Atherton Franchisee Loan Funding, 1998-A

Summary
Atherton Franchisee Loan Funding, series 1998-A notes, are rated as listed at left. Classes A-1, A-2, B, C, D, E, F, and the A-X notes were privately placed pursuant to rule 144A of the Securities Act of 1933. Each class of notes will be secured by a certificate of beneficial ownership in the grantor trust. The grantor trust will be comprised of a pool of 312 fixed-rate loans with an aggregate cutoff date principal balance of $201.3 million. Each loan is secured by real estate and other property used in operating franchise businesses, specifically chain restaurants and automotive service stores.

The ratings reflect the credit enhancement provided through subordination of the junior classes, the transaction’s sound legal and cash flow structures, as well as the strong underwriting and servicing capabilities of Atherton Capital, Inc. as seller and servicing advisor. Credit enhancement for each class is as follows: classes A, 28% subordination; class B, 22% subordination; class C, 16.5% subordination; class D, 12% subordination; class E, 8.5% subordination; and class F, 5.5% subordination.

Credit enhancement levels were assigned using Fitch IBCA’s rating criteria for franchise loan pools, which are largely derived from the Fitch IBCA loan default and recovery model (LDRM). The LDRM is based on historical performance of a static pool of franchise loans in the past 20 years. The LDRM assumes base (‘BB’) defaults of 15% and base losses of 60% (or recoveries of 40%). These base levels are adjusted at each rating category to stress the individual loans using a consistent set of factors. The factors used at the loan level are fixed-charge coverage ratio (FCCR), concept tier, number of units under management, management experience, unit seasoning, and collateral type.

Seller
Atherton Capital Inc. originated 94.7% of the loans in this transaction and will be acting as servicing advisor on behalf of the bondholders. The company, together with its affiliates, has been originating franchise loans since 1992 and has retained an economic and material interest in each loan it has originated. Currently, Atherton has reported no losses on its outstanding franchise loan portfolio of $600 million.

Fitch IBCA performed due diligence on the originator’s underwriting and servicing advising capabilities prior to the closing of this transaction, and found its practices acceptable. The company’s underwriting methodology generally involves four levels of analysis: the specific industry and franchise concept; the consolidated operating performance of the borrowing entity and its affiliates; the specific borrowing entity; and the characteristics of the individual stores and specific transaction.
The remaining 5.3% of the loans in this transaction was originated by Global Alliance Finance Co. (GAFCO), a wholly owned subsidiary of Deutsche Bank, AG. Fitch IBCA has reviewed and accepted GAFCO’s underwriting standards for previous GAFCO transactions.

**Servicer**

As servicer in this transaction, Mellon Mortgage Co. will be responsible for collections and processing of monthly loan payments. Mellon Mortgage Co. is a wholly owned subsidiary of Mellon Bank, N.A. (rated ‘AA–’ by Fitch IBCA for structured transactions), located in Cleveland, OH. As of April 31, 1998 Mellon serviced a portfolio of more than 5,000 loans with a balance of $17 billion. Franchise loans represent more than $700 million of those loans.

As servicer, Mellon is required to advance principal and interest in the event of a borrower delinquency. However, it is only required to advance the amount it deems will be recoverable. In the event the servicer is not able to advance principal and interest and is required to, it will constitute a servicer event of default.

Mellon is rated ‘Acceptable’ by Fitch IBCA’s servicer rating group (for more information on Mellon’s servicing procedures and financial condition, see Fitch IBCA Research on Mellon Mortgage Co.,” dated April 23, 1998, available on Fitch IBCA’s web site at www.fitchibca.com).

**Servicing Advisor**

Atherton will act as servicing advisor in this transaction. As servicing advisor, Atherton will work with borrowers to ensure proper workout procedures for these specialized loans in the event a loan has become a problem loan. Due to the original nature of these loans and relationships developed between borrowers and originators, it is often advantageous to have the originator/seller involved in the workout proceedings. The originator can find other borrowers willing to assume the loan for the same location if no means of payment can be reached with the current borrower.

**Issuer**

As of the closing date, Atherton will transfer the fixed-rate loans to the depositor, Atherton Intermediate Funding 1998-A, Inc. The depositor will transfer the assets to the issuer, Atherton Franchisee Loan Funding 1998-A LLC, a special purpose Delaware limited liability company. The notes are issued to the indenture trust between the issuer and Bankers Trust Co., as indenture trustee. The notes are secured by the certificate of beneficial ownership, which represents 100% ownership of the trust estate. The trust estate is comprised of the loan pool of fixed-rate franchise loans discussed herein.

**Loan Pool**

The loan pool consists of 312 fixed-rate, fully amortizing loans to operators of franchise concepts. The aggregate cutoff date balance of all loans in the pool is $201 million. The maximum remaining loan term for all loans in the pool at the time of closing was 240 months, with the majority of loans between 170–216 months. The average principal balance for the loans in the pool is $645,320.

The Atherton loan pool has adequate fixed-charge coverage ratios (FCCRs), indicating better than average cash flow from borrower groups. The weighted average unit FCCR is 1.56 times (x) and the weighted average loan-to-value ratio (LTV) for the transaction is 66.5%.

**Concepts and Industries**

Based on the aggregate cutoff date balance, concepts are diversified among two industries: restaurants represent 89.2% of the pool and automotive services 10.8% of the pool.

Concept types are fairly concentrated with Burger King representing 35.2% and KFC 20.3%. The pool has 13 restaurant concepts and two automotive services; Jiffy Lube represents 9.9% of the pool and Midas 0.9%. For a breakdown of all concepts represented, see the chart below.

![Concept Concentration Chart](image)
Structured Finance

## Collateral Type
The collateral in this transaction is composed of 46.1% fee mortgages, 2.9% ground leases, and 51% enterprise loans. The high concentration of enterprise loans contributed to weaker recoveries in the pool when stressed to a default. When Fitch IBCA determines a recovery value for individual loans, the primary driver is the collateral type. Fee mortgages generally allow for the highest recoveries, followed by ground leases and enterprise loans.

## Geographic Concentration
Four states have concentrations greater than five percent, and the remaining 29 states represent 60.1% of the pool. Florida has the highest concentration with 15.2%, after Wisconsin 9.2%, California 8.2%, and Michigan 7.3%.

## Interest-Only Units
Fitch IBCA’s ‘AAA’ rating on the interest-only class A-X denotes the likelihood of receiving interest as long as principal remains outstanding on the related loans. The interest-only class is extremely sensitive to principal payments, which the rating on these securities does not address. If prepayments are faster than anticipated, investors may fail to recover their initial investment.

## Determination of Credit Enhancement
Fitch IBCA’s analytical model, the LDRM, which combines the appropriate features of ABS and CMBS analysis for this asset class. The LDRM uses key factors to determine conditional expected default frequency and conditional expected recovery value for each loan in the pool.

The Fitch IBCA approach focuses on the proximity to default for each loan in the total pool and that loan’s relative contribution to aggregate pool losses. The LDRM uses data for a pool of franchise loans to compute a point estimate and a range for gross defaults and net losses. The net losses calculated by the model establish a range of credit enhancement for each desired rating level. In assigning final enhancement levels, Fitch IBCA takes into consideration various qualitative factors such as structure, servicer, and legal analysis.

The LDRM default and recovery estimates are combined with estimates of pool net losses based on the methods described below, the multiple approach and the FCCR default approach, to ultimately determine final net loss estimates at each rating level.

## Multiple Approach
Consistent with other areas in asset-backed securities ratings at Fitch IBCA, franchise loan pools are also evaluated using a multiple model approach. Using the base case (‘BB’ rating) net loss amount derived from the LDRM, a multiple is applied to determine the net loss expected at each additional rating category from ‘B’ to ‘AAA’.

## Fixed-Charge Coverage Ratio Default
The final approach used to evaluate franchise loan pools is the FCCR default test. Fitch IBCA believes that defaulting loans based on their ability to meet debt obligations can be done through examining the FCCR distribution throughout the pool.

The charts on page 4 show the marginal and cumulative distributions of the borrower level FCCR. The marginal distribution shows the percentage of the pool that is distributed in the FCCR range of 1.05x–3.00x. The cumulative distribution shows the percentage of the pool that is at or below a certain coverage also from the range of 1.05x–3.00x. The cumulative distribution allows Fitch IBCA to determine what percentage of the pool would be in default if stressed to a certain coverage. In the Atherton Franchisee Loan Funding, 1998-A pool, when all loans were defaulted to 1.30x using Fitch IBCA adjusted FCCRs, 7.7% of the pool would...
default. The majority of loans is distributed between 1.30x–1.75x.


Legal Considerations
Fitch IBCA’s legal counsel believes that the transfer of the loan pool from Atherton to the indenture trust estate is classified as a true sale. Representations and warranties have been provided by Atherton regarding the legality of the loans and their compliance with Atherton’s stated underwriting guidelines. Counsel has opined that in the event of an Atherton bankruptcy, the transfer of the loans would constitute a true sale.