

Special Report

Securitisation in Emerging Markets: Preparing for the Rating Process

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■ Summary

Many companies in emerging markets, including banks, non-bank lenders, leasing companies and other originators of securitisable assets, do not yet have access to securitisation as a financing tool. This is due to a number of factors, including legal and regulatory infrastructures that are not yet conducive and asset pools that are not sufficiently developed or seasoned. However, it is Fitch Ratings's opinion that these will not be permanent barriers. Experience in Latin America, Asia and South Africa demonstrates that securitisation can become a viable and beneficial financing tool in emerging markets. Meanwhile, more recently there has been growing interest and signs of rising securitisation activity from countries in the Middle East, Central and East Europe and the CIS.

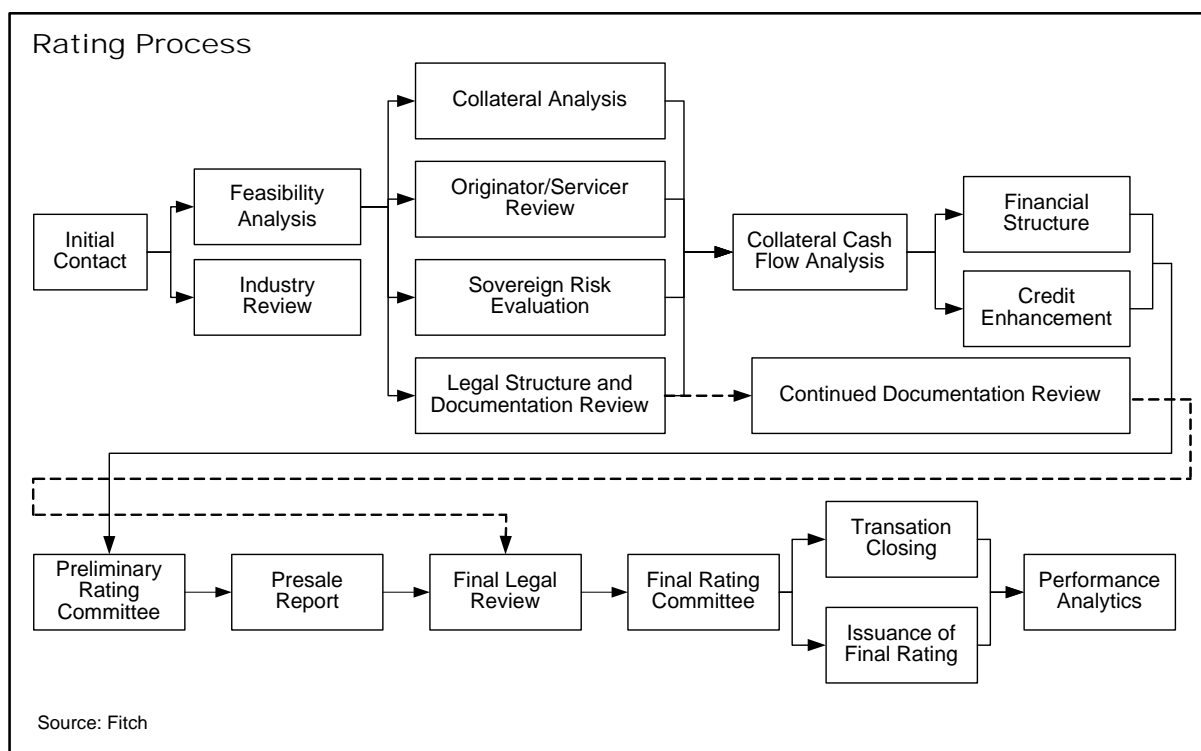
In Fitch's experience, the emphasis of discussions on the development of securitisation in emerging markets has focused on external legal and regulatory constraints. However, in the agency's view, while infrastructural issues may be resolved, impediments to the securitisation process within a company could remain. Global experience suggests that the initial securitisation can be a difficult process for asset originators. Securitisation is information intensive and requires a company be able to communicate clearly the nature of its assets and quantify asset performance in very specific ways. It is Fitch's experience in emerging markets that the lack of consideration of impediments to securitisation within a company can create real barriers to the securitisation process.

This paper discusses securitisation from a rating agency standpoint, highlighting company-specific issues that may be overlooked in emerging markets. It focuses on how information utilised in the rating process may differ from a company's day-to-day management practices, causing internal constraints that may impede the rating process and ultimately make securitisation a more time-consuming and costly financing tool for the originator.

■ The Fitch Rating Process

While assigning ratings is only one part of securitisation, understanding the process may aid originators and arrangers in emerging markets to identify and address internal challenges to a successful issuance. Fitch's rating process is expressed graphically overleaf. As the application and understanding of common securitisation terminology will facilitate this discussion, a glossary is provided at Appendix A.

At initial contact between the originator or arranger and Fitch, it is useful to provide a brief outline of a proposed transaction and its structure and assets, as well as background information on the originator. Based on the information provided, Fitch will undertake a brief feasibility analysis and industry review.



This includes a basic review of historical performance as well as consideration for future industry trends in the context of a company's strategy to assess the sustainability of its market position. The purpose of these efforts is to provide a realistic assessment of a company's ability to securitise the proposed assets as well as early identification of potential challenges, allowing the originator time to address them.

In addition, in those cases where a company is the first to securitise an asset class in a country, it is useful for Fitch to receive more detailed information regarding the originator's industry and market, as this may be important later in the rating process. For example, basic profiles of customers and competitors broaden the agency's understanding of market dynamics. Information on legal and regulatory issues specific to the country and/or industry strengthens the agency's understanding of the legal environment in which the company operates. In addition, a brief overview of alternate sources of financing in the country assist in understanding a company's financing strategy.

If the originator decides to proceed with the securitisation, a more detailed review is initiated, which includes four key components, discussed in the following sections:

#### *Collateral Analysis*

The purpose of collateral analysis is to understand the characteristics and behaviour of the assets

concerned under given stress scenarios. Data on the pool of assets likely to be securitised is provided to the agency, which reviews historical performance in terms of delinquencies, defaults, recoveries and prepayments. The pool is also evaluated in terms of identifying characteristics, such as diversification of obligors, geographical location and asset types, depending on the type of transaction. A more detailed discussion of this process is provided in *Data Evaluation* below, as this is a key area where challenges arise in the rating process in emerging markets.

#### *Originator/Service Review*

A critical part of Fitch's rating process is the originator and servicer review, during which the agency reviews the policies and procedures by which the assets to be securitised are originated and serviced to ensure on-going credit quality. The agency and investors need to understand the background of the originator and the industry in which it operates and will be looking for the company to demonstrate the following:

- An operational track record and stable ownership structure.
- A clear definition of core markets, an understanding of competition and ability to sustain market position.
- Managers with backgrounds and experience that demonstrate an understanding of their business area.

- A rational organisational structure that demonstrates depth of management skill.
- A comprehensive set of human resource and employee training practices.
- A suitable management information system (“MIS”) in key operational areas.
- A corporate strategy that is ingrained in current corporate practices and forms a basis for future growth.
- A track record of financial strength and a clear strategy for meeting financing needs.
- An understandable and realistic motivation for securitisation.

These issues begin to form the basis of the analysis of a company’s ability to act as originator and servicer in a transaction. Companies in countries with less experience with open market economies may find it more difficult to demonstrate a sustained track record in these areas.

The agency and investors also consider the availability of a back-up servicer, which is frequently a similar company in the same industry. This function is important to the securitisation process as it provides a degree of protection for investors in a situation where the originator is no longer able to service a transaction.

### *Legal Structure and Documentation Review*

The purpose of this review is to assess the credit and legal implications of the transaction structure. As part of this review, issues considered include transferability of assets; bankruptcy remoteness of the issuer; security interest over the assets; taxation issues including transfer tax, stamp duty and withholding tax; regulatory issues and set-off risk.

When rating a securitisation, particularly in a jurisdiction with no previous securitisation transactions or examples in the proposed asset class, and limited securitisation legislation,, an understanding of the local legal environment is vital. Fitch has found that in emerging markets the following issues can often be constraints to securitisation:

- The legal ability to transfer assets and attached security to a third party. Most securitisations rely on a “true sale” of assets where ownership thereof cannot be challenged in the event of the originator’s bankruptcy.
- The requirement in some jurisdictions to notify underlying obligors in writing of the transfer of assets and to receive confirmation from the obligor.

- The existence and reliability of special purpose vehicle (“SPV”), bankruptcy and foreclosure legislation.
- The requirement in some jurisdictions for regulatory approval of securitisation transactions.
- The potential impact of consumer and data protection and usury laws.
- The potential impact of taxation, including profit, stamp and value-added tax.

When considering a securitisation in a new jurisdiction, Fitch typically seeks legal counsel early in the rating process to assess legal issues impacting the feasibility of a transaction. Additional information on typical legal impediments to securitisation in emerging markets is available in “*Rating Emerging Market Existing Asset Securitizations*” (25 September 2000), available at [www.fitchratings.com](http://www.fitchratings.com).

### *Sovereign Risk Evaluation*

The rating of the sovereign has an important impact on the stresses applied to an existing asset securitisation. Fitch distinguishes between the sovereign rating – the stress level where the sovereign is assumed to default on its local or foreign currency debt, and the country ceiling, which is the level where the sovereign is assumed to interfere with off-shore payments of its domestic obligors. The country ceiling is often at the same level as the sovereign rating, and exceeds it in only some limited instances where Fitch assumes the relevant sovereign authorities might not impose capital controls due to a series of factors such as integration with the global economy, reputation risks and other institutional factors. The agency takes the view that local obligors will be subject to an exponentially increased stress in environments above the sovereign ceiling. The rationale for this is that the local economy would suffer a severe shock, including exchange and interest rates stresses and possibly a deterioration in the business environment. Furthermore, above the country ceiling, the sovereign is assumed to impose exchange controls in order to ‘hoard’ foreign exchange for purposes of servicing its own foreign debt, thus starving private entities of foreign exchange needed to service their own foreign debt obligations.

Where this is a relevant issue, Fitch will undertake an evaluation of sovereign risk on a securitisation. Additional information on the implications of the sovereign rating on a company’s securitisation is available in “*Country Ceiling Ratings and Rating Above the Sovereign*” (17 June 2004), available at [www.fitchratings.com](http://www.fitchratings.com).

In some emerging markets, a National rating scale specific to the country is used, removing the need to evaluate sovereign risk. These scales are not based on default histories or probabilities, but rather indicate a relative creditworthiness in relation to the best credit within the country, typically the sovereign. National ratings are unique to the country in which they apply. Entities with the same letter grade rating in different countries may have vastly different degrees of risk, depending on the underlying sovereign risk. Additional information on National rating scales is available in *National Ratings: Methodology Update* (25 September 2002), available at [www.fitchratings.com](http://www.fitchratings.com).

## Cash Flow Analysis & Financial Structure

The results of these four components feed into Fitch's collateral cash flow analysis, which considers the financial structure and determines credit enhancement guidelines. Fitch derives a base-case portfolio performance expectation, which represents the anticipated performance of a portfolio under a non-stressed economic scenario. This base case is run through stress scenarios at each desired rating category. For the purposes of credit enhancement, the agency also considers liquidity issues; payment priority; commingling, negative carry, interest rate, currency, basis and reinvestment risk; and amortisation issues.

A more detailed discussion of this process is available in Fitch's criteria pieces for specific asset classes. A list of available criteria pieces is provided in Appendix B, all of which are available at [www.fitchratings.com](http://www.fitchratings.com) or by contacting a Fitch analyst.

## Fitch Rating Committee

All Fitch ratings are discussed by a rating committee prior to assignment. Once assigned, ratings are published and the rating analysis, in the form of a presale or new issue report, is made available to the market via the agency's website.

## Performance Analytics

Once a transaction has closed, Fitch continues to play a role in the securitisation throughout the life of the transaction. The agency's dedicated Performance Analytics team provides a valuable tool for investors by monitoring and reporting on the performance of the rated securities.

### ■ Summary of Asset Classes

Fitch has reviewed a wide range of assets that could be securitised in emerging markets, including:

- **Collateralised debt obligations ("CDOs"):** Pools of commercial loans to corporates or

small and medium-sized enterprises ("SMEs") and pools of corporate bonds.

- **Asset-backed securities ("ABS"):** Pools of credit card receivables, auto loans or leases, other types of consumer loans, equipment leases or trade receivables.
- **Residential mortgage-backed securities ("RMBS"):** Pools of residential mortgages.
- **Commercial mortgage-backed securities ("CMBS"):** Pools of commercial mortgages that may consist of a single property or a group of properties financed by a single borrower, or a pool that combines numerous loans from different borrowers secured by diverse commercial properties.
- **Future flow securitisations:** The future cash flows from pools of physical assets such as export receivables, telephone net settlements and airline receivables or flows from financial assets such as credit card voucher processing receivables, trade payments rights or worker remittances.

A variety of assets, including those discussed above, can also be funded by securitisation programmes that issue short-term paper through asset-backed commercial paper ("ABCP") conduits.

While Fitch's rating process is consistent across asset classes, the rating methodology varies. The agency's website ([www.fitchratings.com](http://www.fitchratings.com)) offers a wide range of criteria pieces that describe the rating methodology for specific assets. Examples of these are provided in Appendix B.

### ■ Addressing Hidden Challenges to Rating Securitisation Transactions

It is Fitch's experience in emerging markets that even when a suitable environment for securitisation exists within a country, individual companies may remain ill-prepared for the securitisation process, resulting in an impediment to the development of the securitisation market in that country.

Emerging market originators have reported a number of motivations for securitising, including:

- access to longer-term and lower cost financing;
- access to a new or wider investor base;
- removal of assets from an originator's balance sheet and transfer of the associated credit risk to investors; and
- the ability to seek financing without increasing on-balance sheet debt, which could breach

financial covenants for existing debt and/or regulatory reserve requirements set out by national central banks

However, it is Fitch's experience that many first-time securitisers fail to recognise potential inherent consequences of the securitisation process, such as:

- greater disclosure of information than may be needed for other forms of financing;
- potentially less flexible terms and covenants than other forms of financing and limitations on modifications and restructuring of financing throughout the life of a transaction; and
- initial costs and time involved in the first securitisation that may be higher than those associated with other forms of financing.

Securitisation is a unique long-term financing tool that requires real commitment on the part of a company to develop internal capacity to support the process. In its feasibility analysis, Fitch will look for the originator to demonstrate:

- a solid performance track record for an asset pool;
- ability to service the assets concerned; and
- ability in the case of revolving or future flow transactions to continue to originate the assets.

The challenge in accomplishing this tends to rest in the fact that companies develop origination and servicing procedures and management information systems to meet their specific internal operational requirements. Although these systems and procedures may fully satisfy their internal needs, they may not meet the informational and risk mitigation needs of a securitisation transaction. In Fitch's experience in emerging markets, this can cause real challenges to the securitisation process.

Many of the changes needed to support securitisation take time and management focus to implement. For this reason, Fitch has observed that by not focusing on the internal impediments to securitisation, companies in emerging markets may further delay their ability to access the securitisation market in their country.

The following sections address two key areas that in Fitch's experience cause challenges to securitisation in emerging markets: credit originating and servicing policies and procedures and the provision of data.

#### ■ Credit Origination & Servicing

When rating a securitisation transaction, Fitch considers whether the originator's policies and procedures are sufficiently robust and

institutionalised. In the agency's experience, companies that have not placed managerial attention on the following policies and procedures will encounter greater challenges in the rating process.

#### Credit Origination and Monitoring Procedures

- Clearly documented and implemented credit underwriting and origination policies and procedures and delegated authorities.
- Clear policies and procedures for valuation of collateral, accurate completion of registration of collateral and on-going monitoring of collateral interests.
- Standardised and comprehensive legal contracts and accuracy in completion of contract documentation.
- Comprehensive documentation management, including clear instructions on the documentation needed for a transaction and well organised filing systems.
- Vigorous monitoring, collection and problem asset policies and procedures.
- Concise and uniformly implemented provisioning and write-off policies.
- Comprehensive management information reporting systems that distribute key management information on a timely basis.

#### Operational Risk Procedures

- File structure, maintenance, storage methods and access controls structured to reduce operational risks.
- Adequate computer systems to provide information to management on a real time basis. Regular back-up and storage of key data. Access controls on key systems.
- Internal and external audit policies, quality control procedures and anti-fraud measures.
- Established and tested disaster recovery and emergency planning.

Standardisation of credit origination procedures is important as experience suggests that it tends to produce the types of homogeneous pools of assets that facilitate securitisation. For example, in the US and western Europe, competitive pressures have led to the need for more rapid credit decision-making, which has necessitated increased standardisation of credit underwriting, including the use of credit scoring techniques. This may in part have facilitated the growth of securitisation in these countries.

In contrast, companies in emerging markets are often still transitioning from more traditional relationship-based credit decisions to data-driven decision-making. In many countries, short credit histories and

lack of transparency on the part of customers has led to bespoke credit underwriting practices and deal structuring, with the terms and conditions of financing being determined on a case-by-case basis. These practices, although necessary in an evolving credit environment, make the securitisation process more difficult.

Fitch believes that historical asset performance, along with the organisation's originating and servicing capacity provide an indication of future asset performance. A track record of asset performance is more meaningful when there has been and will continue to be uniform application of origination and servicing policies and procedures. Consistent underwriting standards in place over an extended period of time improve Fitch's ability to analyse potential future performance of an asset pool to be securitised by analysing the historical performance of the company's assets. This is discussed in greater detail in *Data Evaluation* below.

#### ■ Data Evaluation

It would be difficult to stress too heavily the importance of reliable and standardised data in the rating process. In Fitch's experience, the provision of data is typically a major impediment in rating emerging market transactions. This is because the data required for the on-going management of an asset pool is frequently different to that evaluated in the rating process. Securitisation may call for data in formats not previously captured by a company's systems. Recreating historical data for existing assets using new parameters is time-consuming and can be a major cause of delay. In Fitch's experience, companies that bring their information systems in line with the data requirements of securitisation find that on-going securitisations are more efficient.

#### Portfolio Characteristics

Initially, Fitch looks for a set of data that provides an understanding of an underlying pool of assets. The dataset varies depending on the asset class to be securitised, but generally provides information on the following areas:

- characteristics of individual obligors, including geographical location and creditworthiness as defined by internal or external risk rating systems;
- structure of receivables, including original amount and term, interest rate, currency denomination of payment, outstanding balance and remaining term; and
- characteristics of underlying collateral. For example, in the case of automobile loans this would include information on the make, model and age of the vehicles. In the case of residential

mortgages, this would include information on property location and type.

Fitch has found that this data is relatively straightforward for a company to provide from existing systems; however, the agency often analyses the data in ways that are new for a company. For many types of assets, the most easily securitised portfolio consists of a homogeneous pool, ideally with a diversified obligor and collateral base that generates a stable and predictable cash flow. Homogeneous pools are groups of receivables that are similar both in contractual terms and interest rates and in terms of prepayments, delinquencies, defaults and recoveries.

Fitch reviews obligor concentrations in a portfolio. The outstanding exposure to each obligor is compared against a pool's total outstanding obligations, with special attention placed on those representing more than 1% of a portfolio. The credit quality of those obligors is reviewed and the impact of their default analysed in terms of the ability of the remaining portfolio to meet the obligations to the investors.

In some securitisations, concentrations in the underlying collateral also are examined. For example, the cash flow from a pool of residential mortgages with high concentrations in a specific city could be negatively impacted in the event of an economic downturn in a key industry providing a major source of employment for that city. As such, concentrations in the portfolio would be analysed as part of the rating process and could raise the cost to the company in terms of higher credit enhancement.

#### Portfolio Performance

Fitch also requests data to better understand an asset pool's historical performance, including delinquencies, defaults, recoveries and prepayments.

All companies monitor the performance of their outstanding credits, focusing on delinquencies and defaults. However, Fitch believes a securitisation is impacted by the performance of a portfolio more directly than a company would be when the assets remain on its balance sheet.

For example, within a bank, repayments received on a loan portfolio are generally used to cover floating, short-term liquidity needs, funding additional loans or paying short-term liabilities. Liquidity managers typically have access to a range of cash inflows and are therefore able to cover liquidity needs even if expected loan payments are not received. In contrast, when this same loan pool is securitised, the cash flows from the loans are the only monies available to meet fixed repayment obligations. Delinquencies and

defaults increase the cost of securitisation to originators as credit enhancement and liquidity facilities are put into place to cover potential cash shortfalls when expected payments from the assets are not received. For this reason, clearly understood trends in delinquencies and loss exposures are important to managing the costs of securitisation.

Data provided to a rating agency should follow common definitions. For example, the calculation of delinquency may differ between companies. Securitisation relies on international standards for the calculation of delinquency whereby, when a borrower is late on a payment, the entire outstanding principal exposure is classified as delinquent. This definition is used as delinquencies are analysed as a leading indicator of defaults. To determine the magnitude of potential defaults, delinquencies are viewed in terms of the total potential loss exposure that they represent. In contrast, in some countries, only the value of missed payments needs to be classified as delinquent. Companies working under this methodology need to translate their reporting on delinquencies into the international standard to be able to provide meaningful data for the securitisation process.

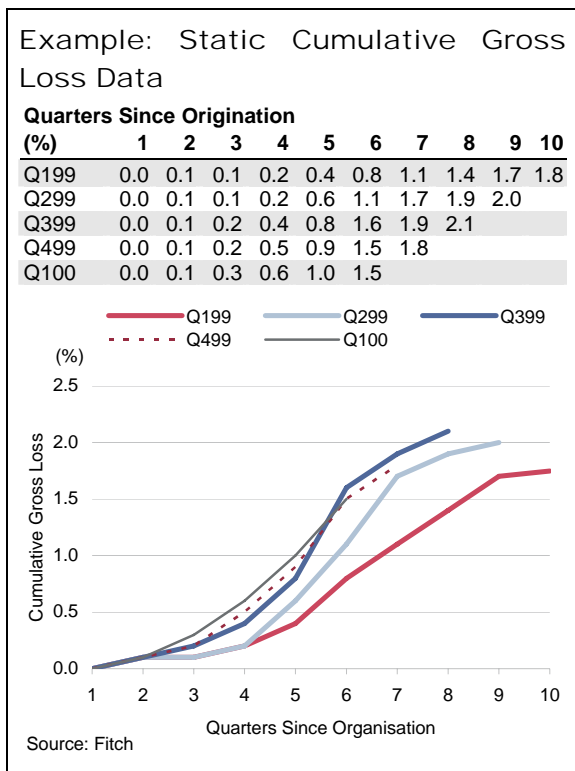
A common understanding should also be achieved between originators and the rating agency on the definition of default or realised loss before recoveries. The rating agency looks for a company to set a date beyond which a delinquent asset is classified as defaulted. This can be difficult for some originators if they ordinarily consider assets for write-off on a case-by-case basis. For example, many companies have outstanding delinquent pools of loans, leases or receivables to government agencies, which, while frequently slow payers, generally do ultimately pay. Many businesses therefore do not classify such debt as in default regardless of the length of time it has been classified as delinquent, and the amount is never written-off.

Although this may be understandable from the context of internal portfolio management, Fitch views a portfolio from the standpoint of its ability to make timely payments to investors in a securitisation. To size credit enhancement appropriately, Fitch should be able to accurately project what percentage of cash flows from a pool of assets may not be available due to extended non-payment to meet repayment obligations to investors. For this reason, the company and the agency should reach agreement on a shared definition of default, which may differ from internal practices but still represents an accurate measure. Default data should then be presented based on this agreed definition, which may be a time-consuming process to complete.

Definitions aside, the format in which performance data is presented for a securitisation transaction often differs from a company's normal portfolio reporting. Managers in most companies track the performance of their asset portfolios based on dynamic analysis whereby one current portfolio measurement is compared against another. For example, the current month's delinquencies are measured as a percentage of the current month's total outstanding portfolio balance. Trends in these performance measurements are then tracked across time. Fitch can use the company's internal dynamic analysis to gain a general understanding of the quality of a portfolio's performance.

However, the securitisation process often necessitates static pool analysis, which typically is not part of an emerging market company's normal management reporting. Static analysis requires a company's portfolio be broken into static pools. A static pool, or vintage, is a group of assets generated during a specific calendar period, typically a month, quarter or year. Cumulative gross losses and recoveries for each pool are then tracked independently over the remaining life of the assets.

For example, consider a financial institution that originates auto loans. Its total pool of auto loans is divided into sub-pools based on the calendar quarter in which each loan was "originated" or disbursed. Performance of each sub-pool of auto loans is then tracked individually.



An example of this process is shown in the above table and graph. The table shows cumulative gross losses for the pools of auto loans generated in the first quarter of 1999 through the first quarter of 2000. The data represents the cumulative percentage of the original amount of each sub-pool that has defaulted since origination. This data is plotted to show the cumulative gross loss curve for each vintage at various levels of "seasoning", the period of time since origination.

Static data analysis allows the agency to move beyond an understanding of fluctuations in levels of credit losses over time to also understand the timing of losses within an asset's life cycle and how the performance of assets may be changing. In the example provided, static data analysis shows that the performance of vintages deteriorated over the period of the reporting, with higher and more rapid growth of losses in the asset pools disbursed in later quarters.

It is Fitch's experience that dynamic analysis frequently masks these types of trends due to shifts in portfolio seasoning and overall size, which is why static data is important to the securitisation process. By analysing different pools or vintages, the agency gains insight into how losses build over the life of assets and how this loss profile may have altered over time.

In addition, the agency should be able to quantify the magnitude of ultimate losses in a portfolio caused by defaults. This necessitates data on amounts and timing of **recoveries**. The previous discussion of defaults focused on gross defaults. The securitisation process analyses gross defaults and recoveries separately, unlike many companies that monitor net losses. In addition, many firms track total recoveries during a given period as a proportion of total losses. This represents dynamic data. From the standpoint of the securitisation process, static data on recoveries is important. The agency needs to estimate, based on historical data, how long it takes for a company to recover funds from defaulted assets, which it uses to model the level and timing of cash flows a transaction can realistically expect to receive from defaulted assets to meet its obligations to investors. Without sufficient static data, Fitch may not be able to provide an originator with credit for recoveries in the securitisation process, which may ultimately increase the cost of securitisation.

Finally, some securitisation transactions may be affected by obligors that make prepayments,

repaying their obligations ahead of schedule. Fitch has found that many emerging market companies do not collect or maintain data on prepayment trends in their asset pools as it is not an issue that typically impacts credit underwriting decisions. This makes it more difficult for the agency to understand which customers are most likely to prepay and for what reasons.

#### Quantity of Data

Fitch generally looks to receive a minimum of three to five years of historical data before it can draw meaningful default, recovery and prepayment assumptions. The goal of the data is to create a base case model of performance that can be used to forecast performance, which can be difficult in emerging markets where originators may have a shorter track record of originating the assets.

Ultimately, it is possible to structure a transaction with less data; however, this comes at a cost to the originator. The less data available, the more conservative the agency's default probability and realised loss assumptions, potentially making it more difficult for transactions to achieve their target ratings. The better the quality and quantity of performance data available, the better able the agency is to refine the credit enhancement levels, usually to the benefit of the originator.

#### ■ Conclusions

Fitch is confident that the issues currently impeding securitisation in many emerging markets will ultimately be resolved. Although there is a clear need to remove legal and regulatory constraints to securitisation in emerging markets, Fitch believes that if constraints to securitisation within companies are not addressed early in the process, initial securitisations in emerging markets may face delays and complications that could be avoided. The agency therefore believes that it is important that potential originators begin to tackle these internal issues in parallel with the work of legislators to resolve legal and regulatory impediments.

To facilitate this process, Fitch encourages originators and arrangers to approach the agency early in the development of a transaction. In this way, it may be able to aid the rating process by identifying potential barriers, allowing the originator time to address them. Interested originators or arrangers are encouraged to contact Fitch to discuss the feasibility of proposed projects.



■ Appendix A

Glossary of Terms

<b>Asset-Backed Securities (ABS)</b>	Securities, typically bonds or notes, backed by pools of assets providing a reliable flow of cash, such as auto loans, equipment leases or consumer loans.
<b>Base Case</b>	Expected performance under a non-stressed economic scenario.
<b>Commingling Risk</b>	The risk that cash belonging to an entity issuing notes is not held separately from that belonging to the servicer and could become caught up upon the bankruptcy of the servicer.
<b>Credit Enhancement</b>	Structural mechanisms cushioning investors from losses on the underlying assets, including over-collateralisation, excess interest, reserve accounts and subordinated or junior classes of securities.
<b>Criteria Report</b>	Report defining rating guidelines or methodology.
<b>Default</b>	In terms of the securitisation process, a default is the time at which the cash flow from a delinquent asset is no longer considered available to meet payment obligations to investors.
<b>Delinquency</b>	The failure on the part of a borrower to make a payment against a debt obligation by the specified payment date.
<b>Dynamic Analysis</b>	The analytical approach by which one current portfolio performance is measured against the current size of the portfolio. An example would be the current month's gross charge-offs expressed as a ratio of the current month's portfolio balance.
<b>Homogeneous Pool</b>	Groups of assets with similar contractual terms.
<b>Negative Carry</b>	The situation in which the interest earned on the securitised assets is less than that owed to the investors.
<b>New Issue Report</b>	Similar to a presale report, a report detailing a fully rated new issue, published after a transaction has closed.
<b>Obligor</b>	The borrower or trade customer whose debt or receivable is being securitised.
<b>Originator</b>	A company that generates a pool of assets, such as loans, mortgages, leases or trade receivables to be securitised.
<b>Performance Analytics</b>	The on-going monitoring of the performance of a securitisation transaction by a rating agency.
<b>Prepayment</b>	When a customer repays its obligations before the scheduled date
<b>Presale Report</b>	Report detailing expected rating rationale on an upcoming structured finance issue. The report, detailing the rating approach, deal characteristics, credit issues, and financial and legal structure of the transaction, is issued before a rating has been finalised, therefore the "expected" rating is based on the best available information at the time.
<b>Rating</b>	A rating is an opinion on the ability of a security issuance to meet its financial commitments (for example, payment of interest and fees and repayment of principal) on a timely or ultimate basis. It is not a recommendation to buy, sell or hold a security.
<b>Seasoning</b>	The time lapsed between an asset's origination or disbursement date, indicating the number of payments that a borrower has made against the obligation. For example, a 12-month loan to a business is disbursed on January 1. On May 1 of the same year, the loan would have four months' seasoning.
<b>Securitisation</b>	The process by which securities are issued, backed by the predicted cash flows from specific assets.
<b>Servicer</b>	The company that manages the collection of payments on the securitised assets, which it distributes according to the specific issue documentation.
<b>Special Purpose Vehicle (SPV)</b>	An entity specifically created for the purposes of securitisation, whose obligations should be limited to the issuance of securities and the acquisition of assets. It is structured to be legally independent from the originator of the assets to be purchased and bankruptcy remote.
<b>Static Pool</b>	A group of assets which have a common defining characteristic (for example, a period of origination or period of default) against which performance can be measured.
<b>Stress Testing</b>	The process of evaluating the ability of a pool of assets under differing negative performance scenarios to generate sufficient cash flows to meet obligations to investors in terms of principal and interest payments. Stress testing is used to determine credit enhancement levels.
<b>Stress Scenario</b>	Economic and business circumstances under which the key performance indicators of the portfolio are significantly altered.
<b>Vintage</b>	A static pool relating to a particular period of time (month, quarter or year of origination) or the particular period of time (month, quarter or year).

■ Appendix B: Sources of Information on Securitisation from Fitch Ratings

The following criteria reports are available on [www.fitchratings.com](http://www.fitchratings.com) or by contacting any of the Fitch analysts listed on the front page.

Collateralised Debt Obligations

- Global Rating Criteria for Collateralised Debt Obligations (13 September 2004) Analysis of synthetic CDOs of CDOs (13 September 2004)

Credit Cards

- Dealing the Cards: An Overview of European Credit Card ABS (26 November 2002)

Auto Loans & Leases

- Rating Auto Loan-Backed Securitisations: A Tune-Up (17 November 2005)

Equipment Leases

- Rating Equipment Lease and Loan Securitisations (29 March 2005)

Trade Receivables

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