meet the liabilities of that relevant trust.

The first trust created under the master trust deed is Mustang No. 1 Trust. Perpetual Trustee Australia Limited, in its capacity as trustee of the Mustang No. 1 Trust, will issue ABCP in order to fund the acquisition by the trust of high credit quality residential mortgage-backed securities. Moody's **Prime-1** rating is assigned only to the Mustang No. 1 Trust.

Moody's analyst, Ian Makovec, said that the **Prime-1** rating assigned to Mustang No. 1 Trust is based on (1) the structural protections built into the program, including the bankruptcy remote nature of Mustang No. 1 Trust and the limited recourse provisions set forth in the legal documents; (2) the liquidity facility provided to the trust by Credit Suisse First Boston and other **Prime-1** rated banks; and (3) the ability of NMFM Lending Pty Limited to manage the program as issuer manager and of Perpetual Trustee Australia Limited to act as back-up manager.

To date, the Mustang No. 1 Trust has not acquired any assets. Prior to the first issuance of ABCP, Moody's will review the assets proposed to be acquired and confirm Mustang No. 1 Trust's **Prime-1** rating.

NMFM Lending also manages two securitisation programs – Super Members Home Loans Trust and National Mutual Home Loans Trust – which to date have issued approximately $A 1.5 billion of mortgage-backed securities.

MOODY'S ASSIGNS A PRIME-1 RATING TO NELLIE MAE CORPORATION'S ABCP PROGRAM

Authorized Issuance Amount: $600 Million

Moody's assigned a **Prime-1** rating to the Commercial Paper Note Program, 1998 Issue A, of Nellie Mae Corporation (Nellie Mae) (**A3/Prime-2**). This is a single-seller ABCP program sponsored and administered by Nellie Mae.

In most ABCP programs the issuer is a bankruptcy-remote entity created specifically to issue asset-backed commercial paper. According to Moody's Vice President Everett Rutan, this program is unique in that the **Prime-1**-rated ABCP—though supported by committed liquidity and backed by student loans and other assets held in trust — is issued as a general obligation of Nellie Mae Corporation, which is not a bankruptcy-remote company.

RATING ANALYSIS:

Moody's has been able to assign a **Prime-1** rating to this ABCP program because of a structured liquidity facility provided by **Prime-1**-rated banks, which covers the face value of maturing ABCP; a limit on the maturity of ABCP; and certain events, the occurrence of which prevents further issuance of ABCP and causes the program to wind down.

The structured liquidity facility provides for the repayment of maturing ABCP and does not depend on the ability of Nellie Mae to provide funds. Nellie Mae has obtained a surety bond from **Aaa**-rated AMBAC, which guarantees repayment of the loans made by the liquidity banks.

ABCP maturity is limited to no more than 60 days. Nellie Mae must stop issuing ABCP under this program if the rating on the program is lowered below **Prime-1**, or if the ratio of trust assets to ABCP falls below 101% and is not corrected within 5 days.

The **Prime-1** rating of the ABCP program is highly correlated to the rating of Nellie Mae, in that a lowering of the long-term rating of the long-term rating of Nellie Mae below **A3** would probably result in a downgrade of the ABCP program. Moody's believes that the structure of the liquidity facility, in combination with program wind-down events, combine to insure repayment of ABCP with a **Prime-1** level of certainty.

STUDENT LOANS:

The trust portfolio primarily consists of a revolving pool of student loans originated under the Federal Family Education Loan Program. These student loans have a Department of Education guarantee covering interest and at least 98% of principal. The obligors are primarily students at four-year colleges or attending graduate schools. Moody's believes Nellie Mae to be a capable and experienced originator, secondary marketer and administrator of student loans. The value of the trust portfolio must be at least 101% of ABCP, and the trust cannot release funds to Nellie Mae unless its value is at least 108% of ABCP.

SPONSOR:

Nellie Mae Corporation, a for-profit Delaware corporation located in Braintree, MA, is the successor to the business operations of New England Education Loan Marketing Corporation, its not-for-profit parent. Nellie Mae originates student loans and provides secondary market programs for other lenders participating in the Federal Family Education Loan Program. As of December 31, 1997, Nellie Mae had net assets of $212 million and a portfolio of over $2 billion of student loans.

MOODY'S RATES PARTHENON RECEIVABLES' ABCP PROGRAM PRIME-1

Authorized Issuance Amount: US$2 Billion

Moody's Investors Service assigned a **Prime-1** rating to Parthenon Receivables Funding LLC's (Parthenon) ABCP program. Parthenon's ABCP program is sponsored by both Bank of Tokyo-Mitsubishi, Ltd (BTM) (**A1**/**Prime-1**/**C**)[2] and Swiss Re Financial Products Corporation (Swiss Re).

FULLY SUPPORTED PROGRAM

Parthenon is a fully supported ABCP program that purchases trade and term receivable pools and asset-backed securities (ABS). Swiss Re provides a total rate-of-return swap which fully supports repayment of Parthenon's ABCP. Parthenon's **Prime-1** rating is based on the full credit and liquidity support provided by Swiss Re and on the bankruptcy remote structure of Parthenon.

Each time it purchases an asset, Parthenon enters into a swap with Swiss Re whereby Swiss Re agrees to pay Parthenon the full amount of maturing ABCP in exchange for the return on the underlying related assets. Under the swap, Swiss Re's payment is equal to the face amount of ABCP and is paid on the same day that ABCP matures. Swiss Re's payment is not contingent on the receipt of any payment from BTM or Parthenon, or the occurrence of any other event.

The use of a total rate of return swap to support the repayment of ABCP is not unique, but is a less common form of liquidity and credit support than typically found in ABCP programs.

KEY PARTIES

Swiss Re is a wholly owned subsidiary of **Aaa**-rated Swiss Reinsurance Company. Swiss Reinsurance Company fully guarantees Swiss Re's obligations under the swap. Swiss Re Financial Products Corporation's ABCP program is rated **Prime-1** based on the full support of its parent.

In its capacity as Parthenon's administrator and issuing and paying agent, Bank of Tokyo-Mitsubishi Trust Company (**A3**/**Prime-1**/**D+**) performs functions critical to the repayment of ABCP. It is an experienced administrator of ABCP programs. BTM provides a liquidity support facility to Swiss Re and cosponsors the program. ABCP investors are not dependent on BTM's facility for repayment.

All ratings for both BTM and Bank of Mitsubishi Trust Company are on watch for a possible downgrade. If either of these entities were ever downgraded below investment grade, Parthenon's rating may be affected.

MOODY’S ASSIGNS PRIME-1 RATING TO NATIONAL AUSTRALIA BANK NEW MULTI-SELLER ABCP PROGRAM

Authorized Issuance Amount: $A0

Moody’s has assigned a **Prime-1** rating to the new National Australia Bank Limited sponsored ABCP program, Titan Securitisation Limited (Titan).

Titan, a special purpose company incorporated under the Australian Capital Territory Law, will issue Medium-Term Notes (MTNs) or ABCP on a series by series basis. Each series will be backed by series specific assets. Noteholders of a series will have recourse only to the assets designated for that series and are not entitled to make any claim for outstanding obligations against the assets of another series.

Titan intends to purchase MTNs and ABCP issued either by newly created special purpose companies or by Perpetual Trustee Company Limited acting as trustee of the Titan trusts under the master trust deed. These MTNs and ABCP will have characteristics respectively corresponding to the characteristics of each series of MTNs and ABCP issued by Titan.

The master trust deed provides for the creation of an unlimited number of Titan trusts and the ability to issue ABCP or MTNs to fund the trust assets. Each Titan trust is a separate and distinct trust fund and will have separate liquidity facilities and credit enhancement (if necessary). The assets of a Titan trust are not available to meet the liabilities of any other Titan trusts.

Moody’s analyst, Ian Makovec, said that “the **Prime-1** rating is based on a number of factors, including the structural protections built into the program, particularly the bankruptcy remote character of Titan and the Titan trusts; the limited recourse provisions for each series set forth in the legal documents; the liquidity facility provided to each Titan trust by National Australia Bank and other **Prime-1** rated banks; the letter of credit provided to Titan by National Australia Bank to cover unexpected expenses; and the ability of National Australia Managers Limited, a full subsidiary of National Australia Bank, to manage the program as issuer manager and trust administrator.”

To date, Titan has not acquired any assets. Prior to the first issuance of ABCP, Moody’s will review the new assets acquired and confirm Titan’s **Prime-1** rating.

National Australia Bank, which assumes many important functions in relation to the conduit, as described above, is the largest commercial bank in Australia with assets over $A200 billion. National Australia Bank’s long term rating is **Aa3**, its short term rating is **Prime-1** and the bank’s financial strength is rated **B**.

2 All of BTM’s ratings were placed on review for possible downgrade as of October 23, 1996