

# **Asset-Backed Commercial Paper Product Overview**

**Goldman, Sachs & Co.**  
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# **I. Introduction to Asset-Backed Commercial Paper**

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# Asset-Backed Commercial Paper

## Overview

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**Asset-Backed Commercial Paper is typically highly-rated. The market for ABCP is deep, with over \$1.059 trillion in outstandings currently.**

### Description

- ABCP is issued by a special purpose vehicle (“SPV”) with severe restrictions on activities.
- SPV issues ABCP to purchase liquid or fast-turning income-producing assets.
- Cash flows on assets are used to pay maturing ABCP or to reinvest in new assets.
- ABCP holders are protected by asset cash flows, credit enhancement and backup liquidity.

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### Rationale

- Low cost financing of high-quality assets
- Funding diversity
- Balance sheet management
- Liquidity through asset sales

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### Market Overview

- Over \$1 trillion in ABCP outstandings today (up from less than \$700 billion in 2000).
- ABCP comprises over 50% of the entire USCP market and 60% of the dealer-placed USCP market.
- Investor interest in ABCP has increased with the growth of the US money market.

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### Investor Considerations

- ABCP lends itself to actuarial credit analysis by rating agencies and investors.
  - ABCP generally carries high short-term ratings (A-1/P-1/F-1 and higher).
  - ABCP investors focus on asset quality and program structure, not “traditional” elements (e.g., cash generation and the overall health of an issuer’s business).
  - ABCP has certain legal/credit characteristics that are not possessed by traditional issuers, including insulation from event risk, obligor diversification, and analyzable liquid assets.
  - ABCP programs tend to have stable (or continuously increasing) outstandings with flexible maturities and block size availability, because they are not subject to the working capital and cash flow requirements of traditional issuers.
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# Primary Components of an ABCP Program

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<b>Issuer</b>	<ul style="list-style-type: none"><li>■ An SPV which can only issue ABCP to fund the ongoing purchase of assets.</li><li>■ SPV is structured to be a “bankruptcy remote” entity, and has non-petition agreements from all creditors.</li></ul>
<b>Administrator</b>	<ul style="list-style-type: none"><li>■ Manages day-to-day activities of the program.</li><li>■ Duties include: (1) originating program assets, (2) managing ABCP funding levels and maturities, (3) producing monthly program reports, (4) collecting receivables payments, (5) paying expenses of the SPV, and (6) purchasing additional assets or paying down maturing ABCP.</li><li>■ The program sponsor (Company) typically acts as the Administrator.</li></ul>
<b>Rating Agencies</b>	<ul style="list-style-type: none"><li>■ Rating agencies (RAs) initially assign short-term ratings to ABCP programs which are based, in part, upon: (1) review of asset obligors, (2) historical performance of the assets, (3) administrator expertise, and (4) available credit enhancement and liquidity support.</li><li>■ Ongoing, RAs monitor program asset performance and approve asset additions.</li></ul>
<b>Credit Enhancement</b>	<ul style="list-style-type: none"><li>■ Credit Enhancement (C/E) provides ABCP holders with protection against defaults on the underlying assets.</li><li>■ C/E typically provided at both the obligor (asset) and program-wide (fungible) levels.</li><li>■ Levels of C/E will depend on factors such as (1) the nature of the assets, (2) charge-off rates, (3) delinquency levels, (3) payment rates, (4) yield (if interest-bearing), (5) the longest permitted commercial paper maturity, and (6) the adequacy of the structure's amortization tests.</li><li>■ Program-wide C/E levels have generally ranged from 5% to 10% of the ABCP program size, but can be as low as 0% or as high as 100%.</li><li>■ C/E can be provided (1) externally through bank letters of credit, cash collateral accounts, surety bonds, or sub notes or (2) internally through overcollateralization (senior/sub structure).</li></ul>
<b>Liquidity</b>	<ul style="list-style-type: none"><li>■ 100% liquidity support (for non-defaulted assets) is generally required.</li><li>■ The program sponsor typically acts as the primary Liquidity provider.</li></ul>

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# Rating Agency Criteria Considerations

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Rating agencies evaluate five main areas of the program's structure: asset quality, legal structure, credit enhancement, liquidity arrangements and the program sponsor

## Asset Quality

- Type and nature of assets
- Historical loss experience of assets
- Adequacy of credit enhancement
- Diversity and quality of Sellers
- Diversity and quality of Obligors

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## Legal Structure

- Independent nature of SPV
- Ownership and capitalization
- Insulation of assets

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## Credit Enhancement

- Program-wide
- Cash collateral accounts, letters of credit, surety bonds, sub notes

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## Liquidity Arrangements

- Pay maturing CP following market disruptions or inability to collect on assets
- Coverage typically equals 100% of non-defaulted assets

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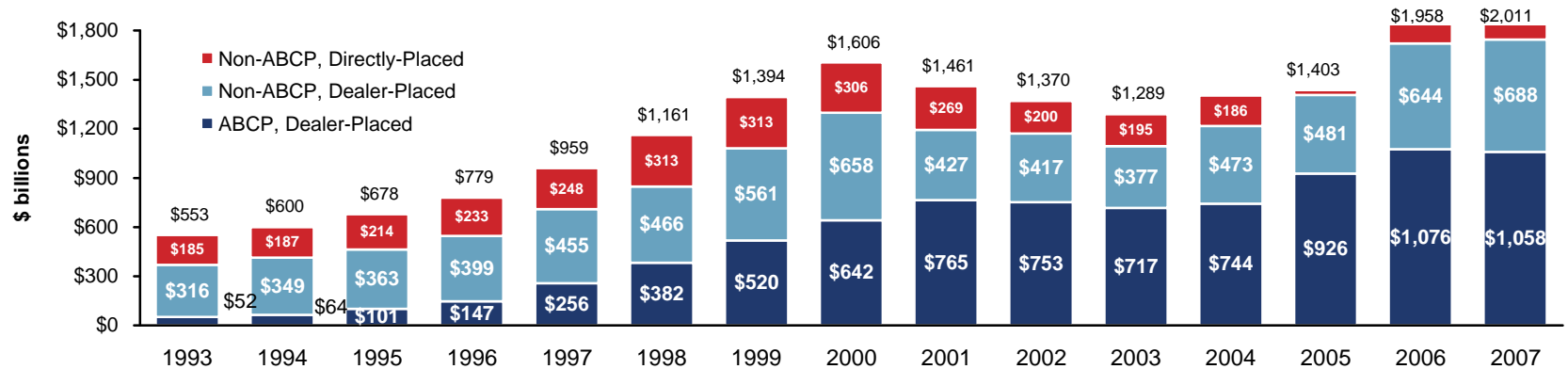
## Servicer Expertise

- Managerial expertise
  - Financial strength
  - Systems
  - Controls
  - Role as Operating Agent
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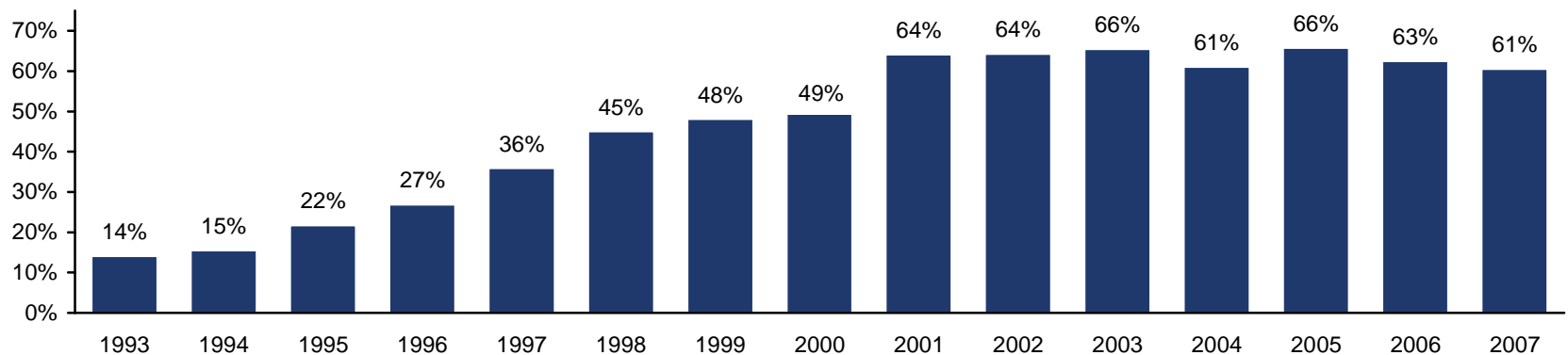
# U.S. Market Overview

## Commercial Paper Growth, Through February 2007

### Total USCP and ABCP Market Outstandings



### ABCP Outstandings as a Percentage of Dealer-Placed CP Outstandings



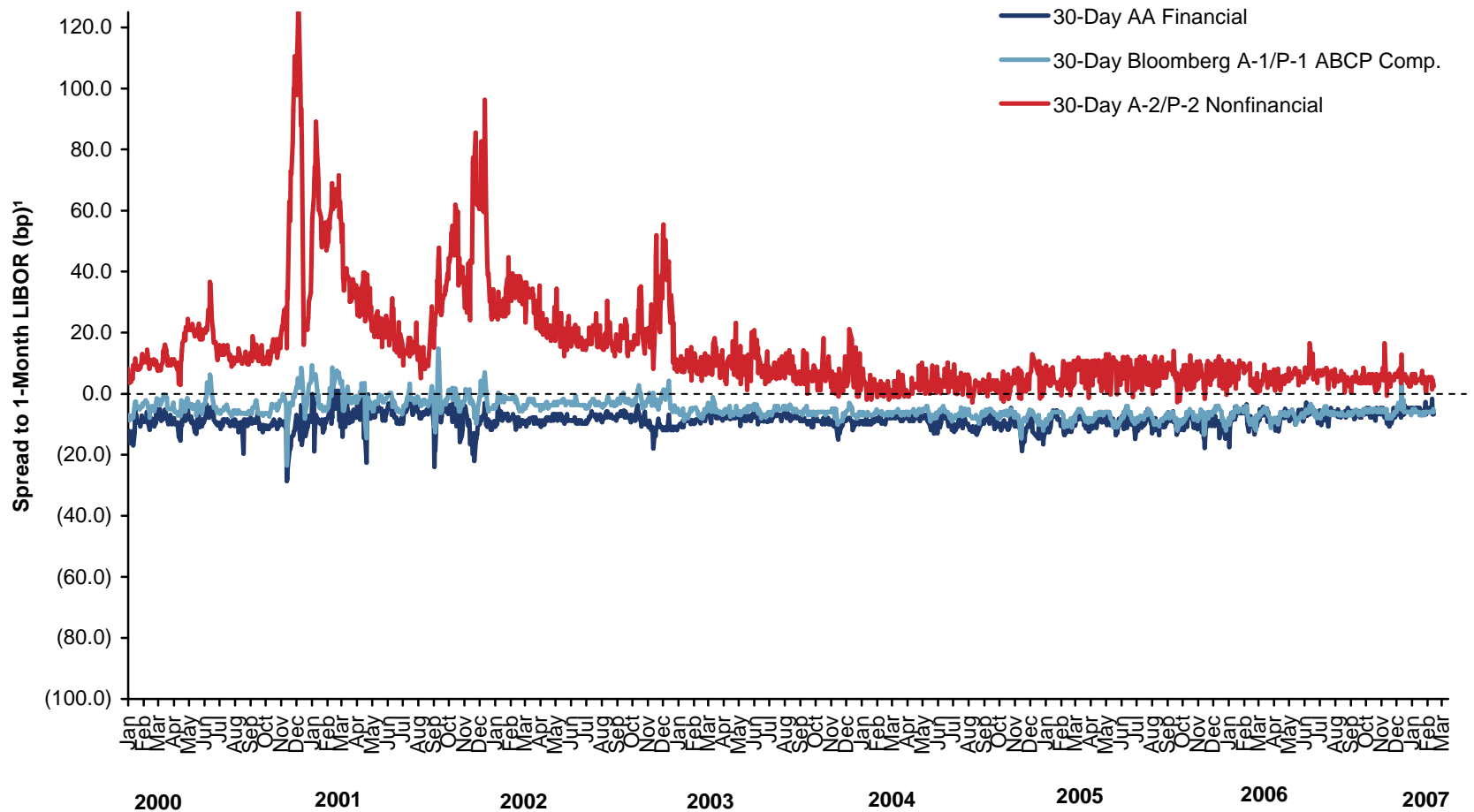
Sources: Federal Reserve, Goldman Sachs

As of April 2006, the Federal Reserve reclassified many of its asset-backed programs, resulting in a decrease in outstandings.

Asset-backed commercial paper outstanding level as of the week ending April 30, 2003, includes \$28 billion of existing but previously unrecorded programs.

# U.S. Commercial Paper Spreads

## Daily Spreads to 1 Month LIBOR, 2000 – 2007YTD



Source: Federal Reserve and Bloomberg; as of 2-March-2007

<sup>1</sup> Rates are quoted on a money market yield basis

## **II. Structured Asset Funding Vehicles**

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## What are Structured Asset Vehicles?

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- Securitization of a pool of mortgage-backed securities, asset-backed securities or other financial collateral
  - Bankruptcy-remote special purpose vehicle engaging in the:
    - Issuance of various classes of rated term and short term debt and unrated equity
    - Financing of the purchase of a diversified collateral portfolio of highly rated structured collateral consisting of residential and commercial asset backed securities
    - Payment of expenses, debt service payments on the liabilities and distributions to the equity using cash flows generated by the collateral portfolio. No market value risk
  - An experienced investment professional, the Collateral Manager, is engaged by the vehicle to:
    - Select the initial collateral portfolio along with Structuring Agent
    - In the case of a managed deal, continue to manage the portfolio during a reinvestment period
    - In the case of a static deal, monitor the portfolio for credit-risk sales
  - With approximately 60 CDO transactions in the U.S. that issue Prime-1 rated short-term tranches, we estimate the current outstandings for money market tranches of these structures to be close to \$55 billion with approximately \$21 billion issued during 2005 alone.
  - In the last year, Goldman Sachs has been involved in the issuance of 9 SAF vehicles (Sierra Madre, Davis Square III, Davis Square IV, Adirondack 2005-1, Altius I Funding, Davis Square V, G Street, Adirondack 2005-2 and Davis Square VI) and the pipeline for these structures remains robust.
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## Why are we seeing Money Market Tranches in these Vehicles?

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- Money market tranches offer attractive financing at the super-senior level of the capital structure
    - Effective funding levels currently 4-5 bps tighter than term financing levels
  - The underlying collateral pool consists of high-grade securities which fit the credit and investment profile of money-market participants
  - Deals have steadily grown in size
    - Current deal sizes – overall capital structure approaching \$2 bn with the CP tranches approximately \$1 billion in size
    - Larger deal sizes have improved liquidity of the money market notes
  - Rating agencies have become comfortable with deals issuing highly rated money-market tranches (ratings of A-1+/P-1) based on extensive stress runs on capital structure
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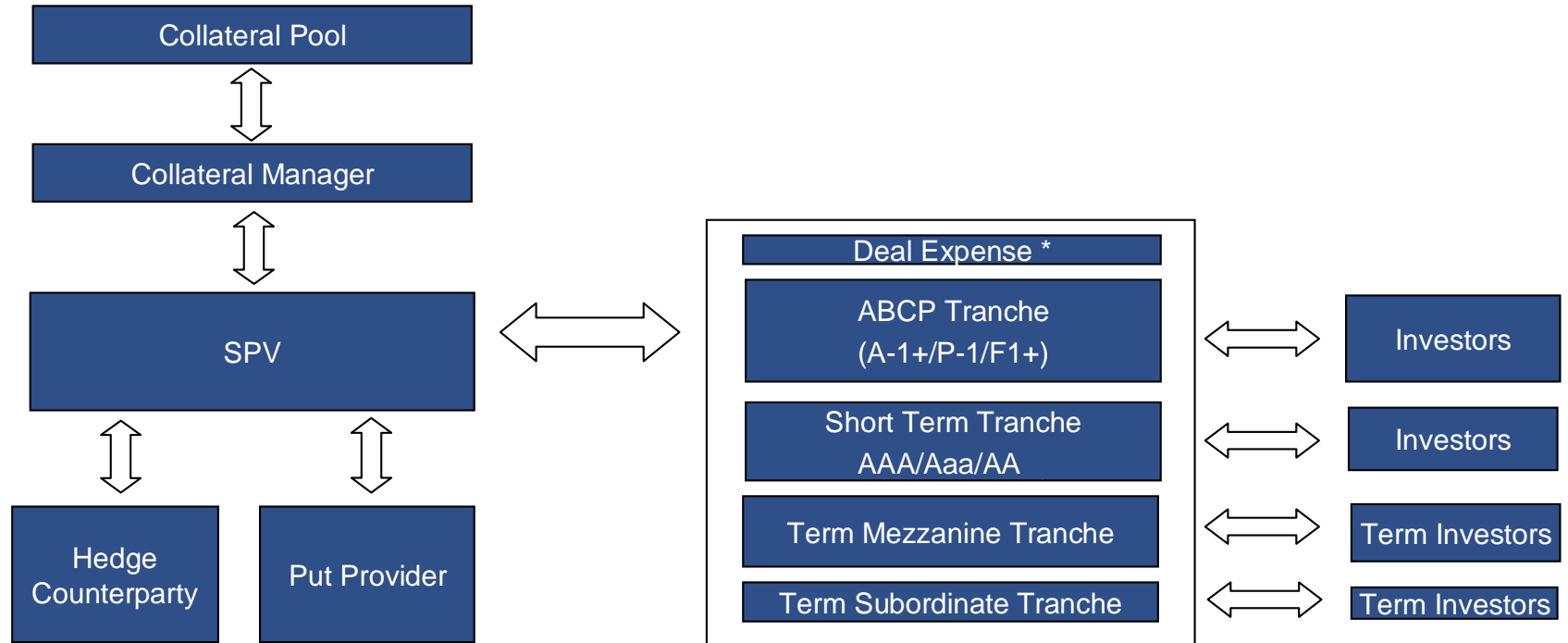
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## Why Investors Like These Structures

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- 100% Portfolio Disclosure & Transparency
  - CP Investors protected against market value risk
  - Minimum credit rating of asset at least "A" by S&P and Moody's
  - 100% Liquidity support (in the form of a credit put/ swap facility) by highly rated counterparty
  - Subordinate notes publicly rated by S&P and Moody's
  - Overcollateralization typically 112 - 113% of capital structure
  - Portfolio discretionary trading limited (15% of the portfolio annually during the reinvestment period for managed pool transactions)
  - Newer structures do not have an extension, but a delay settle feature
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# Structure of SAF Vehicles



*Deal expenses may be structured as a payment amount or as an interest-only note, each being senior to ABCP in the cash waterfall.  
Source: Moody's Investors Service*

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## Disclaimer

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