

## SPECIAL REPORT

# US ABCP 2009 Year in Review and 2010 Outlook

ABCP / United States

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## Summary and Outlook

As the Great Recession has faded, the supports undergirding the Prime-1 ratings on the ABCP market have firmed. However, Moody's outlook for the banking sector continues to be negative. One concern is the extent of systemic support that will be available to banks and the banking system. Any reduction in this support could have a negative impact on bank ratings. As most ABCP rating actions are driven by bank rating changes, we expect ABCP ratings to follow bank short-term rating actions, if any, in 2010.

The volume of ABCP issued in 2010 will largely depend on the economic recovery. Banks seem willing to add well-structured transactions to ABCP conduits and there are sellers who desire such facilities. Utilization of those facilities is 10 to 15 percentage points lower than several years ago. If business activity increases, utilization and the amount of ABCP outstanding should increase.

The reduced amount outstanding has helped to firm the market for asset-backed commercial paper. Money market funds regularly note the lack of paper available for purchase. As a result spreads have tightened and the share of overnight issuance has declined from the peaks seen in 2008. Changes in US regulations encouraging ABCP issuers to fund at longer maturities and encouraging money funds to invest at shorter maturities are expected to be manageable.

Recent changes in rules regarding the implementation of Basel II and regulatory capital requirements are more problematic. The final rule released by the FDIC follows the accounting standards set by FAS 166 and 167 with the likely impact that any existing US bank-sponsored conduits not on balance sheet will come on balance sheet. The final rule also appears to remove the internal assessment approach (IAA) as a means of determining the risk-weighting of assets in an on-balance sheet conduit, even though the IAA would be permitted if the asset were directly on balance sheet. Our discussions with US banks affected by this regulation indicate that they will be much occupied in 2010 dealing with this issue. However, we do not believe it has any credit implications for the rating of the ABCP conduits themselves.

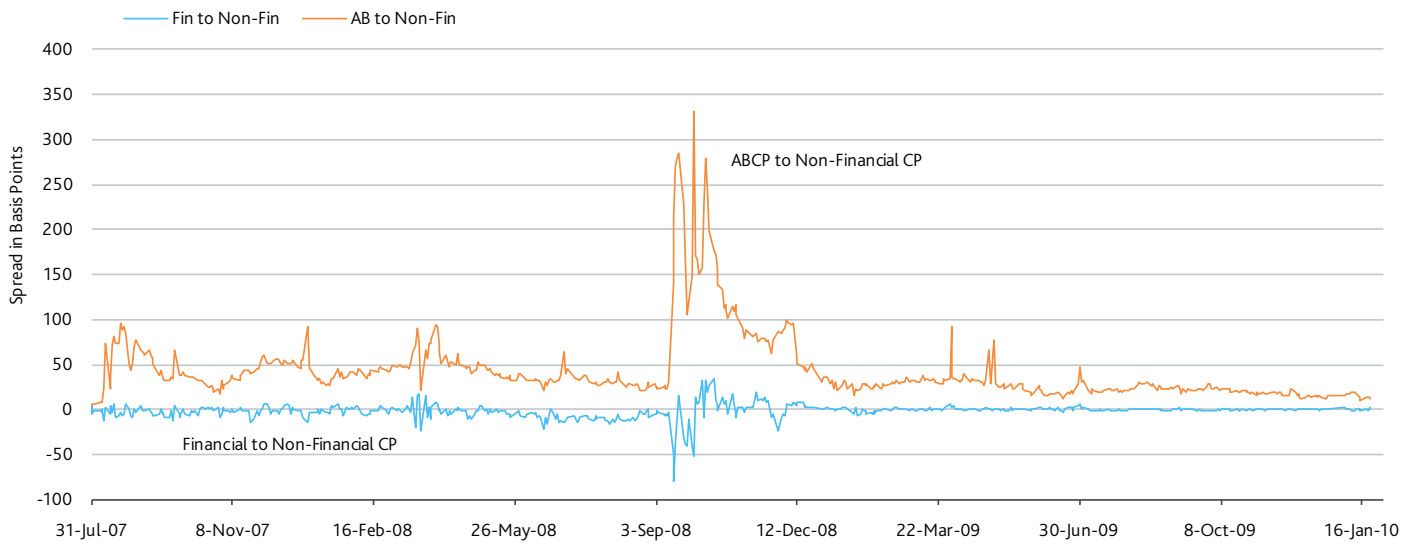
## Market Commentary

### Calm Waters

As evidenced by spreads and issuance, 2009 saw the ABCP market return to calm waters. There are three primary indicators of this.

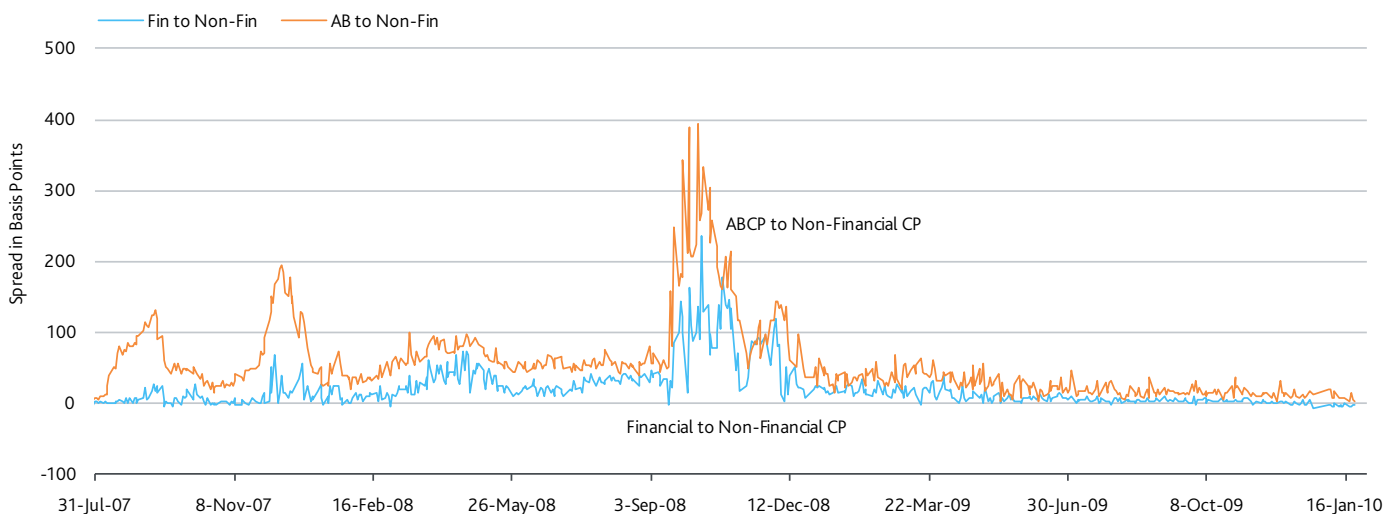
The spreads between ABCP and non-financial commercial paper continued to tighten through 2009 (see Charts 1 and 2). For overnight rates, the spread in basis points is back in the teens, and for 30-day rates the spread is close to single digits. The overnight and 30-day spread for financial to non-financial commercial paper is essentially back to zero. We use the rate on non-financial commercial paper as a benchmark because it was the least affected by the events of the past three years.

**CHART 1**  
**Overnight Commercial Paper Spreads**



Source: US Federal Reserve

**CHART 2**  
**30-Day Commercial Paper Spreads**

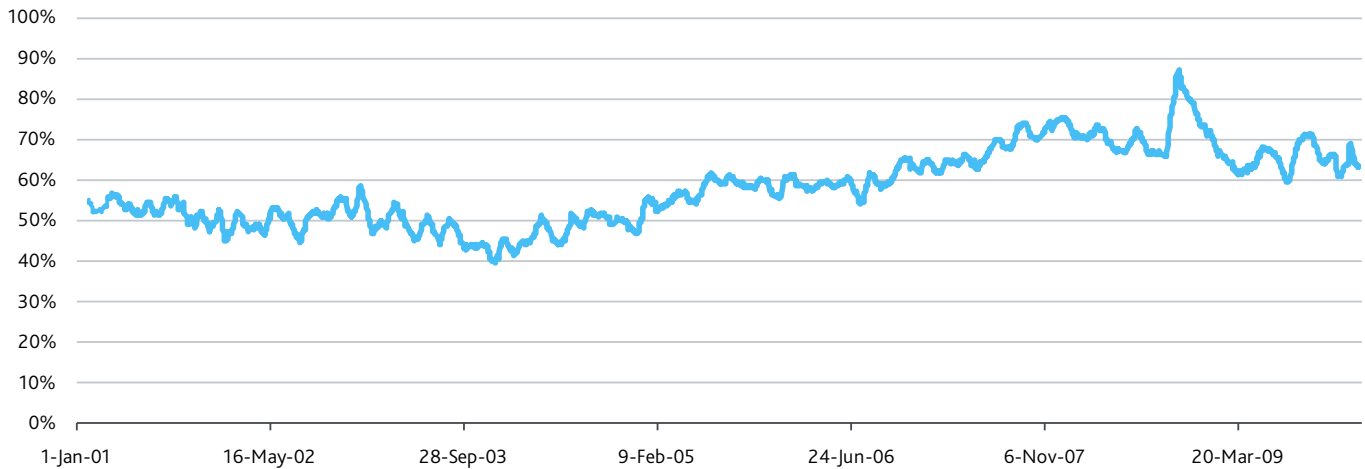


Source: US Federal Reserve

A second measure of market stability, the share of overnight issuance in total US ABCP, also continued to improve in 2009. As measured by the Federal Reserve's one-to-four day maturity bucket, the average as a percent of total is back in the 60-65% range. While still above its averages in the 50-

60% range during 2001-06, it's lower than the 70-75% of the last third of 2007, and the spike to almost 90% in the fall of 2008. Below we discuss how regulatory actions affecting sponsoring banks and 2a-7 money funds may affect maturities going forward.

**CHART 3**  
**Overnight Share of Total ABCP Issuance**  
 30-day moving average

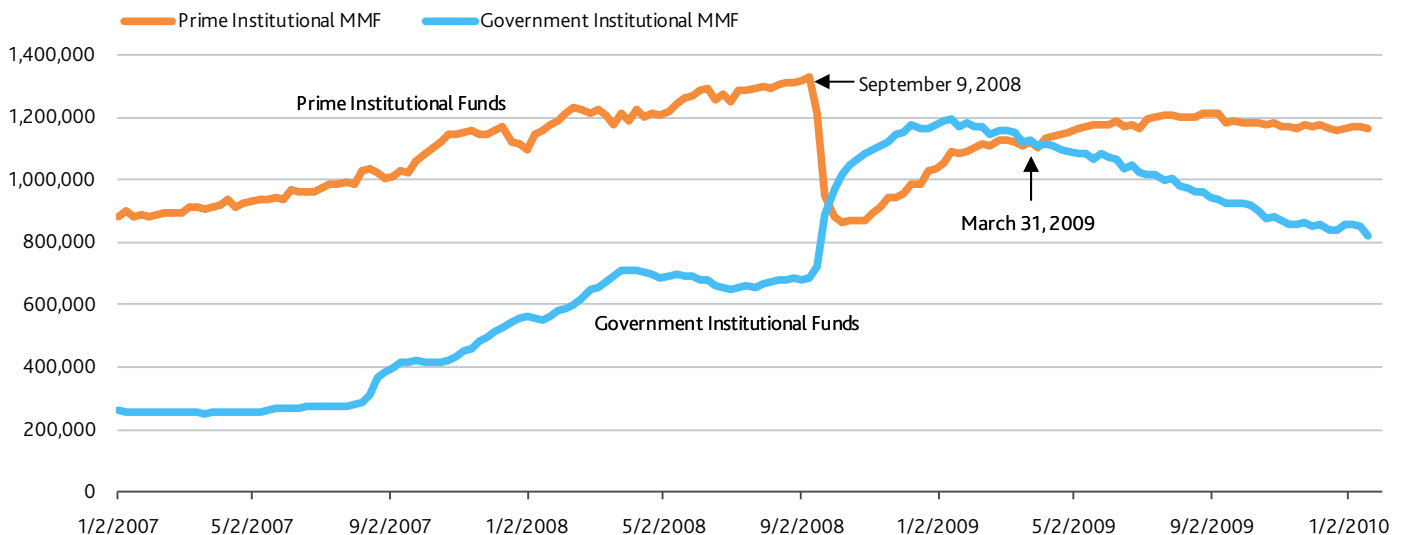


Source: US Federal Reserve

Third, institutional investors came back to prime money funds and stayed with them. In October of 2008 some \$400 million of institutional funds fled prime money funds for the safety of government money funds (Chart 4). This shift largely corrected itself by the end of March 2009, as investment in prime funds stabilized and investment in

government funds continued to decline in volume. Note that the yield on short term instruments is extraordinarily low, and both types of funds have lost ground in the latter half of 2009. But the lack of confidence seems to have abated.

**CHART 4**  
**Weekly Money Market Fund Assets**



Source: iMoneyNet

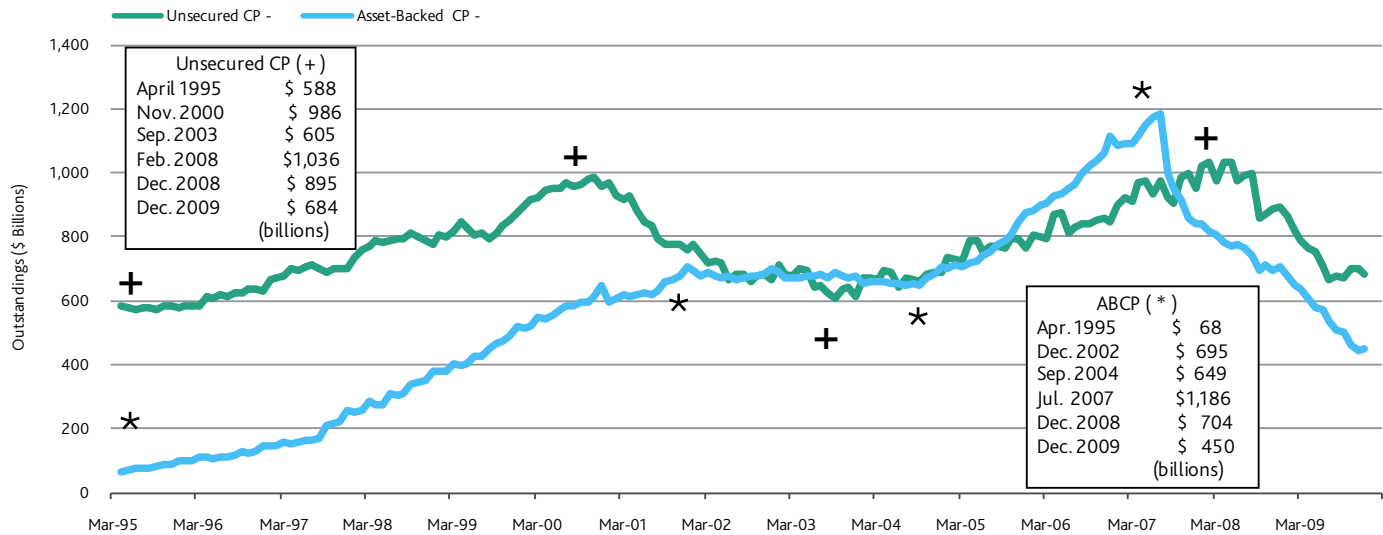
### Supply and Demand

One factor that has, paradoxically, helped to stabilize the market has been the steady decrease in the supply of

commercial paper. ABCP has declined from \$1.2 trillion in June of 2007 to approximately \$450 billion at the end of 2009.

CHART 5

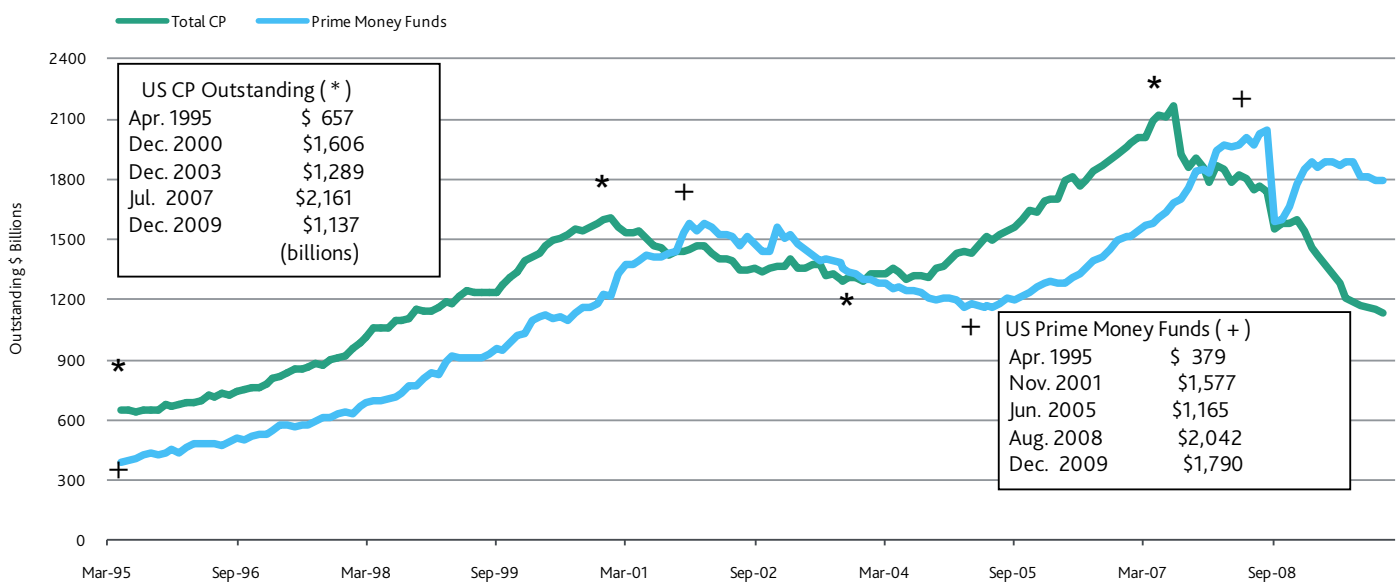
#### US CP Since 1995



Source: US Federal Reserve

CHART 6

#### CP and Money Funds



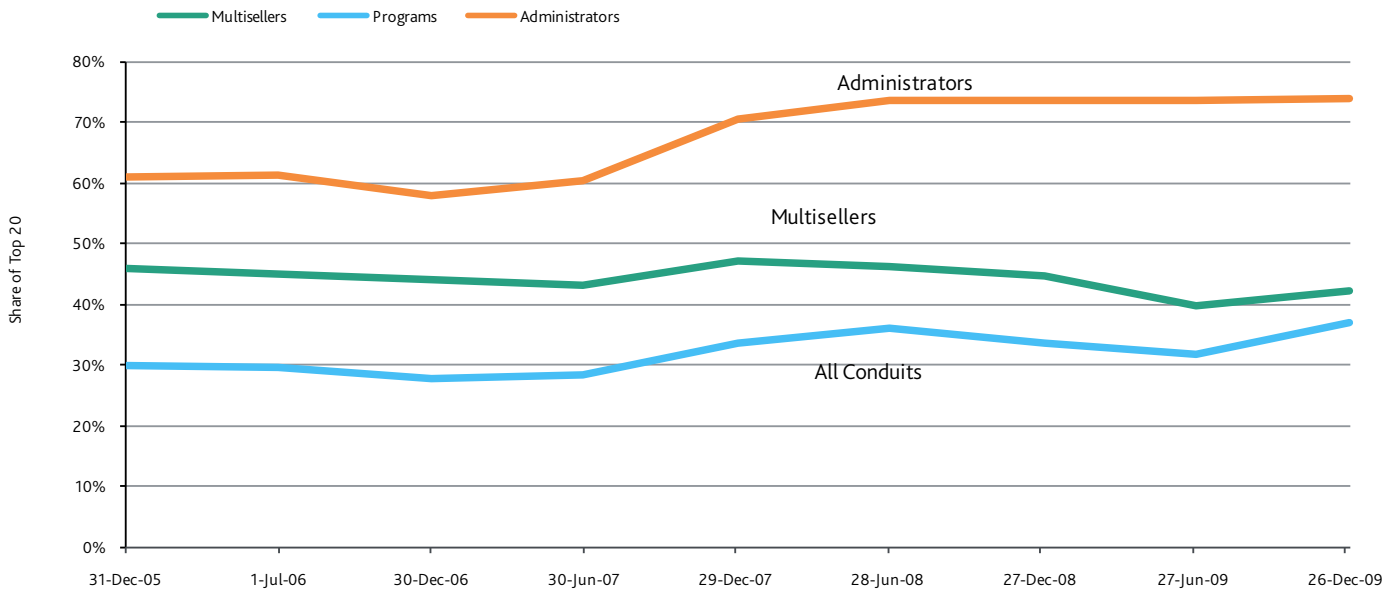
Source: US Federal Reserve, iMoneyNet

As noted above, while prime money funds, the largest investor in ABCP, declined suddenly in the Fall of 2008, that volume has largely returned. Money managers are finding it increasingly difficult to invest in assets that pay enough return to reward investors and cover fees. Ironically, decreased supply and stable demand has helped to tighten spreads and improve the tone of the commercial paper market.

### Increasing Concentration

Another long term change in the ABCP market has been the increasing concentration on both the buy and sell side of the market. Through bank mergers the number of conduit sponsors has been decreasing. Similarly through mergers the number of money fund managers has been decreasing. Chart 7 shows the increased concentration of conduit sponsors, while Chart 8 shows similar information on the fund manager side.

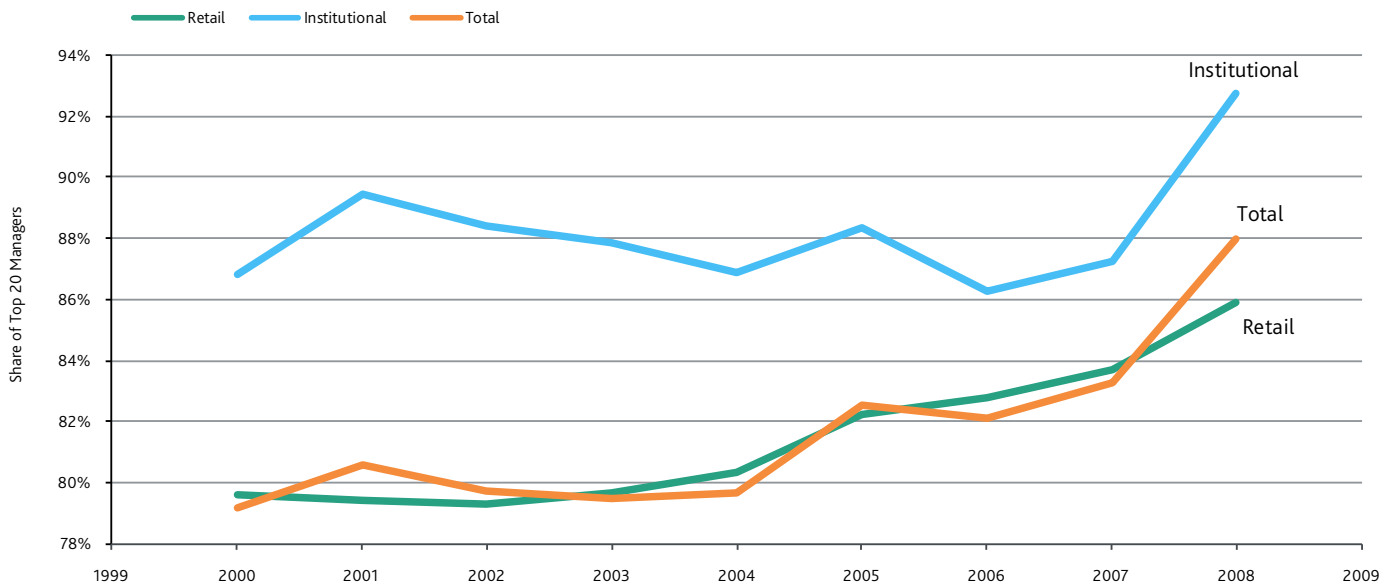
CHART 7  
**ABCP Market Concentration**



Source: Moody's

CHART 8

## Money Fund Concentration



Source: iMoneyNet

Chart 7 shows the Moody's rated ABCP market share of the top 20 conduits, multiseller conduits and administrators. The share of the top 20 conduits and the top 20 multiseller conduits has been fairly constant: the average conduit size relative to the market has not been increasing. However, the share of the top 20 conduit administrators has increased, from around 60% prior to 2007 to about 75% today. Most of that increase occurred between June 2007 and December 2008.

The story for money funds is slightly different. As can be seen in Chart 8, retail funds have seen a steady increase in concentration—as measured by the market share of the top 20 fund managers—since 2003. Management of institutional funds was always more concentrated, but showed a jump in 2008.

There are benefits from greater concentration on both sides of the market. Larger administrators and fund managers are likely to be able to operate more efficiently and have greater expertise than their smaller counterparts. Administrators with

multiple conduits can provide different funding and investment opportunities by their choice of policies for each program.

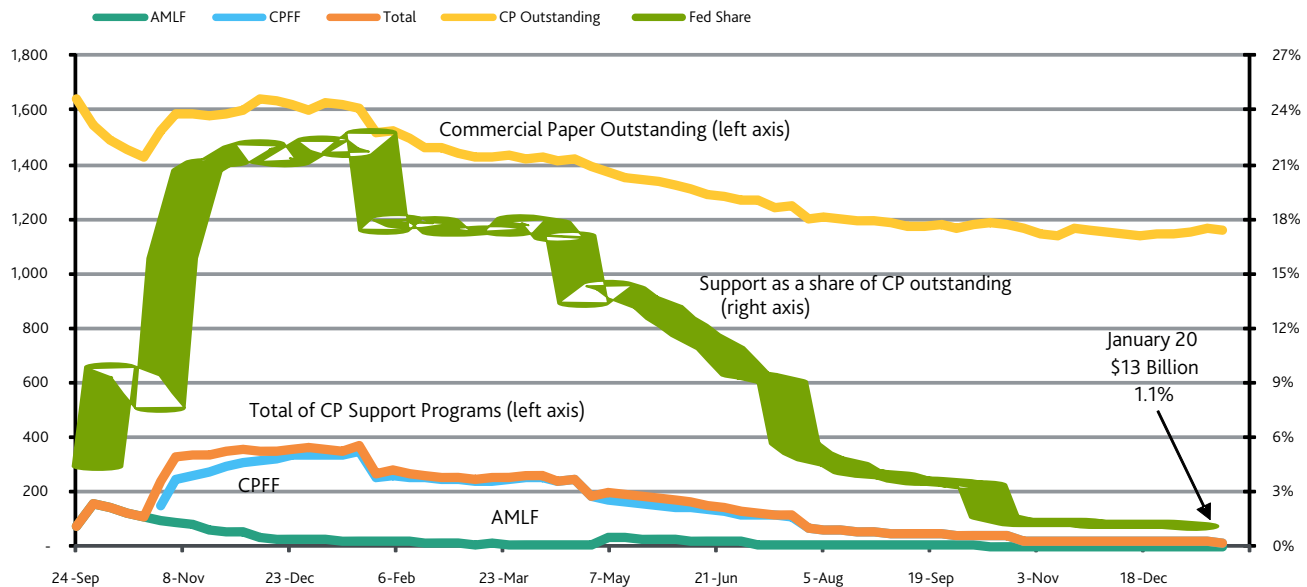
However, increased concentration may result in more volatility under certain conditions. Fewer decision makers are needed to have a major impact on funding and investment decisions, increasing the likelihood of sudden swings in spreads and maturities. While this is unlikely to be an issue in calm markets, it may aggravate conditions in times of stress similar to those of the past two years.

### Adiós CPFF

The Commercial Paper Funding Facility (CPFF), the last of three programs established to provide liquidity to the commercial paper market, expired on February 1, 2010. The remaining \$8.7 billion, down from a high of \$350 billion a year ago, will run off within the next 90 days or less.

CHART 9

## Federal Reserve Commercial Paper Support Programs



Source: US Federal Reserve

The CPFF and its companion programs, the AMLF and the never used MMIFF, certainly helped to stabilize money markets when institutional investors removed \$400 billion from prime money funds in a matter of days in October of 2008. Often described as a “shadow banking system,” commercial paper and money funds provided a great deal of financing to main street while providing individuals and corporations a (usually) higher yielding high quality investment alternative to bank deposits and Treasuries.

Unlike the real banking system which can re-discount assets to the Federal Reserve, commercial paper and the money funds never had a backup source of liquidity for good assets. The ending of these programs and the various regulatory changes intended to improve liquidity clearly indicate that the government intends the short-term paper market to stand on its own. However, certainly the success of these programs will be remembered should events similar to those of the fall of 2008 ever reoccur.

### Regulatory Changes Will Affect the Market

Recent regulatory pronouncements will affect both sides of the ABCP market. On the conduit side, the impact is likely to be consolidation, higher regulatory capital, and a pressure to longer term funding. On the money fund side the incentive is to greater liquidity.

### Conduits Affected by Regulatory Capital Rules

On the bank side, the four major regulatory bodies—the Office of the Comptroller of the Currency, the Federal Reserve, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision—released their final rule for risk-based capital guidelines on December 15, 2009. Regulatory capital will essentially follow Financial Accounting Standards Board (FASB) FAS 166 and FAS 167, which, in turn, will likely cause any affected bank which does not currently consolidate its ABCP conduits on balance sheet to do so by the end of 2010. This will likely result in higher regulatory capital requirements, and these will also be phased in by the end of 2010.

A second change in the regulation affects how the regulatory capital requirement will be calculated. Under Basel II there are four approaches to determining risk: the standard approach, the internal assessment approach (IAA), the supervisory formula and a public rating. It was (and still is) expected that all money center banks will use the IAA as their primary risk assessment approach. However, under the final rule, the IAA cannot be used for assets held in ABCP conduits held on balance sheet. This results in a rather odd situation. A trade receivable transaction financed in an off-balance sheet conduit can be evaluated via IAA. That same transaction funded in a conduit held on balance sheet cannot.

Banks have several options. There is some discussion about finding ways to move conduits off balance sheet, though this goes against the recent trend, encouraged by the regulators, to bring them on balance sheet. Another approach is to use the supervisory formula to assess risk. The supervisory formula is rather complex and data intensive, but presumably easy to repeat once implemented. However, implementation is likely to be time consuming and expensive, and the formula is complex enough so the result is not easy to predict. The final approach, obtaining public ratings from two rating agencies, presents its own issues of time, complexity, cost and disclosure.

Another provision in the final rule adds uncertainty to the entire process. The regulators have explicitly reserved the right to require a bank to treat an off-balance sheet entity as on balance sheet for regulatory capital purposes, even if it meets FASB requirements. So a bank that tries to keep or return a conduit to off-balance sheet status cannot be sure this will be successful for regulatory capital purposes, even if it is successful for accounting purposes.

It should be noted that unless conduit sponsors need to amend their ABCP programs in order to respond to these regulatory changes, none of the changes have any credit implications for the Prime-1 ratings on the ABCP conduits. These are accounting and regulatory capital issues, not credit issues.

### Money Funds Must Improve Liquidity

New regulations for 2a-7 money funds were announced by the Securities and Exchange Commission on January 27 2010. The intent is to increase the liquidity and improve the stability of the funds. While there are a number of changes, the rules dealing with liquidity will have the most impact on the ABCP market.

First, there are requirements to hold near cash assets—cash, Treasuries or other securities that convert into cash. Ten percent must mature within one day, and 30 percent must be able to be converted to cash (mature or salable at amortized cost) within one week. Second, the maximum weighted average maturity of the fund is reduced from 90 to 60 days, and a maximum weighted average life limit of 120 is added for the first time.

Most ABCP is placed to maturities of 30 days or less, and there is a scarcity of ABCP available to money fund investors due to the shrinkage of the market over the past three years. So it is unlikely that the new 2a-7 rules will have much immediate impact on the ABCP market. However, if the ABCP market recovers and returns to growth, the incentive for money funds to hold shorter maturities may conflict with ABCP program sponsors to fund at longer maturities.



## US ABCP Market

### Moody's Rated Programs

The number of US ABCP programs rated by Moody's and the volume of commercial paper that they issue continued to decline in 2009, in line with the broader market (Tables 1 and 2). Note that the Moody's numbers are average outstandings over the fourth quarter while the Federal Reserve numbers are year end. The decline of SIVs and other securities based programs is most likely the reason why the discrepancy between the Moody's number and the Federal Reserve number has decreased.

TABLE 1  
US ABCP Outstanding, Federal Reserve

DATE	OUTSTANDINGS \$ BILLION	CHANGE \$ BILLION	CHANGE PERCENT
Dec-99	521		
Dec-00	646	125	24%
Dec-01	700	54	8%
Dec-02	695	-5	-1%
Dec-03	659	-36	-5%
Dec-04	680	21	3%
Dec-05	848	168	25%
Dec-06	1,113	265	31%
Dec-07	839	-274	-25%
Dec-08	704	-135	-16%
Dec-09	450	-254	-36%

Source: US Federal Reserve

TABLE 2  
ABCP Outstanding, Moody's Rated Programs  
(Average 4th Quarter Outstandings, \$ billions)

YEAR	US OUT- STANDINGS \$ BILLION	CHANGES BILLION	CHANGE PERCENT	GLOBAL OUT- STANDINGS \$ BILLION	CHANGE \$ BILLION	CHANGE PERCENT
1999	451			491		
2000	553	102	22.5%	584	94	19.1%
2001	635	82	14.8%	691	107	18.3%
2002	644	9	1.5%	734	43	6.3%
2003	647	3	0.5%	773	39	5.3%
2004	650	3	0.5%	812	38	4.9%
2005	803	152	23.4%	980	168	20.7%
2006	1009	206	25.6%	1266	286	29.2%
2007	794	-215	-21.3%	1057	-209	-16.5%
2008	657	-137	-17.3%	852	-205	-19.4%
2009	453	-204	-31.1%	657	-195	-22.9%

Source: Moody's

While all types of programs continue to decline, multisellers have continued to gain market share at the expense of all other types (Tables 3-6). Globally the share of multiseller programs is up to 69% at the end of 2009, up from 65% in 2008 and 44% in 2006. For US-based programs, where multisellers have always been more prevalent, the share at the end of 2009 is 84%, up from 80% in 2008 and 57% in 2006.

TABLE 3

**Moody's rated program types, outstandings, worldwide**

Average Outstandings, \$US, Fourth Quarter

	2009	2008	2007	2006	2005	2000	1995
Multiseller	412,667	563,434	626,324	548,410	454,469	365,076	65,244
Hybrid	45,216	76,914	116,367	148,479	91,720	12,527	-
Single Seller	68,362	91,617	111,058	173,548	141,423	50,635	21,236
Securities Arbitrage	36,360	53,417	139,178	214,203	178,836	94,792	-
SIV	12,719	25,543	49,726	92,641	59,038	25,305	5,080
Other	19,487	55,526	91,799	58,915	58,796	37,732	7,288
<b>Total</b>	<b>594,811</b>	<b>866,451</b>	<b>1,134,453</b>	<b>1,236,196</b>	<b>984,283</b>	<b>586,067</b>	<b>98,848</b>

**Percentage Share**

	2009	2008	2007	2006	2005	2000	1995
Multiseller	69.4%	65.0%	55.2%	44.4%	46.2%	62.3%	66.0%
Hybrid	7.6%	8.9%	10.3%	12.0%	9.3%	2.1%	0.0%
Single Seller	11.5%	10.6%	9.8%	14.0%	14.4%	8.6%	21.5%
Securities Arbitrage	6.1%	6.2%	12.3%	17.3%	18.2%	16.2%	0.0%
SIV	2.1%	2.9%	4.4%	7.5%	6.0%	4.3%	5.1%
Other	3.3%	6.4%	8.1%	4.8%	6.0%	6.4%	7.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Note: "Other" includes CDOs issuing ABCP

Source: Moody's

TABLE 4

**Moody's rated ABCP programs by type worldwide**

Fourth Quarter

	2009	2008	2007	2006	2005	2000	1995
Multiseller	145	149	132	139	131	143	72
Hybrid	15	20	28	28	27	8	-
Single Seller	30	36	67	63	57	55	40
Securities Arbitrage	9	17	33	36	38	59	-
SIV	20	29	36	28	21	13	5
Other	17	23	71	8	37	18	27
<b>Total</b>	<b>236</b>	<b>274</b>	<b>367</b>	<b>302</b>	<b>311</b>	<b>296</b>	<b>144</b>

**Percent Share of Average Fourth Quarter Outstandings**

	2009	2008	2007	2006	2005	2000	1995
Multiseller	61.4%	54.4%	36.0%	46.0%	42.1%	48.3%	50.0%
Hybrid	6.4%	7.3%	7.6%	9.3%	8.7%	2.7%	0.0%
Single Seller	12.7%	13.1%	18.3%	20.9%	18.3%	18.6%	27.8%
Securities Arbitrage	3.8%	6.2%	9.0%	11.9%	12.2%	19.9%	0.0%
SIV	8.5%	10.6%	9.8%	9.3%	6.8%	4.4%	3.5%
Other	7.2%	8.4%	19.3%	2.6%	11.9%	6.1%	18.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Note: "Other" includes CDOs issuing ABCP

Source: Moody's

TABLE 5

**ABCP Outstanding**

Moody's Rated Programs based in the US, \$millions

	2009	2008	2007	2006	2005
Loan-Backed	1,052	2,222	3,220	3,618	2,816
SIVs	-	-	480	426	198
Single-Seller	36,459	54,186	59,865	155,623	132,543
Multi-Seller	277,996	378,398	428,667	384,132	328,012
Unspecified	-	-	6,162	8,346	1,239
Securities Arbitrage	7,118	19,437	51,183	76,879	74,657
Hybrid	6,520	17,445	27,479	39,074	29,396
Total	329,145	471,688	577,056	68,097	568,860

Source: Moody's

TABLE 6

**Number of Programs**

Moody's Rated Programs based in the US

	2009	2008	2007	2006	2005
Loan-Backed	1	1	1	1	1
SIVs	-	-	3	1	1
Single-Seller	15	23	51	54	50
Multi-Seller	61	70	72	76	73
Unspecified	-	-	2	2	1
Securities Arbitrage	4	9	21	24	24
Hybrid	3	5	10	11	11
Total	84	108	160	169	161

Source: Moody's

We expect this trend to continue, as the remaining securities programs continue to amortize down. These are unlikely to be replaced unless securitization and ABS spreads show a significant revival, if then. Similarly single seller programs are unlikely to return until finance companies regain their strength. Multisellers continue to add transactions, albeit slowly, and outstanding volume is limited by weak economic activity leading to low utilization.

## Rating Actions in 2009

Rating actions affected six programs in 2009 (Table 7). In two cases (Belmont and Neptune) programs were placed on review when a support party's rating was placed on review. The sponsors corrected the situation and the ratings were affirmed at P-1. In the case of Lockhart the program was downgraded to Not Prime following the downgrade of the sponsor and liquidity provider, Zion's Bank.

New Center Asset Trust was downgraded to Prime-2 as the result of deteriorating asset quality. The program was later terminated and the rating withdrawn. Greyhawk funding was placed on review for possible downgrade due to asset credit quality, and the sponsor wound down the program and the rating was withdrawn.

Finally, Ocala Funding, a single seller mortgage warehouse program sponsored by Taylor Bean Whitaker, was downgraded to Not Prime when the sponsor entered bankruptcy. There have been allegations of mismanagement and fraud, which have been discussed in several articles published by Moody's.<sup>1</sup>

## New and Terminated Programs

Moody's assigned Prime-1 ratings to seven new programs in 2009, only three of those in the US (Table 8). Two of the new US programs were multisellers, the largest being Straight-A Funding, a government sponsored program intended to finance FFELP student loans. The one single seller, Thunderhead CP Notes, was structured to finance credit card receivables from a Citibank credit card master trust.

During the year Moody's withdrew ratings on 39 programs, 23 of which were based in the US (Table 9). Twelve of these programs were multisellers. Five were part of the government-sponsored Money Market Investor Funding Facility, established in November 2008 to help stabilize the money markets and never used. They were terminated without ever having issued any commercial paper. In addition, six single seller programs and five securities programs were closed.

<sup>1</sup> See "Moody's Weekly Credit Outlook," February 10, 2010, December 7, 2009, October 19, 2009 and September 14, 2009 for discussions of Ocala.

TABLE 7  
**Moody's ABCP Rating Actions in 2009**

PROGRAM NAME	TYPE	DATE	RATING ACTION	REASON
Lockhart Funding	Credit Arbitrage	4/21/2009	Downgraded to Not Prime	Support provider rating downgraded to Not Prime
Belmont Funding LLC	Multiseller	1/22/2009	On review for possible downgrade	Rating of counterparty for asset was placed on review
		2/27/2009	Rating confirmed at Prime-1	Asset removed from conduit
Neptune Funding Corp	Multiseller	1/22/09	On review for possible downgrade	Rating of counterparty for asset was placed on review
		2/25/2009	Rating confirmed at Prime-1	Asset removed from conduit
		6/30/2009	Rating withdrawn	At sponsor's request
New Center Asset Trust	Single Seller - GMAC Auto	1/29/2009	Downgraded to Prime-2	Asset was downgraded
		10/1/2009	Rating Withdrawn	At sponsor's request
Greyhawk Funding	Securities Arbitrage	2/3/2009	On review for possible downgrade	Assets placed on review for possible downgrade
		5/21/2009	Rating withdrawn	At sponsor's request
Ocala Funding, LLC	Single-Seller	8/5/2009	On review for possible downgrade	Sponsor investigated by Federal agents
		8/19/2009	Downgraded to Not Prime	Sponsor ceases business, event of default

Source: Moody's

TABLE 8  
**New Programs Rated by Moody's in 2009**

MDY	PROGRAM NAME	SPONSOR/ADMINISTRATOR	PROGRAM TYPE	SUPPORT	MARKET	AUTH. AMOUNT	DATE RATED	RESP OFFICE
P-1	Thunderhead CP Notes	Citibank Omni Master Trust	Single-Seller	Partial	US	2,000	1/27/2009	New York
P-1	Churchill Loan Asset Securitisation Programme, LLC	Royal Bank of Scotland / Deutsche Bank International Limited	Multiseller	Full	Europe	40,000	3/9/2009	London
P-1	Performance Trust	HSBC Securities (Canada) Inc.	Multiseller	Partial	Canada	495,000 CAD	3/10/2009	New York
P-1	Straight-A Funding, LLC	The Bank of New York Mellon/BMO Capital Markets	Multiseller	Full	US	0	4/14/2009	New York
P-1	Arabella Finance Limited/Arabella Finance LLC	Bayerische Hypo- und Vereinsbank AG	Multiseller	Partial	Europe	10,000 EURO	7/2/2009	London
P-1	Great Bridge Capital Company, LLC	The Liberty Hampshire Company, LLC	Multiseller	Full	US	0	7/15/2009	New York
P-1	Royal Park Investments	Royal Park Investments/The Bank of New York Mellon	Other	Full	Europe	6,000 USD	12/16/2009	London

Source: Moody's

TABLE 9  
**ABCP Ratings Withdrawn by Moody's in 2009**

MDY	PROGRAM NAME	SPONSOR/ADMINISTRATOR	PROGRAM TYPE	SUPPORT	AUTH. AMOUNT	DATE RATED	DATE WITHDRAWN
P-1	MACRO Trust	Canadian Imperial Bank of Commerce	Multiseller	Partial	2,130 CAD	3/28/2008	1/7/2009
P-1	Maximilian Capital Corporation	Bayerische Hypo-und Vereinsbank AG	Multiseller	Partial	3,000	12/14/2000	1/19/2009
NP	Victoria Finance LLC	Ceres Capital Partners, LLC / Deutsche Bank Trust Company Americas	SIV	Partial	40,000	7/22/2002	1/21/2009
NP	Victoria Finance Ltd.	Ceres Capital Partners, LLC / Deutsche Bank Trust Company Americas	SIV	Partial	40,000	7/22/2002	1/21/2009
P-1	Old Court Funding LLC	QSR Management Limited	Sec. Arbitrage	Partial	5,000	12/23/2004	1/27/2009
P-1	Old Court Funding PLC	QSR Management Limited	Sec. Arbitrage	Partial	5,000	12/23/2004	1/27/2009
P-1	Old Slip Funding Corporation	Bank of New York	Sec. Arbitrage	Full	5,000	6/28/2000	1/28/2009
P-1.za	Asset Backed Arbitrated Securities (Proprietary) Limited	Absa Bank Limited	Sec. Arbitrage	Partial	15,000 ZAR	10/25/2005	2/2/2009
P-1	Bach Funding Company LLC	Dresdner Bank AG	Multiseller	Full	20,000	10/26/2006	2/5/2009
P-1	Check Point Charlie Incorporated	Bankgesellschaft Berlin AG	Sec. Arbitrage	Partial	3,000	12/1/1997	2/5/2009
P-1	North Sea Funding Europe B.V.	ABN AMRO Bank N.V.	Sec. Arbitrage	Partial	10,000 EURO	7/5/2004	2/11/2009
P-1	North Sea Funding LLC	ABN AMRO Bank N.V.	Sec. Arbitrage	Partial	10,000 EURO	7/5/2004	2/11/2009
P-1	Transamerica Asset Funding Corporation I	Transamerica Occidental Life Insurance Company	Single-Seller	Full	1,700	9/1/1998	2/11/2009
P-1	German Residential Funding p.l.c.	Deutsche Bank AG	Single-Seller	Partial	1,700 EURO	7/21/2006	2/12/2009
P-1	Asscher Finance Corporation	HSBC Bank PLC	SIV	Partial	55,000	6/15/2007	2/16/2009
P-1	Asscher Finance Limited	HSBC Bank PLC	SIV	Partial	55,000	6/15/2007	2/16/2009
P-1	Cullinan Finance Corporation	HSBC Bank PLC	SIV	Partial	25,000	9/7/2005	2/16/2009
P-1	Cullinan Finance Limited	HSBC Bank PLC	SIV	Partial	25,000	9/7/2005	2/16/2009
P-1	Foxboro Funding Limited	Hudson Castle Group Inc.	Multiseller	Full	26,000	3/7/2003	2/27/2009
P-1	Foxboro Funding LLC	Hudson Castle Group Inc.	Multiseller	Full	26,000	3/7/2003	2/27/2009
P-1	Georgetown Funding Company, LLC	Friedman Billings Ramsey Group, Inc.	Single-Seller	Partial	12,000	8/29/2003	3/3/2009
P-1	Kells Funding LLC / Kells Funding Limited	Hypo Public Finance USA, Inc.	Multiseller	Full	15,000	1/7/2008	4/28/2009
P-1	Dollar Thrifty Funding Corporation	Dollar Thrifty Automotive Group	Single-Seller	Partial	649	3/4/1998	5/11/2009
P-1	FCC II Incorporated	First National Bank of Omaha	Single-Seller	Full	90	1/3/2001	5/14/2009
P-1	Perry Global Funding Limited, Series A	Bank of America, N.A.	Sec. Arbitrage	Partial	5,000	3/29/2000	5/19/2009
P-1	Perry Global Funding LLC, Series B	Bank of America, N.A.	Sec. Arbitrage	Partial	5,000	3/29/2000	5/19/2009
P-1	Greyhawk Funding LLC	WestLB AG	Sec. Arbitrage	Partial	10,000	6/26/1998	5/21/2009
P-1	Neptune Funding Corporation	Rabobank International	Multiseller	Partial	3,150	2/26/2008	6/26/2009
P-1	Arabella Funding Limited	Bayerische Hypo-und Vereinsbank AG	Multiseller	Partial	6,000 EURO	6/28/2001	7/9/2009
P-2	Grand II Funding Corporation	ABN AMRO Bank N.V.	Sec. Arbitrage	Partial	372	12/16/1998	7/31/2009
P-1	Morrigan TRR Funding LLC	DEPFA Bank plc	Single-Seller	Full	20,000	3/7/2005	7/31/2009
P-1	Advantage Asset Securitization Corporation	Mizuho Corporate Bank, Ltd.	Multiseller	Full	1,257	6/1/1993	8/3/2009
P-1	Venus Funding Corporation	U.S. Bank National Association	Multiseller	Full	5,000	12/20/2002	8/3/2009
P-2	New Center Asset Trust	General Motors Acceptance Corp.	Single-Seller	Partial	6,667	8/19/1993	10/1/2009
P-1	Antoninus Funding Co., LLC	Global Securitization Services, LLC	Multiseller	Partial	7,000	11/24/2008	10/31/2009
P-1	Aurelius Funding Co., LLC	Global Securitization Services, LLC	Multiseller	Partial	14,000	11/24/2008	10/31/2009
P-1	Hadrian Funding Co., LLC	Global Securitization Services, LLC	Multiseller	Partial	22,000	11/24/2008	10/31/2009
P-1	Nerva Funding Co., LLC	Global Securitization Services, LLC	Multiseller	Partial	2,000	11/24/2008	10/31/2009
P-1	Trajan Funding Co., LLC	Global Securitization Services, LLC	Multiseller	Partial	15,000	11/24/2008	10/31/2009

Source: Moody's

## Sponsor Bank Ratings

The ratings of banks that provide liquidity, program credit enhancement and other forms of support are currently the key ratings driver in the ABCP market. Those ratings have been under pressure for the past three years. As shown in Tables 10 and 11, the long term ratings (which include the impact of systemic support) and the bank financial strength ratings (which look at the firm on a stand-alone basis) have both declined during the past year. However, all of these banks have retained their Prime-1 short-term ratings to date.

TABLE 10  
**ABCP Bank Ratings Distribution, 2010 vs 2009**

LONG-TERM	JANUARY 2010	JANUARY 2009	BFSR	JANUARY 2010	JANUARY 2009
Aaa	3	6	B+	3	7
Aa1	2	8	B	3	7
Aa2	6	4	B-	2	1
Aa3	6	1	C+	2	-
A1	2	1	C	2	3
A2	1	-	C-	5	2
			D+	1	-
			D-	1	-
			E+	1	-

Source: Moody's

TABLE 11  
**Ratings of 20 Largest ABCP Administrators**  
 (Moody's rated programs, \$ millions outstandings)

LIQUIDITY PROVIDER	OUTSTANDINGS	LONG TERM RATING JAN 2010	BFSR JAN 2010	REVIEW STATUS	LONG-TERM RATING JAN 2009	BFSR JAN 2009	REVIEW STATUS
Citibank, N.A.	54,358	A1	C-		Aa3	C	
Royal Bank of Scotland PLC	43,176	Aa3	C-	Possible downgrade	Aa1	B	Possible downgrade
Bank of America, N.A.	31,791	Aa3	C-		Aaa	C-	
HSBC Bank PLC	31,030	Aa2	C+		Aa2	B	
Deutsche Bank AG	25,545	Aa1	B	Possible downgrade	Aa1	B	
Bank of Tokyo-Mitsubishi UFJ	25,214	Aa2	C		Aa2	C	
Rabobank Nederland	21,978	Aaa	B+		Aaa	B+	
JPMorgan Chase Bank	21,534	Aa1	B		Aa2	B+	
Bank of Montreal / BMO Nesbitt Burns Inc	20,428	Aa2	B-		Aa1	B	
Royal Bank of Canada	17,634	Aaa	B+	Possible downgrade	Aaa	B+	
Barclays Bank PLC	16,463	Aa3	C	Possible downgrade	Aa1	B	
Calyon	15,701	Aa3	D		Aa1	C	
Société Générale	15,617	Aa2	C+		Aa2	B-	
State Street Global Markets LLC	15,538	Aa2	B		Aa1	B+	
Bank of Scotland, PLC	14,429	Aa3	D+		Aa1	B	Possible downgrade
Lloyds TSB Bank PLC	13,288	Aa3	C-	Possible downgrade	Aaa	B+	
BNP Paribas	12,906	Aa2	B-		Aa1	B	
Toronto Dominion Securities, Inc.	11,828	Aaa	B+		Aaa	B+	
Fortis Bank S.A./N.V.	11,169	A1	C-	Possible downgrade	A1	C-	
WestLB AG	6,559	A2	E+		Aaa	B+	

Source: Moody's

Moody's outlook for the banking sector continues to be negative. One concern is the extent of systemic support that will be available to banks and the banking system. Removal of this support could put further pressure on bank ratings. As

most ABCP rating actions are driven by bank rating changes, we expect ABCP ratings to follow bank short-term rating actions, if any, in 2010.

## Asset Mix

The split between consumer and commercial assets in US miseller conduits has shifted a bit more in favour of consumer assets, now at 47% up from 45%. Commercial assets have fallen from 42% to about 40%, with the remainder being securities. (Table 9) Due to the economy, both segments have been under pressure, but conduit sponsors have generally managed the risk well. Over the past year, Moody's has seen a great number of amendments designed to increase transaction credit enhancement and tighten performance triggers to the benefit of investors. We have seen a greater share of deals funded with full liquidity support, though no partially supported programs were converted to fully supported programs in 2009.

TABLE 12

### Asset Mix: US ABCP Bank-Sponsored Conduits

(Moody's rated programs, \$ millions)

ASSET TYPE	OUTSTANDING		PERCENTAGE	
	NOV-09	DEC-08	NOV-09	DEC-08
<b>Consumer Finance</b>				
Auto Loans and Leases	69,754	34,878	18.8%	15.9%
Credit Cards	55,444	31,936	14.9%	14.5%
Student Loans	39,396	23,775	10.6%	10.8%
Residential Mortgages	4,951	4,981	1.3%	2.3%
Consumer Loans	6,465	3,706	1.7%	1.7%
<b>Consumer Finance Total</b>	<b>176,010</b>	<b>99,275</b>	<b>47.4%</b>	<b>45.2%</b>
<b>Corporate Finance</b>				
Commercial Loans and Leases	42,902	21,318	11.6%	9.7%
Trade Receivables	41,341	26,110	11.1%	11.9%
Floorplan Finance	16,342	12,067	4.4%	5.5%
Equipment Loans and Leases	15,329	4,634	4.1%	2.1%
Commercial Mortgages	33,354	28,882	9.0%	13.2%
<b>Corporate Finance Total</b>	<b>149,268</b>	<b>93,011</b>	<b>40.2%</b>	<b>42.4%</b>
<b>Securities</b>	<b>45,906</b>	<b>27,282</b>	<b>12.4%</b>	<b>12.4%</b>
<b>Total US ABCP Conduits</b>	<b>371,184</b>	<b>219,568</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Moody's

## Outlook for 2010

Moody's expects ABCP conduit ratings to be stable in 2010. Asset performance is likely to stabilize and strengthen. However, most ABCP rating actions are driven by bank ratings, where Moody's outlook is negative. There are concerns about changes to the systemic support provided by governments to the banking system. So there is a downside risk to ABCP conduit ratings, which would follow bank short-term rating actions, if any, in 2010.

A harder question to answer is volume. The amount of US\$ ABCP outstanding has continued to decline into the first months of 2010. The largest factor in halting that decline will be the strength of the recovery. Utilization of conduit facilities is down 10 to 15 percentage points from the peak. Simply drawing more fully on existing facilities would result in a surge in issuance.

Longer term the recent regulatory changes pose difficult challenges for the industry. They will certainly increase the cost of operating an ABCP program. However, conduits continue to provide an additional source of liquidity and customer funding. Sponsors will spend much effort in 2010 trying to find ways to conform to the new regulations while maintaining a sufficient level of profitability and franchise value.

## Related Research

Moody's regular ABCP publications include the following:

- » [ABCP Program Index – published quarterly](#)
- » [ABCP Market at a Glance: ABCP Multiseller Market Snapshot – published quarterly](#)
- » ABCP Programme Reviews – published for each conduit
- » Global ABCP First Half Year Review

During 2009, Moody's released the following ABCP-related Special Reports:

- » [Impact of Rating Actions on Counterparties in Repo ABCP Programmes – Supplement, 20 October 2009 \(SF180065\)](#)

Moody's publishes a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at [www.moodys.com/SFQuickCheck](http://www.moodys.com/SFQuickCheck).

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.



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