



AFS Securitization™

Helping financial institutions manage and control complex financial relations in compliance with domestic and international regulations



Value...

Solutions...

Responsibility.

afsvision.com

Portfolio Management

Commercial investors and hedge funds are facing a new economic environment that requires a single funding solution that will enable them to be competitive while increasing shareholder value. The cost of funding loans is increasing while credit quality is beginning to deteriorate. At the same time financial institutions are required to operate in a more stringent regulatory environment.

Many financial institutions are using loan securitizations to achieve portfolio goals and to reduce credit, funding, and operational risks. AFS' straight-through processing enables lending institutions to establish loan terms and conditions and manage credit policy and risk in the origination and underwriting processes to ensure an effective conduit for securitization.



Portfolio managers must analyze their loans for credit, funding, and operational risk. This portfolio review will consider each financial institution's risk tolerance and will lead to different securitization approaches:

Case # 1 Funding Risk:

A financial institution may have customers who want to lock in on fixed rates. In a raising rate environment, a bank may be hesitant to fund a long term fixed rate. This is an even greater risk if the financial institution is using short term assets to fund its loans. If the financial institution can not accommodate the client, it will lose that relationship, those deposits, and cross-selling opportunities. Such loans can be pooled, securitized, and sold to investors. The sale need not be disclosed to the client—the financial institution can maintain the relationship and continue to service the loan. From a revenue recognition standpoint, the financial institution can continue to collect a servicing fee, retain the client's deposits and, depending on the economics of the sale, may record a gain on the sale.

Case # 2 Credit Risk:

Depending on the financial institution's credit risk outlook for an individual account, industry, or geographic location, it may decide to reduce the size of its exposure. This circumstance can occur very rapidly as the client expands its business or makes an acquisition. A financial institution can aggregate the loans that exceed lending policy limits and sell them to investors in a loan securitization. The sale will reduce global exposure, which will enable the financial institution to maintain the client relationship and generate future revenue while receiving a servicing fee.

Case # 3 Asset Liability Positioning Risk:

If a financial institution has not adjusted its pricing policy to compensate for rising lending costs, there will be a funding mismatch. This can happen very rapidly and will negatively impact the financial institution's credit rating. The financial institution can pool its loans at varying rates and securitize them in the asset-backed market. The securitization cash proceeds can be used to pay off expensive debt, reducing the size of the balance sheet and improving operating ratios.

Portfolio Management Solution

AFS has a number of portfolio management reporting and analysis tools in Lender Workstation™ to assist lenders in understanding their portfolio's risks. These products identify overexposure and/or underperforming loans on an individual basis or by industry, geography, or other portfolio parameters.

AFS Securitization can automate the total securitization process workflow, loan sale accounting, cash transfer, and investor reporting.

AFS Securitization™

Benefits

Financial institutions can utilize the securitization asset-backed market to achieve portfolio management goals. AFS Securitization provides a cost effective solution that processes the total securitization workflow, and provides accounting, cash transfer, and investor reporting without operational risk.

Structure

Can accommodate any asset-backed structure:

- ◆ REITS
- ◆ Commercial Paper Conduits
- ◆ CLOs
- ◆ CMOs
- ◆ CDOs
- ◆ and more

Can process any loan type:

- ◆ Commercial Real Estate
- ◆ Corporate
- ◆ Dealer Floor Plan
- ◆ Small Business and SME
- ◆ Asset-Based
- ◆ Home Equity
- ◆ Commercial
- ◆ Consumer
- ◆ and more

Has extensive loan product capability to support:

- ◆ All pricing options including fixed, variable, adjustable, and LIBOR
- ◆ Integrated collateral management for all types of secured lending
- ◆ Unlimited fee capability, earnings option, servicing and pass-thru fee types
- ◆ Unlimited effective dating of financial transactions for corrections and adjustments
- ◆ Total customer exposure in a multi-bank organization
- ◆ Loan level profitability through cost of funds and fixed cost accounting
- ◆ Complete troubled debt accounting for non-accruals, provisioning, and charge-offs
- ◆ Comprehensive recovery and collections
- ◆ Mark-to-market portfolio accounting

Selection

Loans can be selected for sale in an automated process:

- ◆ A seller can automate the process of selecting eligible loans for sale without any operational risk.

Sale

The sale to the Special Purpose Entity (SPE) is fully automated:

- ◆ On the sale date the loans are removed from the financial institution's balance sheet and recorded on the books of the SPE. After the sale occurs, all on-going accounting entries and cash transfers to the trustee are processed automatically.



Security

Sold loans can not be re-sold:

- ◆ After the loan is “locked down” on the loan system, any re-sale or pledging of sold assets is prohibited.

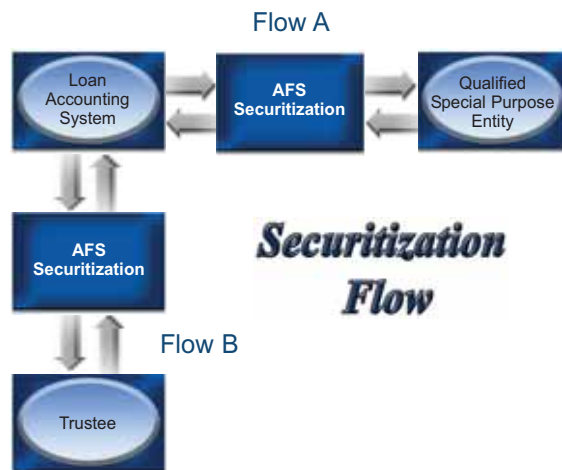
Solution

AFS Securitization can manage the total workflow, accounting, cash transfer, and investor reporting required in today's rapidly changing asset-backed market:

- ◆ The solution can securitize loans from AFS and can also process non-AFS loans.

The AFS Securitization Value Proposition

The AFS Securitization value proposition is founded on the premise that a highly automated process eliminates the need for manual intervention and thus reduces aggregate costs. More importantly, by completely automating the entire process—from loan origination, underwriting, and pool selection through funds movement, General Ledger posting, and investor reporting—AFS Securitization eliminates the operational risk associated with mis-postings, incorrect fund transfers, and covenant compliance.



Flow A

- ✦ Pool selection is automated through the establishment of selection criteria.
- ✦ Selection criteria is incorporated in the origination and underwriting process to ensure compliant terms and complete data.
- ✦ Reporting shows all pending loans in an easy-to-review format.
- ✦ Once a pool is selected and approved, all loan activity is automatically segregated in the loan accounting system. All components are automatically moved to the General Ledger of the Special Purpose Entity (SPE) and correspondingly removed from the existing General Ledger.
- ✦ Automation minimizes the need for manual intervention and eliminates potential errors.
- ✦ All activity from the loan accounting system is posted to the SPE—in detail or in aggregate as defined by the securitization agreement.
- ✦ All transactions and postings are included in an audit record/log that details all loans and loan activity.

Flow B

- ✦ Automated interfaces for cash posting to custodial deposit accounts prevents errors caused in manual or other inefficient processes such as mis-postings, late postings, commingling, etc., to insure covenant compliance.
- ✦ AFS automatically interfaces with and posts to any custodial account using standard formats, regardless of whether it is a custodial account at the securitizing institution (internal) or an external account of the trustee.
- ✦ Posting and movement of cash-based pool parameters is completely automated and requires no manual intervention.
- ✦ AFS posts service fees daily to General Ledger with offsetting expense to SPE.
- ✦ AFS posts escrow and replacement reserves, principal and interest to custodial accounts and appropriate offset General Ledger entries.
- ✦ For pools that allow removal and replacement of loans based on defined criteria per the securitization offering document, the removal and replacement process is completely automated, along with corresponding General Ledger offset entries.

Management Information Delivery

AFS enables global and US clients to mitigate credit, operational, and market risks to comply with the Basel Capital Accord (Basel II) by delivering information to manage risk proactively. Management information is integrated throughout the enterprise—across lines of business, markets, products, and processes—to aggregate lending exposure, identify exceptions to standard policies and procedures, establish accountability, and reduce operating errors.

- ✦ Information is available to take action to comply with all securitization covenants.
- ✦ Details of cash transactions are provided to assist in record keeping, investor reporting, and investor statement production.
- ✦ The system produces daily reports by pool to monitor activity and positions.
- ✦ Daily reports roll forward the previous day's ending balance along with the current day's activity and compare this balance to balances per the SPE.
- ✦ Daily reports show all balance discrepancies in detail to facilitate timely reconciliation.

Why AFS?

The AFS Securitization solution is built to meet the needs of financial institutions in today's difficult operating environment. Whether a financial institution's business model incorporates securitized sales to accommodate an "originate and sell" model or selective sales of distressed assets, low margin performers to improve risk-based capital and net interest margins, or pay down or payoff high interest debt, AFS executes against the organization's strategic plans.

By automating the entire process from origination through pool selection to investor reporting, AFS reduces labor costs, increases productivity, and facilitates additional fee opportunities.

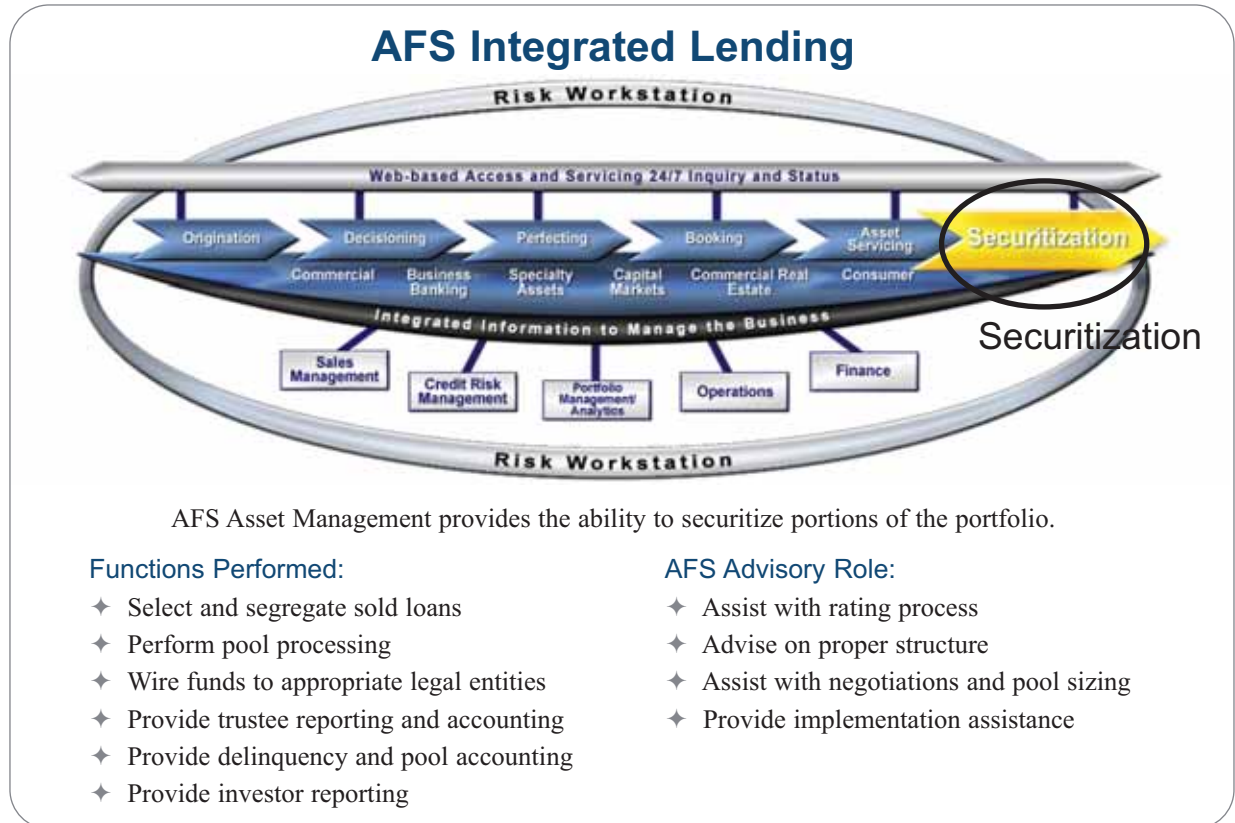
Equally important, automation controls operational risk by eliminating potential manual process errors such as mis-postings to General Ledgers and missed, late, and incorrect movement of custodial funds (as defined by the securitization agreement) that can trigger specific securitization covenant non-compliance.



Finally, because of the robust data history retained on the AFS Securitization system, the requirement to provide additional credit insurance or subordination provisions for these securitized sales is reduced through an actual risk transfer, significantly reducing the cost of securitization.

Management Information Delivery

AFS offers the *only* fully integrated lending system designed to process all types of loans (consumer, commercial, specialized assets, and investment banking) on a single system. Integral to AFS' delivery is its unique Straight-Through Processing (STP) capability encompassing the lending process from loan request through payoff or asset sale, including the delivery of management information.



For further information on AFS Securitization, or to discuss your specific capital markets business needs, contact Dean Snyder at +1 484-875-1078 or dsnyder@afsvision.com for the U.S., and for EMEA global markets contact Wade H. Baker at + 43 (1) 714 1009 or whbaker@afsvision.com.



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