

both principal and interest to be applied to all payments to securityholders and, in others, principal can be used to pay interest to the subordinate tranches.

Interest which is received but is not required to make monthly payments to securityholders (or to pay servicing or other administrative fees or expenses) can be used as credit support. This excess interest is known as "excess spread" or "excess servicing" and may be paid out to holders of certain securities, returned to the sponsor or used to build up overcollateralization or a loss reserve. The credit given to excess spread is conservatively evaluated to ensure sufficient cash flow at any one point in time to cover losses. The rating agencies reduce the credit given to excess spread as credit support to take into account the risk of higher coupon loans prepaying first, higher than expected total prepayments, timing mismatching of losses with excess spread collections and the amounts allowed to be returned to the sponsor once minimum overcollateralization targets are met (thereby reducing the amounts available for credit support).

"Overcollateralization" is the difference between the outstanding principal balance of the pool of assets and the outstanding principal balance of the certificates backed by such pool of assets. This results in a larger principal balance of underlying assets than the amount needed to make all required payments of principal to investors. In all senior/subordinated transactions, the requisite level of overcollateralization and the amount of principal that may be paid to holders of the more subordinated certificates before the more senior securities are retired (since once such amounts are paid, they are unavailable to absorb future losses) is determined by the rating agencies and varies from transaction to transaction, depending on the type of assets, quality of the assets, the term of the certificates and other factors.

The senior/subordinated structure often combines the use of subordinated tranches with overcollateralization that builds over time from the application of excess interest to pay principal on more senior classes. This is often referred to as a "turbo" structure. The credit enhancement for each more senior class is provided by the aggregate dollar amount of the respective subordinated classes, plus overcollateralization that results from the payment of principal to the more senior classes using excess

spread prior to payment of any principal to the more subordinated classes. As overcollateralization grows, the pool of loans can withstand a larger dollar amount of losses without resulting in losses on the senior certificates. This also has the effect of increasing the amount of funds available to pay the more subordinated classes as an ever-decreasing portion of the principal cash flow is needed to pay the more senior classes. Excess interest is used to pay down the more senior certificate balances until a specific dollar amount of overcollateralization is achieved. This is referred to as the overcollateralization target amount required by the rating agencies. Typically, the targeted amount is set to ensure that even in a worst-case loss scenario commensurate with the assigned rating level, all securityholders, including holders of subordinated classes, will receive timely payment of interest and ultimate payment of principal by the applicable maturity date. In these transactions, the targeted amount is usually set as a percentage of the original pool balance. It may be reduced after a fixed number of years after the closing date, subject to the satisfaction of certain loss and delinquency triggers. These triggers ensure that overcollateralization continues to be available if pool performance begins to deteriorate. In a senior/subordinated structure, every investment-grade class (whether or not subordinated) is protected by either a lower rated subordinated class or classes or other credit support.

Provision of Credit Support Through Servicer Advancing

32. In some cases, the master servicer, or an affiliate of the master servicer, may provide credit support to the trust. In these cases, the master servicer, in its capacity as servicer, will first advance funds to the full extent that it determines that such advances will be recoverable (a) Out of late payments by the obligors, (b) from the credit support provider (which may be the master servicer or an affiliate thereof) or (c) in the case of a trust that issues subordinated certificates, from amounts otherwise distributable to holders of subordinated certificates; and the master servicer will advance such funds in a timely manner. When the servicer is the provider of the credit support and provides its own funds to cover defaulted payments, it will do so either on the initiative of the trustee, or on its own initiative on behalf of the trustee, but in either event it will provide such funds to cover payments to the full extent of its obligations under the credit support mechanism. In some cases,

however, the master servicer may not be obligated to advance funds but instead would be called upon to provide funds to cover defaulted payments to the full extent of its obligations as insurer. Moreover, a master servicer typically can recover advances either from the provider of credit support or from future payments on the affected assets.

If the master servicer fails to advance funds, fails to call upon the credit support mechanism to provide funds to cover delinquent payments, or otherwise fails in its duties, the trustee would be required and would be able to enforce the certificateholders' rights, as both a party to the pooling and servicing agreement and the owner of the trust estate, including rights under the credit support mechanism. Therefore, the trustee, who is independent of the servicer, will have the ultimate right to enforce the credit support arrangement.

When a master servicer advances funds, the amount so advanced is recoverable by the master servicer out of future payments on receivables held by the trust to the extent not covered by credit support. However, where the master servicer provides credit support to the trust, there are protections in place to guard against a delay in calling upon the credit support to take advantage of the fact that the credit support declines proportionally with the decrease in the principal amount of the obligations in the trust as payments on receivables are passed through to investors.²³

Description of Designated Transactions

33. The Applicant requests relief for senior and/or subordinated investment-grade certificates with respect to a limited number of asset categories: Motor vehicles, residential/home equity, manufactured housing and commercial mortgage backed securities. Accordingly, set forth below are separate profiles of a typical transaction for each asset category. Each profile describes specifically how each type of transaction generally is structured. Information on the due diligence that the rating agencies conduct before assigning a rating to a particular class of such securities, the calculations that are performed to determine projected cash flows, loss frequency and loss severity and the manner in which credit support requirements are determined for each rating class is not included because such information has been provided previously to the Department in connection with PTE 2000-58. The

interest or principal not required to cover current payments to the senior and subordinated class eligible to be purchased by plans. Thus, this mechanism is not harmful to the interests of senior securityholders.

²³ See the Proposal to PTE 2000-58 (August 23, 2000, 65 FR 51454, at page 51475) for a fuller explanation of these safeguards.