Financial Institution Letter
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Office of the Comptroller of the Currency
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of Thrift Supervision

Interagency Guidance On Implicit Recourse In Asset Securitizations

Purpose

The provision of credit support, beyond contractual obligations, to securitizations of assets recorded as sold for accounting and regulatory capital purposes is commonly referred to as "implicit recourse" or "moral recourse." Through a question and answer format, this document describes certain post-sale actions that banking organizations have taken with respect to securitized assets and provides guidance on whether these actions would be deemed implicit recourse. The document also discusses the risk-based capital implications of conduct deemed to constitute implicit recourse.

This document provides practical interpretative guidance on non-contractual recourse determinations and supplements previously issued guidance and regulations. This guidance applies to all banking organizations originating or purchasing assets they subsequently sell into a securitization. The principles in this document apply to all securitizations, including synthetic securitizations. Please refer to the appendix for a list of outstanding guidance on issues related to securitization.

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BACKGROUND

The sale and securitization of assets gives rise to varying types and degrees of risks to the originating institution. Typically in a securitization the risk of credit losses from the underlying assets is carved up and distributed among different parties, including investors, guarantors, and the originating institution. Securitization also entails less obvious forms of risk such as liquidity, operational, and reputation risks. The presence of these risks may further limit the amount of risk that is actually transferred from the securitizing institution to the marketplace. The banking agencies are concerned about the effect that retained credit and other risks pose to a banking organization's earnings capacity, liquidity, asset quality, and capital adequacy over the life of its securitizations.

In many cases, the originating institution retains significant credit exposure through the credit enhancements it provides. These enhancements[1] represent contractual obligations that protect investors who have purchased the securities generated by the asset securitization from incurring some level of credit losses. For regulatory capital purposes, these contractual obligations are characterized as residual interests or as other recourse obligations, depending upon the structure of the enhancement. These are explicitly addressed in the interagency rule published on November 29, 2001 "Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance: Capital Treatment of Recourse, Direct Credit Substitutes and Residual Interests in Asset Securitizations."

Generally, the contractual retention of credit risk by a banking organization associated with assets it has sold constitutes recourse. Accordingly, the capital adequacy guidelines require the organization to hold risk-based capital against the entire outstanding amount of those assets securitized. The guidelines provide three exceptions to this general rule.

Under the low-level exposure provisions of the agencies' capital standards, the risk-based capital requirement for a recourse arrangement or direct credit substitute is limited to the maximum contractual loss exposure. [2] For example, a banking organization sells $100 in credit card loans and retains a $5 first loss exposure. The risk-based capital requirement would be $8 had the assets remained on the banking organization's books. However, under the low-level exposure provision, the capital requirement is limited to the banking organization's maximum contractual loss exposure, which would be $5 in this example.

For a residual interest or other recourse exposure in a securitization, other than a credit-enhancing interest-only strip, which qualifies for the ratings-based approach, the required amount of risk-based capital is determined based on its relative risk of loss. The face amount of the position is multiplied by a risk weight that ranges from 20 percent to 200 percent, depending upon the ratings assigned by one or more nationally recognized statistical rating organizations and whether the position is traded.[3]

A residual interest in a securitization that does not qualify for the ratings-based approach, including a credit-enhancing interest-only strip that is not deducted from Tier 1 capital under the concentration limit, is subject to a dollar-for-dollar capital charge. In these instances, the required amount of risk-based capital is equal to the face amount of the residual interest, even when this amount exceeds the full capital charge (normally 8 percent) on the underlying assets.[4] For example, a banking organization that sells $100 in credit card loans and retains a $10 first loss exposure in the form of a residual interest is required to hold $10 in risk-based capital against this exposure.

In contrast to contractual recourse exposures, implicit recourse is a more subtle form of exposure. Implicit recourse arises from an institution providing post-sale support to a securitization in excess of any contractual obligation. Despite differences in how contractual and implicit recourse exposures originate, both types of credit enhancements expose an institution to the risk of loss arising from deterioration in the credit quality of the underlying assets of the securitization. Banking organizations deemed to be providing implicit recourse are generally required to hold capital against the entire outstanding amount of assets sold, as though they remained on the books, for risk-based capital purposes.[5]

Banking organizations typically have provided implicit recourse in situations where the originating organization perceived that the failure to provide this support, even though not contractually required, would damage its future access to the asset-backed securities market. An originating banking organization can provide implicit recourse in a variety of ways. The ultimate determination as to whether implicit recourse exists depends on the facts. However, as discussed in detail later in this document, the following actions point to a finding of implicit recourse:

- Selling assets to a securitization trust or other special purpose entity (SPE) at a discount from the price specified in the securitization documents, which is typically par value;
- Purchasing assets from a trust or other SPE at an amount greater than fair value;
- Exchanging performing assets for nonperforming assets in a trust or other SPE; and
- Funding credit enhancements beyond contractual requirements.

By providing implicit recourse, a banking organization signals to the market that the risks inherent in the securitized assets are still held by the organization and, in effect, have not been transferred. Accordingly, supervisors must be attentive to banking organizations that provide implicit support given the risk these actions pose to the organizations' financial condition. Increased attention should be given to situations where a banking organization is more likely to provide implicit support.

Particular attention should be paid to revolving securitizations, such as those used for credit card lines and home equity lines of credit, where receivables generated by the lines are sold into the securitization. Typically, these securitizations provide that, when certain performance criteria hit specified thresholds, no new receivables can be sold into the securitization, and the principal on the bonds issued will begin to pay out. Such an event, known as an early amortization event, is intended to protect investors from further deterioration in the underlying asset pool. Once an early amortization event occurs, the banking organization could have difficulties using securitization as a continuing source of funding and, at the same time, have to fund the new receivables generated by the lines of credit on its balance sheet. Thus, banking organizations have an incentive to avoid early amortization by providing implicit support to the securitization.

Examiners accordingly should be alert for securitizations that are approaching early amortization triggers, such as a decrease in the excess spread[6] below a certain threshold, or an increase in delinquencies beyond a certain rate. Examiners should review securitization documents (e.g., the pooling and servicing agreement) to ensure that the securitizing banking organization limits any post-sale support to that specified in the terms and conditions in the documents. Examiners should also review a sample of receivables transferred between the seller and the trust to ensure these transfers were conducted in accordance with the contractual terms of the securitization, particularly when the overall credit quality of the securitized receivables has deteriorated. While banking organizations are not prohibited from providing implicit recourse, such support will generally result in higher capital requirements.

Supervisors must take prompt supervisory action when implicit recourse is identified. To determine the appropriate action, supervisors must fully understand a banking organization's reasons for providing support, and the extent of the actual or potential impact of this support on the organization's earnings and capital. As with contractual recourse, actions involving non-contractual post-sale credit enhancement generally result in the organization being required to hold risk-based capital against the entire outstanding amount of the securitized assets. Supervisors may require the organization to bring all assets in existing securitizations "back on the balance sheet" for risk-based capital purposes, and to increase its minimum capital ratios. They may also prevent an organization from removing assets from its risk-weighted asset base on future transactions until the organization demonstrates its intent and ability to transfer risk to the marketplace. Supervisors may also consider other actions to ensure that the risks associated with implicit recourse are adequately reflected in the capital ratios. For example, supervisors may require the banking organization to deduct residual interests from Tier 1 capital as well as hold risk-based capital on the underlying assets.

Because of the case-specific nature of implicit recourse, the examples in this guidance are for illustrative purposes only, taking the form of questions and answers. The examples are not intended to be an all-inclusive listing of the facts and circumstances that could lead to a determination of implicit recourse. Rather, these examples highlight the factors and considerations that weighed most heavily in the agencies' determination of the appropriate risk-based capital treatment for each situation. Factual differences or other case-specific supervisory concerns could lead to a different regulatory response.

It is imperative that institutions discuss the facts and circumstances with their primary regulator prior to taking any action that might be perceived as noncontractual support of an asset securitization. This type of consultation can help achieve a common understanding of the potential regulatory capital and supervisory consequences of the contemplated action.

ILLUSTRATIVE QUESTIONS AND ANSWERS

The following examples illustrate a variety of post-sale actions that banking organizations have taken with respect to assets they have securitized. These examples are intended to provide guidance on whether these actions would give rise to an agency determination that they constitute implicit recourse for risk-based capital purposes. A key factor in each scenario and regulatory determination is the potential risk of loss to which the banking organization's earnings and capital may be exposed as a result of the banking organization's actions. The illustrations consider facts and circumstances involving account removal, additions to a trust, support provided by affiliates, modifications of loan repayment terms, servicer payments of deficiency balances, and reimbursements of actual losses.

ACCOUNT REMOVAL

Example 1

A banking organization originates and services credit card receivables throughout the country. The banking organization decides to divest those credit card accounts of customers who reside in specific geographic areas where the banking organization lacks a significant market presence. To achieve the maximum sales price, the sale must include both the credit card relationships and the receivables. Because many of the credit card receivables are securitized through a master trust structure, the banking organization needs to remove the receivables from the trust. The affected receivables are not experiencing any unusual performance problems. In that respect, the chargeoff and delinquency ratios for the receivables to be removed from the trust are substantially similar to those for the trust as a whole.

The banking organization enters into a contract to sell the specified credit card accounts before the receivables are removed from the trust. The terms of the transaction are arm's-length, wherein the banking organization will sell the receivables at market value. The banking organization separately agrees to purchase the receivables from the trust at this same price. Therefore, no loss is incurred as a result of removing the receivables from the trust. The banking organization will only remove receivables from the trust that are due from customers located in the geographic areas where the organization lacks a significant market presence, and it will remove all such receivables from the trust.

Issue

Does the removal of these receivables from the trust constitute implicit recourse for regulatory capital purposes?

Regulatory Determination

No, the transaction does not constitute implicit recourse. Supporting factors for this conclusion are:

- The banking organization's earnings and capital are not exposed to actual or potential risk of loss as a result of removing the receivables from the trust.
- There is no indication that the receivables are removed from the trust due to performance concerns.
- The banking organization is removing the receivables from the trust for a legitimate business purpose other than to systematically improve the quality of the trust's assets. The legitimate business purpose is evidenced by the banking organization's pre-arranged, arm's-length sale agreement that facilitates exiting the business in identified geographic locations.

Supervisors should review the terms and conditions of the transaction to ensure that the market value of the receivables is documented and well supported before concluding that this transaction does not represent implicit recourse. Supervisors should also ensure that the selling banking organization has not provided the purchaser with any guarantees or credit enhancements on the sold receivables.

Example 2

After the establishment of a master trust for a pool of credit card receivables, the receivables in the trust begin to experience adverse performance. A combination of lower-than-expected yields and higher-than-anticipated chargeoffs on the pool causes spreads to compress significantly (although not to zero). The banking organization's internally generated forecasts indicate that spreads will likely become negative in the near future. Management takes action to support the trust by purchasing the low-quality (delinquent) receivables from the trust at par although their market value is less than par. The receivables purchased from the trust represent approximately one-third of the trust's total receivables. This action improves the overall performance of the trust and avoids a potential early amortization event.

Issue

Does the purchase of low-quality receivables from a trust at par constitute implicit recourse for regulatory capital purposes?

Regulatory Determination

Yes, this activity constitutes implicit recourse because the purchase of low quality receivables at an above-market price exposes the banking organization's earnings and capital to potential future losses from assets that had previously been sold. Accordingly, the banking organization is required to hold risk-based capital for the remaining assets in the trust as if they were retained on the balance sheet, as well as for the assets that were repurchased.

ADDITIONS OF FUTURE ASSETS OR RECEIVABLES

Example 3

Months after the issuance of credit card asset-backed securities, chargeoffs and delinquencies on the underlying pool of receivables rise dramatically. A rating agency places the securities on "watch" for a potential rating downgrade, causing the banking organization to negotiate additional credit support for the securitized assets. The securitization documents require the banking organization to transfer new receivables to the securitization trust at par value. However, to maintain the rating on the securities, the banking organization begins to sell replacement receivables into the trust at a discount from par value.

Issue

Does this action constitute implicit recourse for regulatory capital purposes?

Regulatory Determination

Yes, the sale of receivables to the trust at a discount constitutes implicit recourse. The sale of assets at a discount from the price specified in the securitization documents, par value in this example, exposes earnings and capital to future losses. The banking organization must hold regulatory capital against the outstanding assets in the trust.

Example 4

A banking organization established a credit card master trust. The receivables from the accounts placed in the trust were, on average, of lesser quality than the receivables from accounts retained on the banking organization's balance sheet. Under the criteria for selecting the receivables to be transferred to the master trust, the banking organization was prevented from including the better-performing affinity accounts in the initial pool of accounts because the affinity relationship contract was expiring. The banking organization and the affinity client subsequently revised the terms of their contract, enabling the affinity accounts to meet the selection criteria and be included in future securitization transactions. Later, rising charge-offs within the pool of receivables held by the trust caused spread compression in the trust. To improve the performance of the assets in the trust, the banking organization began to include the better-performing and now eligible receivables from the affinity accounts among the receivables sold to the trust. This action improves the trust's performance, including spread levels and charge-off ratios. However, the replacement assets were sold at par in accordance with the terms of the trust agreement, so no current or future charge to the banking organization's earnings or capital will result from these asset sales. This action also results in the performance of the trust's assets closely tracking the performance of the credit card receivables that remain on the banking organization's balance sheet.

Issue

Do these actions constitute implicit recourse for regulatory capital purposes?

Regulatory Determination

No, these actions do not constitute implicit recourse. The banking organization did not incur any additional risk to earnings or capital after the affinity accounts met the selection criteria for replacement assets and the associated receivables were among the receivables sold to the trust. The replacement assets were sold at par in accordance with the terms of the trust agreement, so no future charge to earnings or capital will result from these asset sales. The sale of replacement assets into a master trust structure is part of normal trust management.

In this example, the credit card receivables that remain on the banking organization's balance sheet closely track the performance of the trust's assets. Nevertheless, supervisors should ascertain whether a securitizing banking organization sells disproportionately higher quality assets into securitizations while retaining comparatively lower-quality assets on its books and, if so, consider the effect of this practice on the organization's capital adequacy.

Example 5

A banking organization establishes a credit card master trust comprised of receivables from accounts that were generally of lower quality than the receivables retained on the organization's balance sheet. The difference in the two portfolios is primarily due to logistical and operational problems that prevent the banking organization from including certain better-quality affinity accounts in the initial pool from which accounts were selected for securitization. Rising chargeoffs and other factors later result in margin compression on the assets in the master trust, which causes some concern in the market regarding the stability of the outstanding asset-backed securities. A rating agency places several securities on its watch list for a potential rating downgrade. In response to the margin compression as part of the organization's contractual obligations, spread accounts are increased for all classes by trapping excess spread in conformance with the terms and conditions of the securitization documents.

To stabilize the quality of the receivables in the master trust as well as to preclude a downgrade, the banking organization takes several actions beyond their contractual obligations:

- Affinity accounts are added to the pool of receivables eligible for inclusion in the trust. This change results in improved overall trust performance. However, these receivables are sold to the trust at par value, consistent with the terms of the securitization documents, so no current or future charge to the banking organization's earnings or capital will result from these asset sales.

- The charge-off policy for cardholders who have filed for bankruptcy is changed from criteria that were more conservative than industry standards and the FFIEC Uniform Retail Credit Classification and Account Management Policy to criteria that conform to these standards and the agencies' policy.

- Charged-off receivables held by the trust are sold to a third party. The funds generated by this sale, effectively accelerating the recovery on these receivables, improves the trust's spread performance.

Issue
Do these actions constitute implicit recourse for regulatory capital purposes?

Regulatory Determination

No, the actions do not constitute implicit recourse. None of the noncontractual actions (above) results in a loss, or exposes the banking organization's earnings or capital to the risk of loss. Because of the margin compression, the organization is obligated to increase the spread accounts in conformance with the terms and conditions of the securitization documents. To the extent this results in an increase in the value of the subordinated spread accounts (residual interests) on the organization's balance sheet, the organization will hold additional capital on a dollar-for-dollar basis for the additional credit risk retained by the organization. In contrast, if the organization increased the spread accounts beyond its contractual obligation under the securitization documents in order to provide additional protection to investors, this action would be considered a form of implicit recourse.

With respect to the other actions the banking organization took:

- Because the additions of receivables from the new affinity accounts are made at par value in accordance with the securitization documents, as they are with other additions to credit card trusts, they do not affect the banking organization's earnings or capital.
- The trust's policy on the timing of chargeoffs on accounts of cardholders who have filed for bankruptcy was changed to meet the less stringent standards of the industry and those required under the agencies' policy in order to, at least temporarily, improve trust performance. Nonetheless, this change does not affect the banking organization's earnings or capital.
- In accordance with the securitization documents, proceeds from recoveries on charged-off accounts are the property of the trust. These and other proceeds continue to be paid out in accordance with the pooling and servicing agreement. No impact on the organization's earnings or capital resulted.

SUPPORT PROVIDED BY NONBANK AFFILIATES
Example 6

A bank's credit card master trust is experiencing problems due to deteriorating credit quality. A nonbank subsidiary of the bank holding company, i.e., an affiliate of the bank, provides financial support in the form of cash contributions to the trust.

Issue

Does the nonbank affiliate's support constitute implicit recourse by the bank for regulatory capital purposes? Is the bank required to hold risk-based capital against the remaining assets in the trust?

Regulatory Determination

No. Support provided to the trust by a nonbank affiliate does not represent implicit recourse for the bank. Because the bank did not provide the support, its earnings and capital were not exposed to potential risk of loss. The bank is not required to hold additional risk-based capital for the assets held by the trust.

However, these facts and circumstances would result in implicit recourse at the bank holding company level.

MODIFICATION OF LOAN REPAYMENT TERMS

Example 7

In performing the role of servicer for its securitization, a banking organization is authorized under its pooling and servicing agreement to modify loan repayment terms when it appears that this action will improve the likelihood of repayment on the loan. These actions are part of the banking organization's process of working with customers who are delinquent or otherwise experiencing temporary financial difficulties. All of the modifications are consistent with the organization's internal loan policy. However, in modifying the loan terms, the contractual maturity of some loans may be extended beyond the final maturity date of the most junior class of securities sold to investors. When this occurs, the banking organization repurchases these loans from the securitization trust at par.

Issue

Does the modification of terms and repurchase of loans held by the trust constitute implicit recourse for regulatory capital purposes?

Regulatory Determination

Yes. The combination of the loan term modification for securitized assets and subsequent repurchase constitutes implicit recourse. While the modification of loan terms is permitted under the pooling and servicing agreement, the repurchase of loans with extended maturities at par exposes the banking organization's earnings and capital to potential risk of loss.

SERVICER'S PAYMENT OF DEFICIENCY BALANCES

Example 8

A wholly-owned subsidiary of a banking organization originates and services a portfolio of home equity loans. After liquidation of the collateral for a defaulted loan, the subsidiary makes the trust whole in terms of principal and interest if the proceeds from the collateral are not sufficient. However, there is no contractual commitment that requires the subsidiary to support the pool in this manner. The payments made to the trust to cover deficient balances on the defaulted loans are not recoverable under the terms of the pooling and servicing agreement.

Issue

Does the subsidiary's action constitute implicit recourse to the banking organization for regulatory capital purposes?

Regulatory Determination

Yes, this action is considered implicit recourse because it adversely affects the banking organization's earnings and capital since the banking organization absorbs losses on the loans resulting from the actions taken by its subsidiary. Further, no mechanism exists to provide for, and ensure that, the subsidiary will be reimbursed for the payments made to the trust. In addition, supervisors will consider any servicer advance a credit enhancement if the servicer is not entitled to full reimbursement or the reimbursement[7] is subordinate to other claims.

REIMBURSEMENT OF CREDIT ENHANCER'S ACTUAL LOSSES

Example 9

A banking organization sponsoring a securitization arranges for an unrelated third party to provide a first-loss credit enhancement, such as a financial standby letter of credit (L/C), that will cover losses up to the first 10 percent of the securitized assets. The banking organization agrees to pay a fixed amount as an annual premium for this credit enhancement. The third party initially covers actual losses that occur in the underlying asset pool in accordance with its contractual commitment under the L/C. Later, the selling banking organization agrees not only to pay the credit enhancer the annual premium on the credit enhancement, but also to reimburse the credit enhancer for the losses it absorbed during the preceding year. This reimbursement for actual losses was not originally provided for in the contractual arrangement between the banking organization and the credit enhancement provider.

Issue

Does the selling banking organization's reimbursement of the credit enhancement provider's losses constitute implicit recourse?

Regulatory Determination

Yes, the banking organization's subsequent reimbursement of losses sustained by the credit enhancement provider goes beyond the contractual obligations of the banking organization and, therefore, constitutes implicit recourse. Furthermore, the federal banking agencies would consider any requirement contained in the original credit-enhancement contract that obligates the banking organization to reimburse the credit-enhancement provider for its losses to be a recourse arrangement.

APPENDIX

LIST OF OUTSTANDING GUIDANCE ON SECURITIZATION

Office of the Comptroller of the Currency

Appendix A to Part 3 *Risk-Based Capital Guidelines*

Schedule RC-R - *Regulatory Capital* and Schedule RC-S – *Servicing, Securitization and Asset Sales* from the Consolidated Reports of Condition and Income

Comptroller's Handbook for Asset Securitization, dated November 1997

OCC Bulletin 96-52, dated September 25, 1996, entitled *Securitization*

OCC Bulletin 99-15, dated April 5, 1999, entitled *Subprime Lending*

OCC Bulletin 99-46, dated December 13, 1999, entitled *Interagency Guidance on Asset Securitization Activities*

OCC Bulletin 01-49, dated December 6, 2001, entitled *Risk-Based Capital-Recourse, Direct Credit Substitutes and Residual Interests* Final Rule.

Federal Deposit Insurance Corporation

Appendix A to Part 325 *Statement of Policy on Risk-Based Capital*

Schedule RC-R - *Regulatory Capital* and Schedule RC-S – *Servicing, Securitization, and Asset Sales* from the Consolidated Reports of Condition and Income

Financial Institution Letter (FIL) 109-99, dated December 13, 1999, *Guidance on Asset Securitization Activities*

Board of Governors of the Federal Reserve System

Appendix A to Parts 208 and 225 – *Capital Adequacy Guidelines*

Schedule RC-R – *Regulatory Capital* from the Consolidated Reports of Condition and Income
SR Letter 92-11, Asset-Backed Commercial Paper Programs, dated April 2, 1992

SR Letter 96-17, Supervisory Guidance for Credit Derivatives, dated August 12, 1996

SR Letter 96-30, Risk-based Capital Treatment for Spread Accounts that Provide Credit Enhancement for Securitized Receivables, dated November 7, 1996

SR Letter 96-40, Interim Guidance for Purposes of Applying FAS 125 for Regulatory Reporting in 1997 and for the Treatment of Servicing Assets for Regulatory Capital, dated December 30, 1996

SR Letter 97-18, Application of the Market Risk Capital Requirements to Credit Derivatives, dated June 13, 1997

SR Letter 97-21, Risk Management and Capital Adequacy of Exposures Arising from Secondary Market Credit Activities, dated July 11, 1997

SR Letter 99-32, Capital Treatment for Synthetic Collateralized Loan Obligations, dated November 17, 1999

SR Letter 99-37, Risk Management and Valuation of Retained Interests Arising from Securitization Activities, dated December 13, 1999

Office of Thrift Supervision

Part 567 Capital

Thrift Activities Handbook, Section 120, Capital Adequacy

Thrift Financial Report Instruction Manual (Schedules: CC, SI, and CCR)

CEO Letter #119 Interagency *Guidance on Asset Securitization Activities,* dated December 14, 1999

[1]Examples of credit enhancements include, but are not limited to: retained subordinated interests, asset repurchase obligations, overcollateralization, cash collateral accounts, spread accounts, and interest-only strips.

[2] See 12 CFR 3, Appendix A, 4(h)(1) (OCC); 12 CFR 208 and 225, Appendix A, III.B.3.g.i (FRB); 12 CFR 325, Appendix A, II.B.5(h)(1) (FDIC); and 12 CFR 567.6(b)(7)(i) (OTS).

[3]See 12 CFR 3, Appendix A, 4(d) and (g) (OCC); 12 CFR 208, 225, Appendix A, III.B.3.e.ii (FRB); 12 CFR 325, Appendix A, II.B.5(d) (FDIC); and 12 CFR 567.6 (b)(2)(ii) (OTS).

[4]See 12 CFR 3, Appendix A, 4 (f)(3) (OCC); 12 CFR 208, 225, Appendix A, III.B.3.e.ii (FRB); 12 CFR 325, Appendix A, II.B.5(f)(3) (FDIC); and 12 CFR 567.6 (b)(3), (4) (OTS).

[5]Where loans in a pool are considered subprime, they are subject to the guidance on capital adequacy described in *Expanded Guidance for Subprime Lending Programs* issued January 31, 2001.

[6] "Excess spread is generally defined as finance charge collections minus certificate interest, servicing fees, and charge-offs allocated to the series." Standard & Poor's Structured Finance Credit Card Criteria, p. 20.

[7] A servicer advance will also be considered a form of credit enhancement if, for any one loan, nonreimbursable advances are not contractually limited to an insignificant amount of that loan's outstanding principal.