

Credit Encyclopedia Series

Structured Finance Primer

FitchRatings

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Structured Finance Overview

Structured finance or securitization is the process of converting assets into securities. The assets are typically loans that are pooled together and sold to a bankruptcy-remote special-purpose vehicle (SPV). The SPV then issues securities that often use credit enhancement through the slicing of the securities into tranches with different cash flow prioritizations.

The SPV isolates the assets and helps protect investors from the risks of the financial institution or company (the originator or sponsor) that initially owned the assets. The incentives for issuers to securitize assets include increased liquidity and risk transfer, although some level of risk retention may continue.

Cash Versus Synthetic Securitizations

This primer describes cash securitizations. Synthetic securitizations differ from cash securitizations in that they do not involve a transfer of assets and instead reference the performance of an asset portfolio through credit default swaps (commonly abbreviated to CDS), guarantees or similar instruments. Relatively common before the financial crisis, synthetic transactions now make up a small proportion of rated securitizations.

Synthetic and cash securitizations have similar risk considerations, although the credit analysis of synthetic deals considers elements that are not present in cash securitizations, such as a protection buyer and the nature of the pledged asset portfolio.

Overview of the Securitization Process

Securitization usually involves several elements, mainly:

- Income-producing assets or loans,
- The originator or sponsor,
- The SPV that issues securities against these assets, and
- Investors.



In the first step an entity establishes an asset pool and sells the assets to an SPV. In the next step, the SPV issues debt securities to finance the acquisition of the assets. Bondholders are paid principal and interest from the asset cash flows until the debt is paid in full. Cash flows are also used to cover other costs. Where applicable, the originator or sponsor acts as the loans' servicer to collect payments from the borrowers and pass the cash on to the SPV or the trustee.

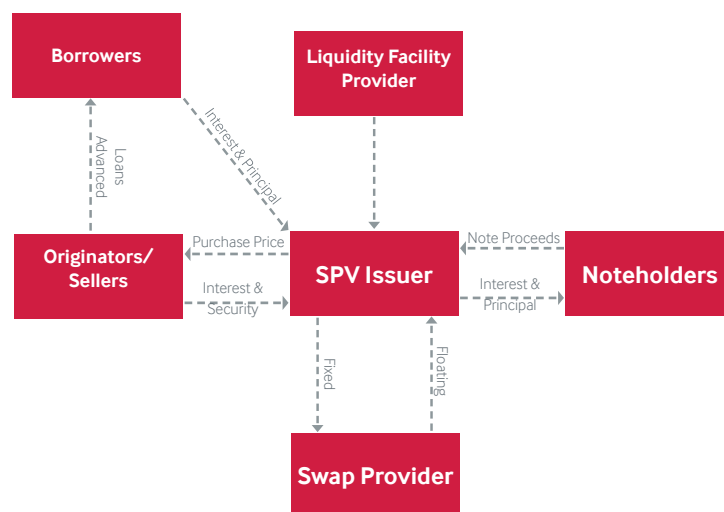
Creation of a Pool of Assets

The securitization process begins with assets that provide a cash flow, which are packaged together. The types of assets most commonly securitized include:

- Residential mortgages;
- Commercial real estate assets;
- Secured and unsecured consumer credit (e.g. auto loans);
- Non-investment grade corporate debt.

The transaction eligibility criteria define the characteristics of the assets to be securitized. They are established by the originator or sponsor in the transaction governing documents, providing clarity and transparency on the credit risk and payment capacity of the assets. Eligibility criteria govern the purpose of the loans within the pool, such as mortgages for primary residences.

Example of a Securitization Structure



Asset Transfer

Once the pool of assets is established, it is transferred to the SPV via a "true sale" to de-link the assets from the credit risk of the initial owner of the assets. The initial owner may retain a small proportion of risk to ensure the alignment of interests between the originator and investors.

Debt Issuance

In the true-sale format, the SPV issues debt securities that are collateralized by the assets. The securities are typically structured into various classes or tranches subordinated to each other, so that they take on different levels of credit risk. Each of these tranches can be rated by one or more credit rating agencies. Tranches are generally referred to as senior, mezzanine or junior, or as debt classes (commonly referred to as class A, B, C, D and so on).

The Incentives for the Issuer in a Securitization



Generation of Liquidity Through Balance-Sheet Items

One of the pillars of securitization is the monetization of assets on an originator/sponsor's balance sheet. Generally, these assets generate cash flows over time. When assets are transformed into securities, cash is generated up front, facilitating additional lending.

Reduction of Funding Costs

Securitization typically offers a lower cost of funding for the originator/sponsor than senior unsecured debt or bank loans, given the collateralized nature of the security. In addition, relative to other lending (including secured lending), securitization can avoid bank lending premiums and can attract a lower cost of funding through enhanced transparency with a clear definition of the assets and associated risks.

The credit risk of the securities is de-linked from the credit profile of the originator. For example, a low-rated originator/sponsor with poor corporate credit quality could likely finance high-quality prime mortgages more cost effectively through securitization than using corporate debt.

The lower cost of financing through securitization can be achieved through asset isolation and bankruptcy remoteness. Once the assets are sold to the SPV, the investor in the securities is not directly exposed to originator/sponsor bankruptcy or default risk.

Risk Transfer and Lowering of Capital Requirements

If and when credit risk is transferred to the SPV, bank originators typically no longer have to factor in those assets when calculating their regulatory capital requirements. This stems from the removal of assets from the balance sheet, with credit risk shifting from the originator to investors.

The amount of capital that a bank or other financial institution has to set aside to potentially absorb losses is known as a capital requirement. It is typically expressed as a capital adequacy ratio of equity as a percentage of risk-weighted assets. Basel III is the main international structure to regulate capital requirements and in the U.S. this is mainly done by the Federal Reserve.

Funding Diversification

Securitization bonds can attract a different investor base than senior unsecured debt, and provide an additional financing source other than credit lines. Securitization bonds are typically among eligible collateral for originators to access central bank financing, which can provide liquidity advantages in periods of stress.

Arbitrage Opportunities

Some issuers are entities that buy assets with the sole purpose of securitizing them and are incentivized by the potential income from the transaction. Transactions based on arbitrage opportunities can have risks that must be considered by investors and rating agencies. These risks can be mitigated through structural features.

Origins of Securitization

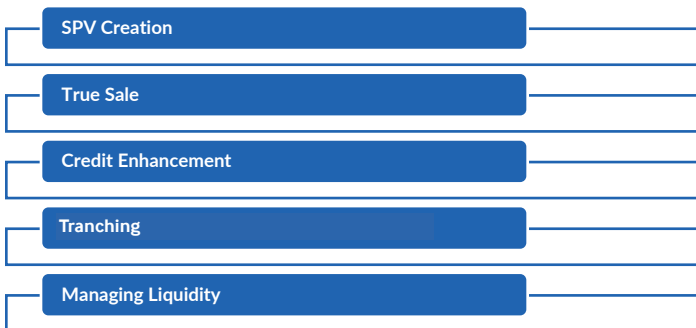
The beginnings of securitization appeared in the late 17th to early 18th centuries in the British Empire. Great Britain sold its debt to corporations, which sold shares backed by this debt. The corporations essentially acted as SPVs for the British treasury. In the early 18th century, the South Sea Company and the East India Company held close to 80% of the national debt. (Source: Stephen Quinn, 2006, *Securitization of Sovereign Debt: Corporations as a Sovereign Debt Restructuring Mechanism in Britain, 1688-1750*).

The recent history of securitization dates back to the 1970s, when residential mortgages were pooled by U.S. government-backed agencies, which expanded to securitization of mortgage bonds with varying maturities and risk profiles. Non-mortgage assets such as auto loans and credit card receivables were securitized for the first time in the mid-1980s.

In the 1990s, mortgage products grew in sophistication and banks increasingly extended loans with higher risk knowing that the risk would be transferred through securitization. High-risk mortgages, categorized as sub-prime, were a main contributor to the build-up of a housing bubble in the U.S., which peaked in the mid-2000s and contributed to the 2008 global financial crisis.

After the financial crisis, laws were adopted globally that significantly increased regulation of securitization and required a much stronger alignment of interest between the issuer and investors. Today, the number of assets available for securitization has expanded significantly to include a wide variety of assets.

Fundamentals of Securitization



SPV Creation

A key pillar of a securitization transaction is asset isolation and the bankruptcy-remoteness of the asset-owning SPV.

The steps taken to achieve the bankruptcy-remoteness of the SPV depend on the jurisdiction. There are common steps and features:

- The SPV must not be owned by the originator. It must be a new entity or an existing multicompartment.
- The SPV's activities must be restricted to only channel asset cash flows in line with the transaction documents, to avoid the risk of new liabilities or contingencies being created.
- Non-petition and limited-recourse clauses must restrict the ability of the originators' other creditors to have any claim to the assets.
- In some regions, an independent management company is created and passes on internal resolutions in the event of an SPV insolvency.

True Sale

True sale means that the legal ownership of assets is transferred by the originator to the SPV, which ensures that in the event of insolvency of the originator cash flows from the securitized assets remain the property of the SPV and that the originator's creditors cannot challenge the validity of the transfer.

Credit Enhancement

Credit enhancement is the mechanism that gives bondholders protection against losses from the underlying pool. There are several ways of obtaining protection, as shown in the next table.

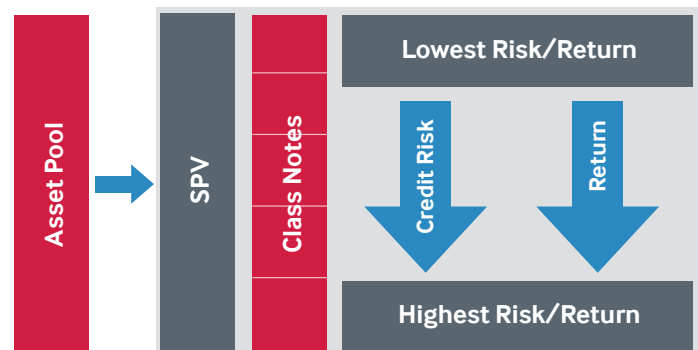
Forms of Credit Enhancement	
Tranching	Lower-ranking notes are subordinated, allowing for a better average credit quality for senior tranches, reflected in a better credit rating. There is a greater likelihood that investors of senior tranches are repaid.
Overcollateralization	There are excess assets over securitized debt.
Cash reserve	A reserve fund can be used to make up shortfalls in committed principal cash flows if an asset defaults.
Excess spread	This is residual interest received from underlying assets after paying the interest due to the transaction's counterparties and investors.

Tranching

Securitization notes are often split into different levels of tranches or subordination, with each having a different level of risk. There is generally a senior class of notes (class A) and one or more mezzanine and junior subordinated classes (classes B to D and beyond) that function as protective layers for the class A.

Senior notes have first claim on the cash received by the SPV, while the junior classes only receive payments once senior classes have been paid their amount due. The flow of funds through classes means the distribution of the available funds is often referred to as a "waterfall" or "priority of payments".

If the proceeds from the underlying asset pool become insufficient to make the payments due on the notes (for example if assets default and do not recover in full), the loss is first absorbed by the subordinated tranches or most junior class of notes. Senior securities have higher credit ratings and are lower risk, while junior and subordinated classes have lower ratings and higher risk.



Note Amortization

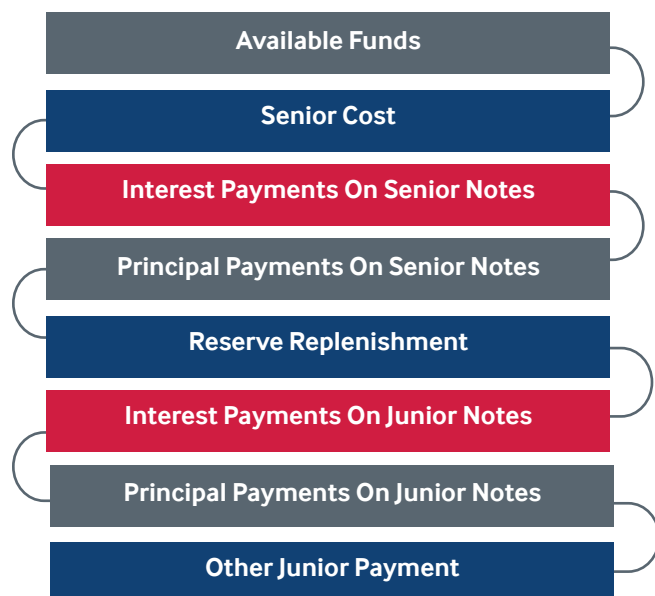
Securitization notes are generally amortizing, meaning the principal amount of the notes is reduced gradually over its life, rather than in one sum (known as a bullet) at the maturity of the bond.

Asset prepayment risk is important in amortizing securitizations and varies widely with the type of underlying asset and the macroeconomic environment.

In a securitization that uses tranching as credit enhancement, the more senior class of notes will typically amortise first. As the senior class balance is reduced before subordinate class balances under this “sequential paydown”, credit enhancement for senior classes increases as a percentage of the remaining assets over the life of the transaction.

However, this is not always the case. Some securitizations adopt a pro-rata mechanism instead of sequential, whereby collected principal cash flows are allocated proportionately to each tranche. In some transactions, a mix of both mechanisms can also be found. Some securitizations may amortize from closing, while others may start amortizing after a predetermined revolving period. Typically, in the revolving period only interest payments are made and principal collections are used to purchase additional assets.

Simplified Example of Combined Waterfall of Payments



Managing Liquidity

Liquidity risk arises when the SPV's ability to meet its current obligations is adversely affected by the timing of payments from the assets. Factors leading to this are:

- Credit risk of the assets: Failure by borrowers of the securitized assets to meet their payment obligations (late payments or defaults).
- Disruption in collections: Disruption in the servicer's collection and payment capability (due for example to a default of the servicer), so that the flow of payments from the assets to the securities may be delayed.

To mitigate liquidity risks, many securitization transactions are equipped with a liquidity support facility, which may include:

- a reserve constituted via a loan from the originator to the SPV;
- a loan facility from a third-party bank, such as an overdraft or revolving credit facility.

The Differences Between Structured Finance and Covered Bonds

Covered bonds, like structured finance securitizations, may be secured by various assets, including residential mortgage loans, commercial mortgage loans, or other non-mortgage assets, such as public-sector debt.

However, the issuer for a covered bond is a financial institution instead of an SPV, and as long as the issuer is solvent it is obliged to repay its covered bonds in full on their scheduled maturity dates. If the issuer becomes insolvent, the proceeds from the cover assets will be used to repay the bonds. This recourse to the issuer and the resulting lack of risk transfer is the main difference between covered bonds and structured finance transactions.

Covered bond programs have dynamic cover pools so that assets that repay are replaced, unlike RMBS where the pool is generally static and assets are not replaced.

Covered bonds tend to have bullet maturities, while in most securitizations principal collections from the pools are transferred directly to investors, leading to an amortizing redemption profile for the securitized notes.

Key Counterparties in a Securitization

Transaction Account Bank

A transaction account bank (TAB) is a financial institution or entity that hold funds in the name of the SPV, including distribution, collateral and reserve accounts — referred to collectively as transaction accounts. In some jurisdictions, including the U.S. and Latin America, this role is often performed by a trustee, in addition to their other operational roles.

The key counterparty risk is that transaction funds held with the TAB may be lost upon default of the TAB, resulting in both a credit loss of cash flows and operational challenges in meeting required timely payments on the notes for the next payment dates. Funds that are held at the TAB can be invested until their periodic release to noteholders.

Servicer

The servicer manages the assets and collection of payments from the pool, holding collections in its accounts until they are transferred to the TAB. Servicing can be outsourced to third-party servicers. However, in some jurisdiction such as in continental Europe, the originating financial institution or a company within its group will typically act as the servicer. A servicer plays an important role and can influence credit performance, and is typically responsible for the tracking and reporting of the asset activity.

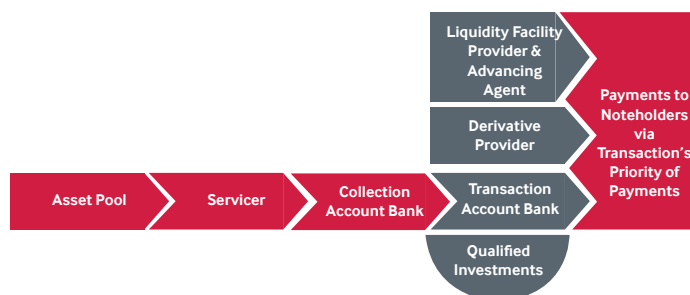
Should the servicer fail, finding a replacement should be easier when the asset pool consists of simple and widespread assets such as residential mortgages, credit card receivables or auto loans. For more diverse and esoteric asset portfolios it may be more difficult and may lead to a significant delay.

A back-up servicer is a party who agrees to take over the servicing of a portfolio of assets on the occurrence of certain trigger events, such as if the servicer's credit risk deteriorates. This could mitigate payment interruption risk, with the backup servicer being able to rapidly take on the ongoing management and servicing of assets.

Collection Account Bank

A collection account bank (CAB) is a financial institution that holds funds in the name of the servicer. The periodic payments from the underlying borrowers will be made in the CAB. The collections will then be transferred on a regular basis from the CAB to the TAB.

Flow of Funds in a Typical SF Transaction



Liquidity Provider and Advancing Agents

Securitization transactions may include a liquidity facility or advance mechanisms, usually from a financial institution, primarily aimed at avoiding shortfalls on required timely payments on the notes. The key risk for the structured finance transaction is that liquidity amounts may not be readily available upon default of the liquidity facility provider or advancing agent.

Advances usually cover an asset pool's delinquent principal and/or interest payments, and are ultimately recoverable by the advancing agent as part of the asset pool recovery proceeds. Advancing agents can include servicers, master servicers or trustees.

Derivative Provider

Derivatives contracts are primarily used in structured finance transactions to mitigate interest rate and currency risks and generally include basis swaps, fixed-to-floating swaps and currency swaps. Although derivative instruments are commonly used in European transactions, they are rare in the U.S. due to regulatory constraints.

Other Parties

Trustee

The trustee protects the interests of the investors of securities issued under the transaction and performs the duties of the SPV. The trustee will also oversee disbursement of amounts due under the terms and conditions of the notes.

A trustee also monitors that all parties of the transaction comply with their corresponding obligations included in transaction documents. The trustee initially takes on a passive role, but becomes active once there is a breach of obligations by one of the parties and notifies the investors, while taking the necessary steps to protect the interests of the bondholders.

Transaction Legal Counsel

Securitizations usually entail a considerable amount of legal work. The legal counsel will generally be responsible for drafting the prospectus of the transaction and all the related agreements and legal opinions regarding the sale of the underlying pool.

Arranger

The arranger assists the originator in setting up the structure of the transaction. It proposes a capital structure with the desired credit protection of bondholders against a potential deterioration of the asset pool and ways to manage the potential risks (such as swaps, liquidity mechanisms and counterparties).

The arranger also acts as an intermediary between the originator/ issuer and external parties (including legal counsel, rating agencies and investors). The arranger role is typically fulfilled by investment banks.

Key Regulations

New rules were established in a number of jurisdictions such as the US and the EU after the global financial crisis. In the EU, the implementation of a new securitization regulation, applicable since January 2019, resulted in a more harmonized regulatory approach to securitization via the creation of the Simple, Transparent and Standardized (STS) concept.

In the U.S., the major legislative reform affecting securitization transactions was the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

The table below includes a summary of some of the key regulation requirements applicable in the U.S., UK and EU.

Regulatory Summary

	United States	European Union	UK
Regulatory Body	Securities & Exchange Commission (SEC)	European Securities Markets Association (ESMA)	Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA)
Main Regulations	<p>Different acts, some of which date from the 1930s and 1940s, have shaped the securitization industry in the U.S., where modern securitization started.</p> <p>The latest major U.S. regulatory development was the passing of the Dodd-Frank Wall Act, focussed on regulating the entire U.S. financial system following the 2008 financial crisis.</p>	<p>In the EU, securitization regulation came into effect in 2019 and aims to revitalize the securitization market. The EU laid down a general framework for securitization and created a framework for designating certain securitizations as simple, transparent and standardized (STS).</p> <p>In 2017, the EU Capital Requirements Regulation (CRR) was amended to include methods to calculate risk weights and preferential treatment for STS securitizations meeting certain criteria.</p>	<p>The UK Securitization Regulations are currently comprised of:</p> <ul style="list-style-type: none"> • The EU Securitization Regulation; • The amended CRR; and • The Securitisation (Amendment) (EU Exit) Regulations 2019. • The UK treasury launched a call for evidence in 2Q21 to update the securitization regulation to reflect UK-based regulation following the country's EU exit.
Risk Retention Requirements	In these jurisdictions, sponsors/originators are required to retain at least 5% of the transaction, the "first loss piece", with the aim of aligning the interests of originators and investors through risk retention.		
Main Due Diligence Requirements	<p>Among other things, sponsors and originators are required to:</p> <ul style="list-style-type: none"> • Ensure the accuracy of disclosures included in the prospectus regarding the assets. • Provide detail on any deviation from disclosed underwriting criteria. 	<p>Prior to holding a securitization position, investors must reflect on their understanding of the investment by considering among other things:</p> <ul style="list-style-type: none"> • the risk characteristics of the assets, • structural features, • the enforceability of liens on properties, • borrowers rights, 	Broadly aligned with the EU but subject to a call for evidence, although they are not generally expected to vary significantly.
Main Disclosure Requirements	<ul style="list-style-type: none"> • Asset-level disclosures • Prospectus and transaction documents • Shelf eligibility-related disclosures • Form 10-D and Form 10-K reporting • Disclosure of any asset repurchase activity relating to the transaction 	<ul style="list-style-type: none"> • Loan-level disclosures (via the ECB Collateral Eligibility and Loan Templates) • Prospectus and transaction documents • Quarterly investor reports on inside information or significant event disclosures 	Broadly aligned with the EU but subject to a call for evidence, although they are not generally expected to vary significantly.

The Role of Rating Agencies

The Role of a Rating Agency in a Securitization

Rating agencies such as Fitch Ratings rate the securities to indicate whether the SPV has strong or weak capacity to pay interest and principal in line with the provisions set out in the issuance documentation.

Fitch's ratings range from a very strong credit rating with the lowest expectation of default risk (AAAsf), to the lowest credit rating where the securities are already in default (Dsf).

Credit ratings enable a consistent credit comparison between tranches of various risk profiles and between various securitizations. Different credit ratings attract different risk weighting for investing entities. Ratings are also an input to determine repo eligibility and haircuts at central banks.

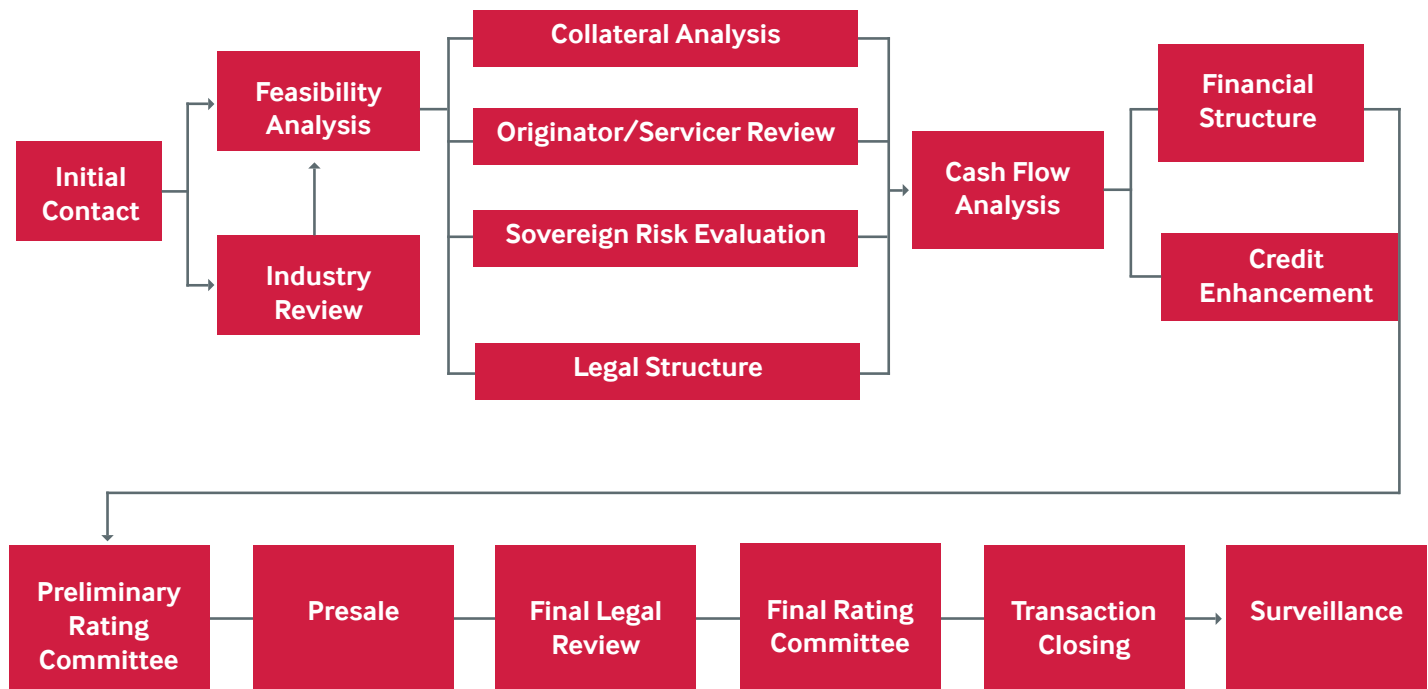
The Ratings Process

Fitch Ratings analyses the following factors to assign a rating to structured finance notes:

- the credit profile of the underlying assets,
- the legal and financial structure of the transaction,
- credit enhancement,
- liquidity protection mechanisms,
- isolation from the risk of default of the securitization's counterparties (such as servicers, swap providers, TAB or CAB)

The rating of each tranche of securities addresses the probability of full payment of interest and principal at the notes' legal final maturity and, in the case of highly rated tranches (generally 'AAAsf' and 'AAsf' category), the timely payment of interest.

Ratings Process



Default and Loss Analysis

Repayment of principal and interest on the underlying loans and collateral are used to service and repay the rated notes in securitizations. Fitch analyses the assets' credit characteristics to derive a loss expectation under a scenario that reflects Fitch's macroeconomic expectations. This is commonly referred to as the base-case or expected-case scenario.

The base-case scenario describes expected asset losses only, without reflecting loss-mitigating structural credit protection for the bonds of the transaction.

In addition to deriving a base case, which generally corresponds to (or is marginally below) Fitch's 'Bsf' rating stress scenario, asset loss expectations are generated under increasingly severe economic assumptions.

The asset default and loss expectations are higher for each successive rating scenario above 'Bsf'. Securities are rated at a given level if they have sufficient credit enhancement to be insulated from asset default or loss expectations that are consistent with a particular rating stress scenario.

Fitch uses a forward-looking rating philosophy that seeks to take a "through-the-cycle" approach in the higher rating scenarios and an expectations-based approach at the lower rating scenarios: In the higher rating scenarios assumed asset losses are expected to reflect a remote stress scenario that stays relatively stable over time, while the lower rating scenarios reflect assumptions more closely related to expectations of collateral performance formed at that time.

Fitch's 'AAAsf' and 'AAsf' ratings denote the lowest or very low relative default risk for bondholders, and repayment capacity is unlikely to be affected by adverse developments.



Key Credit Risk Factors in a Securitization

Asset Isolation Risk

A fundamental risk for securitizations is that the pool of assets is not sufficiently ring-fenced from the claims of other creditors and is therefore still linked to the originator's credit risk. The aim of securitization is for the transaction's primary credit risk to be the pool of assets rather than the originator's idiosyncratic credit risk.

Ring-fencing of the assets is typically achieved in securitizations by the sale of an identifiable and specific pool of assets, either directly or indirectly, to the SPV so that neither the assets nor their proceeds will be clawed back as part of the estate of the originator or seller in the event of its insolvency.

Asset Non-Payment Risk

Payment of interest and principal on the underlying loans and collateral are used to service and repay the securitized notes. To this end, the assets' credit characteristics are used to determine an asset loss expectation under a scenario that reflects the rating agency's macroeconomic expectations and is highly probable. This is commonly referred to as the base-case or expected case scenario.

Liquidity Risk

Unlike operating companies, SPVs are restricted by their formation and transaction documents and cannot borrow or raise capital to remedy cash flow shortfalls, or asset, security or transaction structural problems. A key consideration therefore is ensuring that liquidity risk is mitigated through transaction structural features.

Maturity Risk

Maturity risk relates to the likelihood of receiving payments in accordance with the issuance terms and conditions. A Fitch rating typically addresses repayment by the legal final maturity of the note unless there is a pre-defined principal repayment schedule that would represent an event of default if not met.

Counterparty Risk

Securitization performance can be influenced by the performance of a third party (the originator, seller, servicer, derivative counterparty or others). This can result in material credit exposure to that counterparty or operational dependence if the counterparty performs crucial functions that may not be replaceable and are crucial to the transaction performance.

Payment interruption risk is the risk that a securitization may not be able to meet upcoming required payments to security holders upon a disruption of the collections process. A disruption can materialize as a result of a default of the servicer or, in some cases, the CAB, resulting in a delay in access to funds already held in servicer's accounts at the time of default, and the inability of the defaulted servicer to collect and forward to the TAB any additional collections from the underlying asset pool.

Commingling risk is the risk of losing funds collected from the asset pool and held with a defaulting servicer or the CAB that are commingled with other funds of the defaulted entity.

Fitch assesses the mechanisms to mitigate these risks. If the risk linked to counterparty is not mitigated, the ratings assigned by Fitch to the securitized transaction may in some cases be capped by the rating of the counterparty.

Data Accuracy Risk

Rating agencies and investors rely on data provided by the issuing entity. Securitizations typically contain representations and warranties relating to the underlying assets (including those regarding ownership and title to the assets), and the organization and status of key transaction participants. They also typically include enforcement mechanisms available for the benefit of investors to address a breach of a representation or warranty.

Originator Risk

Asset performance can be influenced by the loan originator's operational controls and underwriting guidelines. In the transaction analysis, Fitch assesses whether collateral from an originator is likely to perform in line with, better, or worse than collateral from other originators.

In general, Fitch expects an originator to have sufficient operating experience in the relevant market and in originating the product comprising the asset pool.

Country Risk

Sovereign governments and their agents can affect the operating environment for private entities and securitizations in many ways. Country risk relates to uncertainty arising from factors such as political, economic or transfer and convertibility risks in a particular country that could affect investors' capacity to collect principal and interest. A country's governance and track record of enforcing contractual law is also fundamental. Country risk can reduce the certainty of performance projections for underlying assets.

Interest Rate Risk

Interest rate risk is the potential for investment losses that result from mismatches between the interest rates of the assets and the liabilities. If interest rates rise in an unhedged transaction, for example, the cash flows produced by the pool may not be sufficient to meet increased payments due under the notes.

Foreign Exchange Risk

Foreign exchange risk arises from mismatches between assets and liabilities' exchange rates (for example a euro-denominated portfolio backing non-euro-denominated notes). Foreign exchange risk is usually mitigated via currency swap arrangements.

Simple, Transparent and Standardized Securitization

EU regulators took the view that complex and opaque securitizations may hide or pose additional risks to investors. As a response to this, a new EU securitization regulation was announced in December 2017 and implemented in January 2019, introducing Simple, Transparent and Standardized Securitization (STS). This regulation sets out the conditions under which institutional investors could benefit from more favorable regulatory capital treatment for STS exposures.

The Simple component relates to the structure of the transaction. Structuring the transactions and the underlying pools must be done in the simplest way possible to improve the security holders' and the market's comprehension and facilitate credit analysis.

The Transparent component relates to increased disclosure.

The Standardized component relates to the comparability between transactions of the same issuer and for the same asset class. It mainly covers transaction documents, structure and performance definitions.

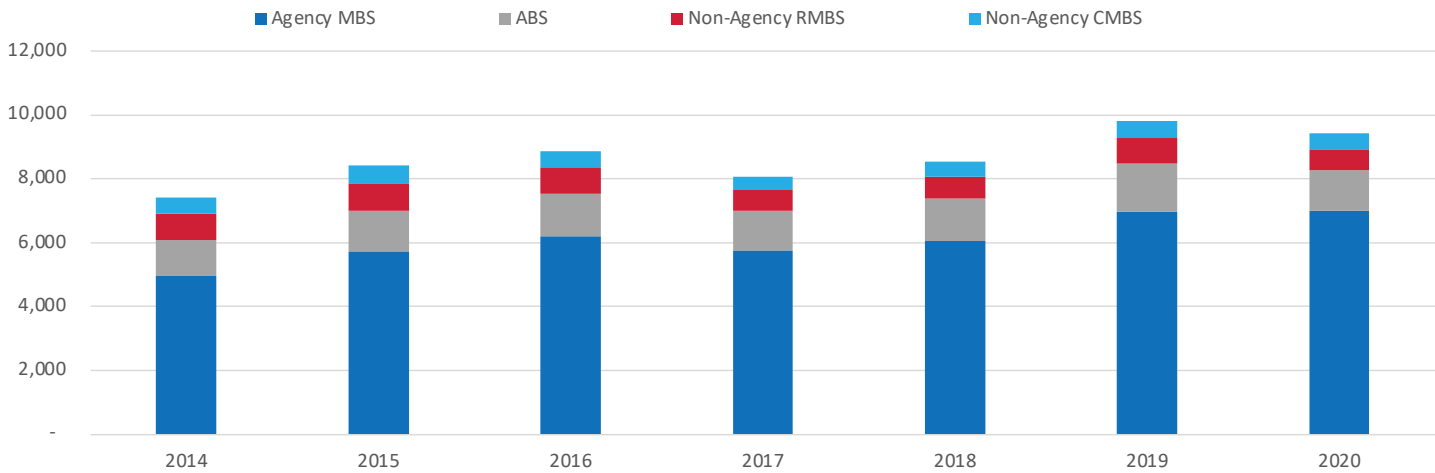
Simple	Transparent	Standardized
EU-based originator and SPV	Historical performance data provided at pricing	Minimum risk retention by the originator of 5%
No claw-back provision	Pool data verified by auditors	Mitigation of interest and currency risks
Homogeneous pool that meets pre-defined eligibility criteria	Transaction documents with details of the structure available to security holders	Transaction documents include the roles and replacement provisions of the counterparties
No loans in default at the time of pool transfer	Data on loans published regularly	Use of market interest rates
No securitization of securitizations		Definitions of voting rights

Sufficient credit history to evaluate default risk

Structured Finance Asset Classes

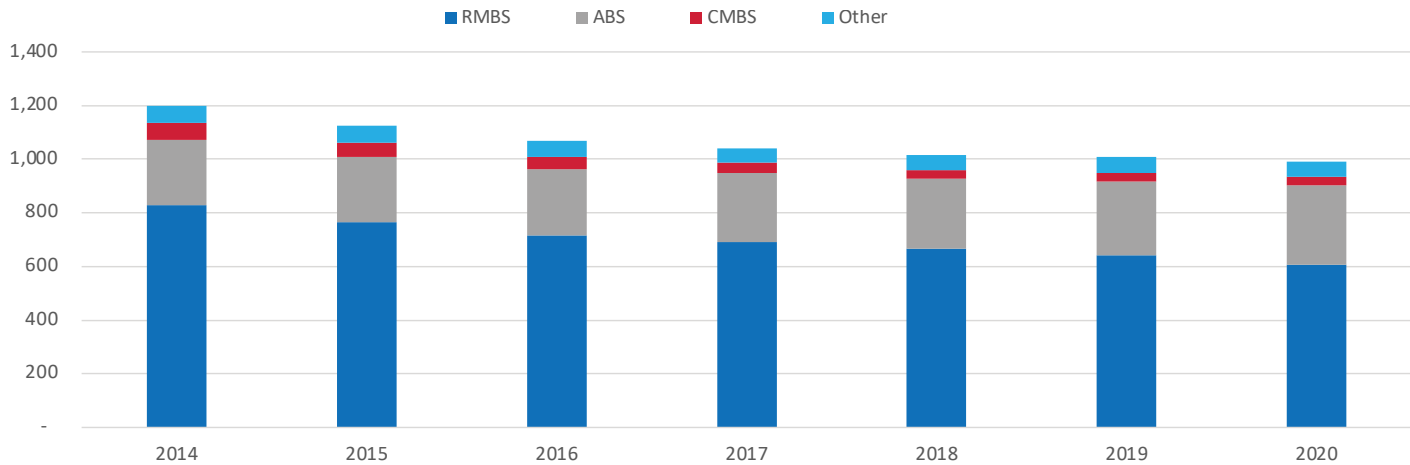
	ABS	RMBS	CMBS	Structured Credit
Underlying assets	<ul style="list-style-type: none"> Secured consumer lending such as auto loans Equipment leasing Unsecured consumer lending, including credit cards and student loans 	<ul style="list-style-type: none"> Mortgage loans backed by residential properties 	<ul style="list-style-type: none"> Mortgage loans backed by commercial properties 	<ul style="list-style-type: none"> Corporate loans to large and medium-sized companies with speculative-grade credit quality
Loan security	<ul style="list-style-type: none"> Cars purchased with auto loans Generally no security for unsecured consumer lending 	<ul style="list-style-type: none"> Financed residential property 	<ul style="list-style-type: none"> Financed commercial property and property income 	<ul style="list-style-type: none"> Borrowers' assets and future business proceeds
Average transaction maturity/Tenor	<ul style="list-style-type: none"> Generally short term, typically less than five years 10 or more years for student loans 	<ul style="list-style-type: none"> Generally, 25 to 30 years, but varies across jurisdictions and could be shorter Embedded call options reducing the life to 5-10 years 	<ul style="list-style-type: none"> 5 to 15 years 	<ul style="list-style-type: none"> 7 years for the assets, 10-12 years until maturity of CLO notes
Green assets	<ul style="list-style-type: none"> Electric vehicles Solar panels 	<ul style="list-style-type: none"> Energy-efficient housing 	<ul style="list-style-type: none"> Energy-efficient buildings 	<ul style="list-style-type: none"> Dependent on the underlying business of a company Lending to controversial sectors sometimes prohibited

Distribution of Asset Classes in the US (Amounts Outstanding in EUR million)



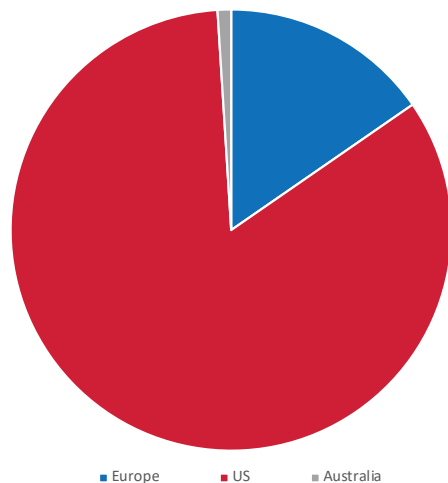
Source: Fitch Ratings, AFME

Distribution of Asset Classes in Europe (Amounts Outstanding in EUR million)



Source: Fitch Ratings, AFME

Securitised Issuances by Region Average yearly issuance 2000-2015



Source: Fitch Ratings, AFME

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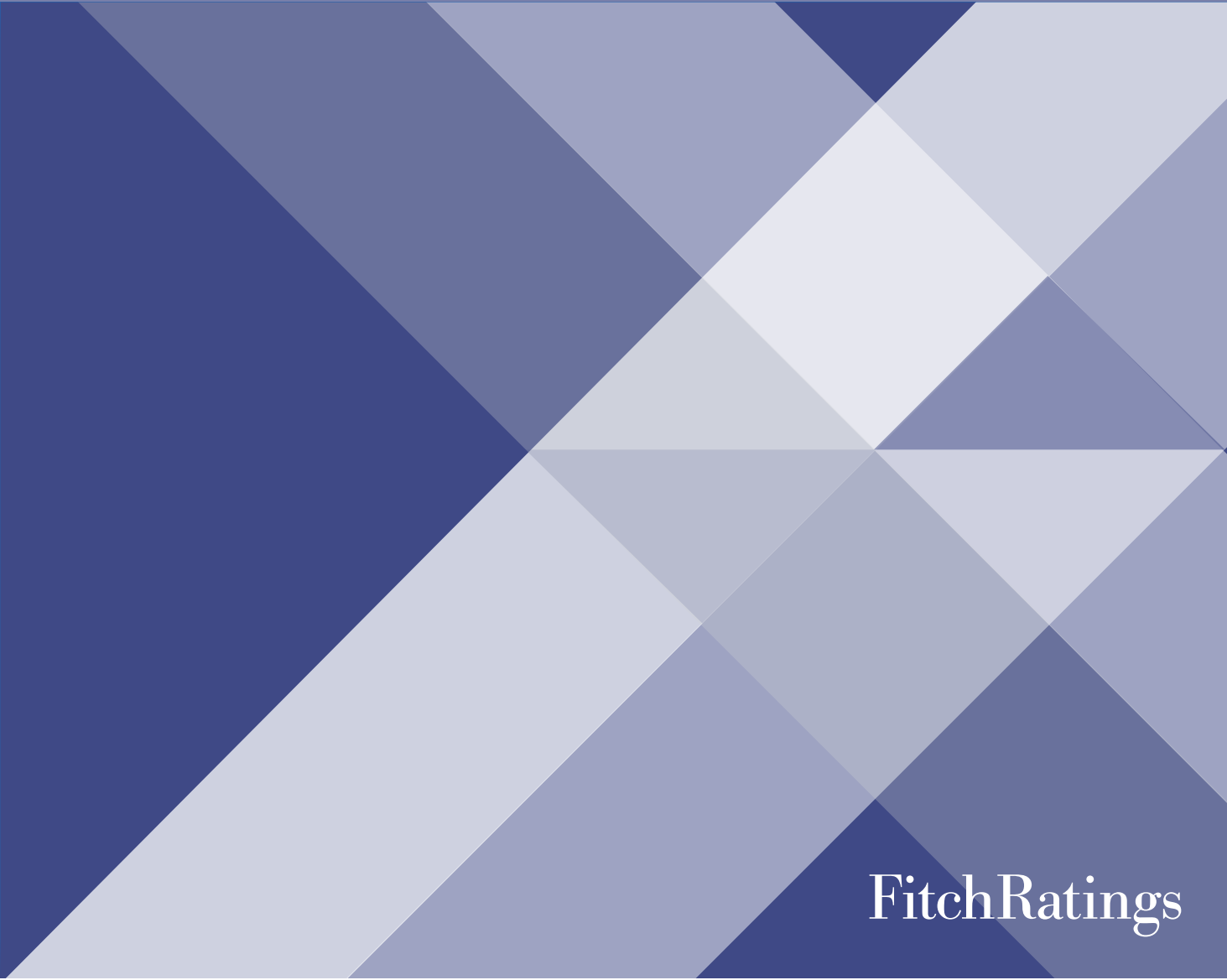
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