

U.S. Money Market Funds Hungry for Asset-Backed Commercial Paper¹

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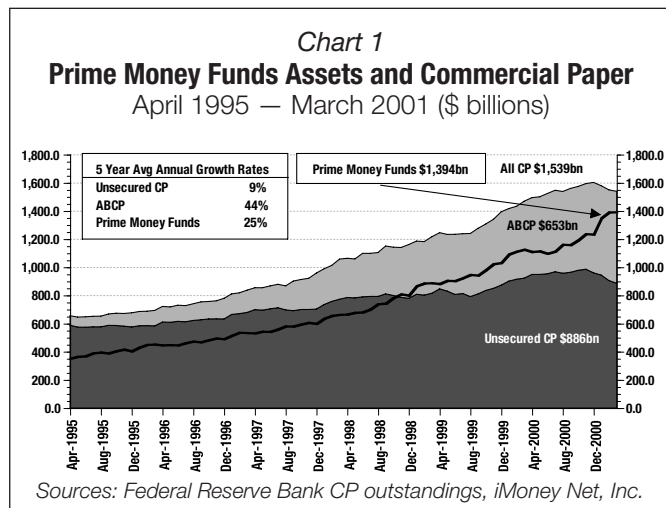
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- *Fund managers build resources and have a better understanding of ABCP's secured financial assets, structure, risks and regulation.*
- *\$653 billion market now 42% of all outstanding commercial paper.*
- *P-1 rated ABCP programs have never been downgraded for asset performance reasons.*
- *Analysts cite that ABCP is more insulated from certain event- and credit-risks unlike traditional corporates.*
- *ABCP spreads over unsecured CP stable — No spread blowout year-end 2000!*



¹ This special report produced by Moody's Managed Funds Group provides a broad overview of the Asset-Backed Commercial Paper (ABCP) market with an emphasis on the viewpoint from money market fund and other short-term investment managers. This report is not intended to discuss intricate details of specific ABCP programs and analytic techniques. For information on specific ABCP programs or research reports from Moody's ABCP Group please refer to page 23.



SUMMARY OPINION

In the past three years, US money market funds have taken on enormous amounts of Asset-Backed Commercial Paper (ABCP). We estimate that money market funds hold more than \$307 billion, or over 47% of all outstanding ABCP as of March 31, 2001. Demand by money funds for ABCP has grown in tandem with both the expansion of ABCP relative to the supply of unsecured commercial paper (CP) outstandings and the growth in prime money market fund assets.

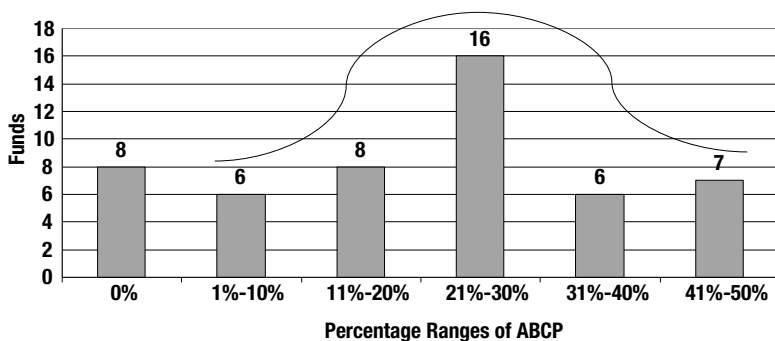
Recent Federal Reserve Bank statistics illustrate the growth in ABCP outstandings relative to the CP market as a whole. ABCP now represents 42%, or \$653 billion of the \$1.54 trillion in US CP outstandings, up from 27%, or \$285 billion just three years ago (see *Chart 1*). The 44% annual growth rate of ABCP outstandings over the last 5 years has dwarfed unsecured CPs relatively flat annual growth rate of 9% for the same period.

ABCP's competitive yields, short-term structures, and abundant supply make these products very attractive to money market funds in today's market. An estimated 22%² of US money market fund assets are now invested in ABCP conduits, most of which are rated **P-1**. Credit losses among these **P-1** rated programs have been non-existent making them particularly appealing during this period of corporate credit decline.

ABCP in Rated Funds: Holdings are Climbing

Moody's recent study of its rated prime money market fund universe reveals that funds' average ABCP holdings are now at 24%, up from 22% from a year ago. The distribution of ABCP holdings in these funds ranged from 1% to 50% showing a standard bell curve (see *Chart 2*). One fund even topped 60% in ABCP during the study period. The percentage of prime money market funds that purchased ABCP also increased marginally to 82%.³

Chart 2
**Distribution of ABCP Holdings
in Moody's U.S. Rated Prime Money Funds**
51 Funds — February 2001



For ABCP program sponsors and dealers, the challenges include getting access to mutual fund dollars via fund managers' "Approved list of Investments" and then paying an attractive market rate or spread over unsecured CP to move the paper.

We find that fund advisors are increasing their commitments in the asset-backed sector by building new credit risk frameworks to gain better understandings of deal mechanics and product offerings. We are also seeing a rising trend among money market fund portfolio managers, who have been making big investments in ABCP by developing the resources and institutional knowledge to approve and buy outstanding programs. The ever-evolving risk/return profiles of money market securities has also supported this trend toward a better understanding of ABCP programs.

² Estimated from a Moody's study of 51 Moody's-rated U.S. domestic prime money market funds with \$398 billion in assets as of February 2001. U.S. offshore rated prime money funds were not included.

³ The funds who do not invest in ABCP may lack a dedicated ABCP analyst, may be slow to adapt to new or research intensive asset classes, or simply desire not to invest in ABCP.

SUPPLY, DIVERSIFICATION AND HIGH-QUALITY MONEY MARKET SECURITIES

The \$653 billion of outstanding ABCP and its growth rate of over \$10 billion per month, has caused this asset class to rapidly become a market mainstay.⁴ Money market funds now have another significant asset class from which to choose securities, resulting in greater diversification of the money market securities marketplace.

Most ABCP programs are rated **P-1** and over time have evidenced no credit losses affecting money market fund portfolios. In fact, by some standards, ABCP may have strengthened the credit quality of certain money market funds — particularly in the last half-year of 2000 and early 2001 as corporate credit has deteriorated and the US economy slowed down.

Though ABCP's historical performance has been exceptional, portfolio managers do feel the market has not been exposed to enough market cycles to test all ABCP structures employed by conduits. It will take more market cycles to see how ABCP will perform in the long run.

⁴ This growth within money funds may come as a surprise to some investors, because some estimates of ABCP holdings have typically been understated at the portfolio level, a result of reporting category confusion with traditional commercial paper.

ABCP OVERVIEW⁵

What is ABCP?

An ABCP program is essentially a limited purpose finance company residing in a bankruptcy remote Special Purpose Vehicle (SPV) that issues commercial paper to finance the purchase of term assets, fixed-income securities, trade receivables, or other financial assets from one or more sellers.

Fundamentally, the main structural risk in ABCP is that a program might become entangled in a bankruptcy or similar proceeding and might therefore be unable to make full and timely payments.

Appeal to Short-Term Players

ABCP programs are designed to satisfy the short-term maturity requirements of investors in the money market securities market. The ABCP market is now comparable to other money market instruments in terms of its short-term maturity, competitive credit profile, exemption from SEC registration and focus on bankruptcy remoteness.

Receivables/Financial Assets Offer Tangible Support

On a credit risk basis, ABCP investors are taking on the risk of trade receivables, often sold by non-investment grade companies, as well as receivables from credit cards, auto loans, equipment leases or other financial assets. The performance of the asset class is the first line of defense. Structural support mechanisms for credit enhancement and liquidity support are necessary to bring a program up to high investment grade quality.

Programs may be Public or Private

ABCP programs are set up as SEC 3(a)(3) or 4(2) public programs or 144a eligible private placements. The difference between these qualifying regulatory offering classifications are minor. The fundamental investment guidelines of a money market fund will influence which program type is most suitable for a fund, particularly as it relates to a money market fund's illiquid basket.

Support Types: Fully vs. Partially Supported

A fully supported ABCP program uses a single external support facility, usually provided by a highly-rated bank or group of banks, to provide 100% coverage against credit and liquidity risk. The support facility most often takes the form of either a letter of credit or an irrevocable revolving commitment either to purchase assets from the issuer or to make secured loans to the issuer. The main risk to investors in a fully supported conduit is that the rating of the support provider may be lowered, in which case the rating of the ABCP conduit could be lowered.

In a partially supported ABCP program, there is not one supporting facility but two. The first — the credit enhancement facility — generally addresses a combination of credit risk and liquidity risk. The second — the liquidity facility — principally addresses liquidity risk. Because the credit enhancement facility provides only partial coverage against credit losses on the assets in the program, Moody's analysis of a partially supported ABCP program focuses on the assets in the program. The goal is to determine that the probability of credit losses on the receivables exceeding the coverage of the credit enhancement facility is remote enough to be consistent with the rating assigned to the program.

Administrator — Piloting the Program

The administrator pilots the ABCP program by monitoring receivables, and complying with the program documents and the issuer's credit and investment policy. Additionally, they run the day-to-day operations of the program, including the funding of ABCP. The administrator may be the primary support provider and is typically the party who draws under the credit and/or liquidity enhancement if needed. The administrator is often the program sponsor as well as the main provider of credit enhancement and liquidity facilities.

Rolling ABCP

When a conduit's ABCP matures, investors often roll the proceeds into new ABCP of the same program or into another program with better yield spreads or different obligor exposure. ABCP programs may roll perpetually until a wind-down event occurs. These events are assessed on a case-by-case basis and may result in the use of conduit credit enhancement or liquidity support facilities, or the program may engage in an orderly wind-down. See the related section on wind down's in Moody's ABCP Market Review for an explanation of these events by each program.

⁵ For a more complete discussion ABCP from Moody's ABCP Group, please see *Moody's Special Report "Asset-Backed Commercial: Understanding the Risks"*, April 1993.

HIGH-QUALITY ALTERNATIVE TO UNSECURED CP

ABCP's popularity among short-term investors reflects a wariness of issuer-specific event risk — a by-product of recent credit risk problems. Many portfolio managers witnessed or in some cases were exposed to unsecured investment-grade securities that transitioned into non-investment-grade securities in unprecedented short periods of time, and well within the term of the issuer's outstanding short-term securities.

Portfolio managers addressed this risk by diversifying their fund risk into highly rated secured ABCP with structural protections and a blend of underlying financial assets. Additionally, the growth in money market fund and similar assets and the boom in securitization of receivables amongst financing institutions created a timely relief to supply shortages of short-term securities for managers seeking new names for their funds.

ABCP's near perfect track record and its status as a large and relatively more seasoned asset class has also made it popular for managers seeking high-quality alternatives to traditional unsecured CP.

WHY MONEY FUNDS INVEST IN ABCP

Diversification

ABCP programs offer short-term portfolio managers another significant asset class. This is particularly important among money market funds, for whom concentration risk and the basic supply of available money market securities are a concern. Investment and other guidelines may restrict some funds from the available/eligible supply of securities, placing it in the precarious position of having a limited or undesirable choice of investments.

Yield Enhancement

ABCP programs have been offering money fund and institutional investors' very competitive yields since they first appeared in the early 1980s. ABCP spreads over traditional CP continue to be a prime motivator for investors.

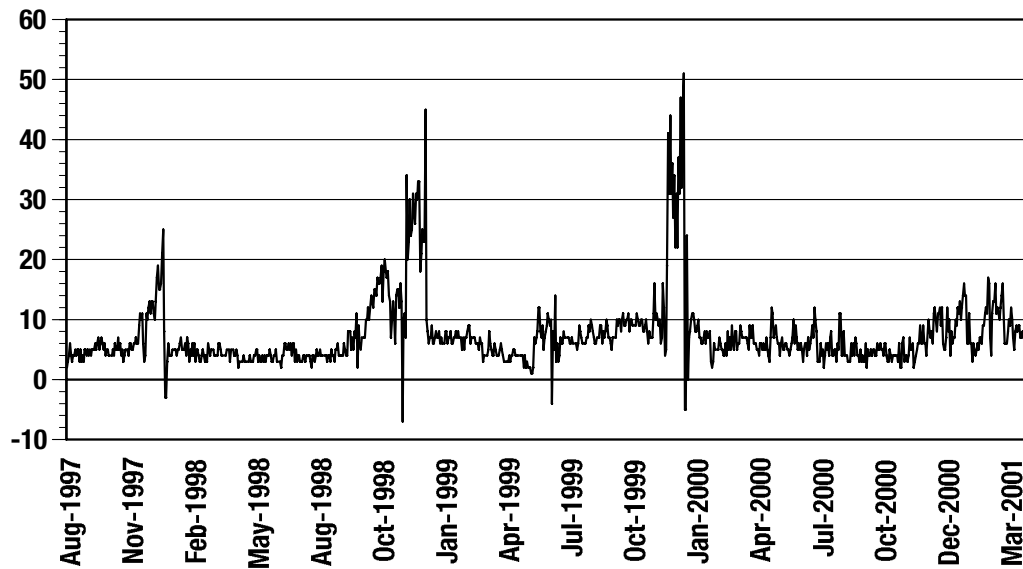
The success of the ABCP market in itself has narrowed the larger spreads that investors have historically enjoyed. Reported spreads from portfolio managers and traders three years ago were as wide as 5 bps to 12 bps above high-quality CP, with similar maturity characteristics. A year ago reported spreads fell to the 2 bps to 7 bps range and some managers have reported that spreads have narrowed even more in the past year.

Moody's has found that overall spreads have been stable, however they do vary case by case. Our own study, using reported yields from Bloomberg, found that ABCP spreads over CP have averaged 7.4 bps for the three and a half-year period from August 1997 through February 2001 (see chart). They have remained mostly flat over this period and have become more volatile in the past year.

Spread variances can be attributed to the following explanations:

1. Reported spreads may vary up to 3 bps during any particular day.
2. Large, medium and small prime money fund managers will be offered different rates from dealers based on their total book of business with that particular dealer. Economies of scale in buying power are important here since prime money market fund assets, by manager, range from less than \$1 billion, to about \$100 billion.
3. New and smaller ABCP programs may pay higher rates to attract investment dollars vs. large established ABCP programs who may have greater demand allowing them to pay the market rate or slightly lower. These ABCP programs are an area of differentiation for some fund managers where their analytical resources may deliver higher rates by investing in new or smaller ABCP programs.

Chart 3
ABCP 30-Day Yield Spreads over CP in bps
 August 1997 through February 2001



Year-End Spread Analysis – 1998, 1999, 2000

The recent deterioration of corporate credits along with the event-risk driven California utility crisis, have forced portfolio managers to seek higher quality securities. Historically, when short-term managers sought a “flight to high-quality investments”, it meant that they purchased **P-1** CP from **Aa** or **Aaa** rated corporate issuers. This flight to corporate quality is exactly what occurred at year-end 1998, 1999 and 2000 where **Aa** corporate spreads narrowed. At the same time ABCP spreads blew out in 1998 and 1999, but ABCP spreads did not blowout at year-end 2000 as in previous years. Instead they spread-out only a minor amount.

Year-End Spreads

Influencer	4Q 1998	4Q 1999	4Q 2000
ABCP Supply	Surged	Surged	Surged
Credit Environment	Long-Term Capital Management LP, Posturing for Y2K the Russian Crisis and some corporate credit weakness		Cyclical weakening of corporate credit
Liquidity	Crisis	Crisis	Normal Cyclical
ABCP Spreads over CP	Blowout	Blowout	Minor spread-out
Aa Corp spreads over CP	Narrowed	Narrowed	Narrowed
Investor comfort with ABCP	Unsure why spreads blew out if credit is still good and stable	Unsure why spreads blew out if credit is still good and stable	ABCP spreads were more stable Investors more comfortable

There is significance to the different shape of the flight to quality at year-end 2000. Possible explanations include the fact that there was no liquidity crisis as in 1998 and 1999, corporate credit was in a cyclical weakening, there was anticipation of the Fed easing interest rates, there was less high quality **P-1** unsecured CP in the market and investors were more comfortable with ABCP.

This positive market reaction to ABCP spreads may be an initial indicator that short-term investors have more generally accepted ABCP. Here, we must look at future credit and year-end cycles for confirmation of this potentially new trend for ABCP.

Choice of Maturities – Building in Portfolio Liquidity

Portfolio managers primarily purchase ABCP for a buy-and-hold investment strategy. Maturities for ABCP typically range between 30 and 90 days. Although overnight and over 90-day maturities are available, they are utilized to a much lesser extent. These maturities make ABCP well suited for building in portfolio liquidity through “laddering” maturities.

This investment strategy for ABCP supports a greater trend in the money market fund industry where many portfolio managers now focus on “building liquidity” into their portfolios. Here, portfolio managers look to certain money market investments such as repurchase agreements, U.S. government securities and traditional high quality CP as their first choice in raising portfolio liquidity. These investments generally price at or near par, trade in the most liquid secondary markets or behave in a more stable manner than other money market securities held in the portfolio.

Secondary Market Liquidity – Varies by ABCP/Dealer

ABCP secondary market liquidity is very important for money market portfolio managers. Despite their typical buy-and-hold investment status, money market funds do hold these securities as “liquid” as interpreted by regulatory requirements. This means each ABCP holding in a money market fund portfolio must have a “good price”⁶ when the portfolio is marked-to-market.

The large, established ABCP programs with multiple dealers will have greater liquidity and a smaller bid/ask spread than the small programs⁷ with only one dealer. Regardless, liquidity is generally provided by the dealer(s) of an ABCP program. Although, as with the liquidity of any security, an investor’s liquidity is often a factor of its relationships and total business with its dealers, as well as the dealer’s ability to resell the purchased security quickly.

ABCP’s bid/ask spreads have historically been wider than those for unsecured CP. However, fund managers have seen some narrowing with ABCP’s bid/ask spreads in the past year. This trend can be attributed to ABCP’s growth, credit strength and market acceptance along with the deteriorating environment of traditional corporates.

Dealer and Administrator Sales Support

Dealer sales representatives and marketing specialists along with administrators offer analysis and sales support to potential buyers — particularly in getting a program onto a fund manager’s approved list of eligible investments.

Money fund analysts and portfolio managers’ cite the sales support used most often as an influence on ABCP program approvals and purchases. This is mainly because the complexity of ABCP creates a slow approval process. Knowledgeable expertise from the dealer or the administrator can help move the analytical process along.

6 For the purposes of this discussion, a “good price” refers to a quoted price that a dealer will stand behind. Regulatory requirements, in part, define liquid securities as those for which a fund has received independent price quotes from two dealers, or one quoted price if there is only one dealer for an ABCP program.

7 As the ABCP market has grown, the definition of a large program has changed from \$500 million in its early days (late 1980s to mid 1990s) to \$2 billion and now to \$5 billion. There are now approximately 34 programs greater than \$5 billion.

ABCP VS. CORPORATE COMMERCIAL PAPER

A Comparison of Characteristics for Short-Term Institutional Investors

Security	Issuer	Investor considerations
Asset-Backed Commercial Paper	<ul style="list-style-type: none"> • Short-term corporate financing • Bankruptcy remote SPV • Program support <ul style="list-style-type: none"> — Credit — Liquidity • Structured and securitized receivables • Solid investment grade credit not required for originator of receivables • Typically large bank sponsored alternative lending vehicle 	<ul style="list-style-type: none"> • Structured and securitized receivables • Complex structure with diversified portfolio • Analyze asset pools and support entities in contractual relationships • Minor secondary liquidity market • Primarily high-quality grade industry as measured by program support
Commercial Paper	<ul style="list-style-type: none"> • Short-term corporate financing • Direct full faith and credit corporate obligation • Need solid investment grade credit 	<ul style="list-style-type: none"> • Short-term corporate obligation • Simple structure • Analyze one issuer • Unsecured • Secondary liquidity market • Non-diversified credit • Primarily upper medium-grade industry

ABCP'S IMPACT ON MONEY FUND CREDIT QUALITY

Credit Risk Low Among P-1/P-2 Rated Securities

Credit risk in the context of ABCP is the risk that the receivables financed through the program will suffer losses in excess of credit enhancement.

ABCP has had an exceptionally safe record and consequently a tremendous appeal among short-term investors. **P-1** rated ABCP programs have never been downgraded for asset performance reasons. To date only a few ABCP programs have been issued with a **P-2** rating and those have not been downgraded either.

ABCP downgrades to date have exclusively been from the downgrade of support providers. This solid track record has supported the growth of the ABCP market.

Conduit Liquidity

If ABCP cannot be rolled over, collections on receivables or other financial assets are the next source of liquidity to pay ABCP investors. However, the cash flows from the assets are typically not matched to the maturities of ABCP. Therefore, liquidity commitments from **P-1** rated banks are an important source of funds for the timely repayment of ABCP. This attribute makes ABCP unique among the universe of short-term investments that have no collections from receivables coming in on a continuous basis.

Thank You for Your Support — Fully or Partially

Typically, a bank or finance company will sponsor or originate either a fully supported program using a single external support facility to provide 100% coverage or partially supported ABCP program that uses a combination of credit enhancement and a liquidity facility (see *Figure 1*). The sponsoring bank typically provides the majority of liquidity and credit support. Because of this complex nature, partially supported ABCP programs tend to be more difficult to originate and monitor.

Moody's Money Market Fund Rating Methodology

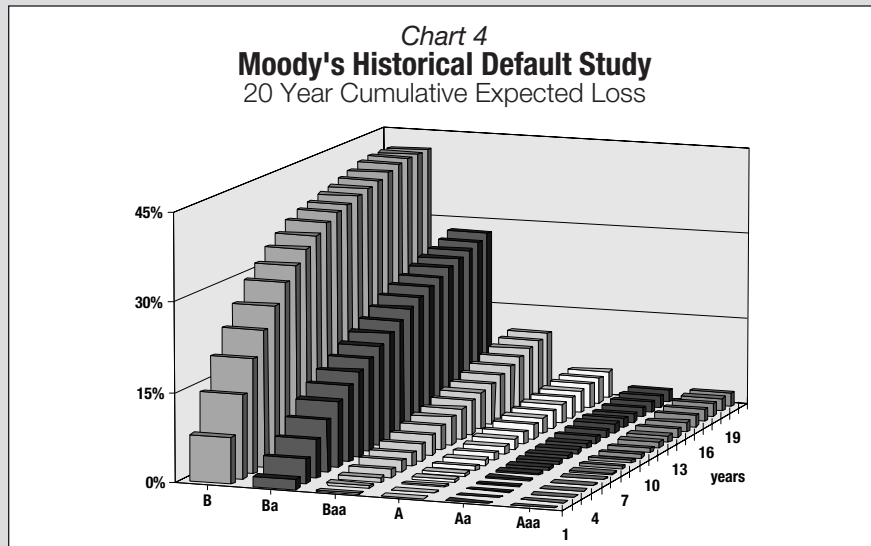
Moody's money market fund rating methodology⁹ utilizes long-term ratings, when available, as tools to stratify short-term ratings for portfolio credit assessment. Essentially, long-term ratings are used to measure credit differences among portfolios with **P-1** or **P-2** securities. While many short-term rated securities come from issuers whose support is provided by entities with senior unsecured long-term ratings, ABCP conduits generally do not have long-term ratings.

One approach to making a long-term risk assessment of an ABCP program is to employ look-through risk analysis of the support providers structured into a program. This approach is simple and works very well with fully supported programs, however partially supported programs require much more work to weight program support properly.

Fund Expected-Loss Assessment

Moody's money market fund rating methodology measures the credit quality of a fund's portfolio using the concept of "expected-loss," which incorporates both the probability and potential severity of default. The expected-loss approach is consistent with Moody's analytical framework for rating debt securities, and is widely used for Moody's ratings in the structured finance market.

To quantify the historical incidence of probability and severity of default, Moody's compiles and publishes an annual report entitled, "Default and Recovery Rates of Corporate Bond Issuers: 2000". The study reveals that the incidence of default increases with weaker ratings and with longer maturities (see *Chart 4*). From this study, Moody's uses a portfolio credit matrix that measures the total weighted average credit quality of a fund against an appropriate rating benchmark.



HOW PORTFOLIO MANAGERS INVEST IN ABCP

Building Resources – Dedicated Analyst

Institutional short-term investors active in the ABCP market are finding it necessary to boost their internal research capabilities in structured finance analysis and in the asset-backed sector to optimize deal surveillance and keep pace with new structures. In most firms, because this has become a full time requirement, many have hired a dedicated ABCP research analyst. Portfolio managers generally will not buy ABCP until they have a dedicated research analyst who can concentrate on ABCP conduits.

⁹ For information on Moody's Money Market Fund Rating Methodology, see "Moody's Managed Funds Credit Quality Ratings Methodology", March 1998.

ABCP Rating Analysis

Analysis for ABCP programs — whether by Moody’s analysts or by those working for portfolio managers — will focus on the following general areas of coverage:

- Business plan for the conduit including whom stands to benefit financially.
- Legal structure of the conduit and its mechanisms — particularly as it relates to 2a-7 appropriateness for money market funds
- Credit and investment policy of the underlying financial assets
- Credit protection of the financial assets
- Liquidity support of expected cash flows
- Assessment of the sponsor and administrator
- Monitoring of the ABCP program

Managers’ Risk Concerns/Questions — The Approved List

Portfolio managers often have basic criteria for ABCP programs purchases. Program selection often focuses on the larger and experienced administrators with “deep pockets” who sponsors and operates large ABCP programs. Analysts then review selected programs for possible inclusion to a fund’s approved list of eligible investments.

Typical Program Approval Criteria for Fund Managers	
On ABCP Approved List	Off ABCP Approved List
<ul style="list-style-type: none">• ABCP analyst achieves research comfort on a conduit• Asset pools performing well• Good monitoring information• More than one dealer carries issue	<ul style="list-style-type: none">• Downgrade of program, liquidity provider or program support• High concentration to one obligor/industry• High exposure to single asset class• Poor performance of asset pool(s)• Monitoring information questionable• Dealer drops issue

In addition to ABCP program approval criteria, portfolio managers have many fundamental concerns as identified in interviews with various money fund portfolio managers and analysts. These fundamental concerns can be broken down into fund specific and ABCP conduit specific areas.

Fund Specific Concerns

- Is the program sponsor a known name that my fund’s board will recognize?
- Does the ABCP program offer the proper investment diversification or fall within exposure limits of the managers’ money fund?
- Is the program complexity beyond in-house analytical capabilities regarding liquidity, structure and asset types?
- Extendable Notes
 - Is the spread worth the risk?
 - How should I book the maturity?

ABCP Conduit Specific Concerns

- Will program sponsor use conservative and prudent judgement in their dual role as program administrator and credit provider?
- Who manages conduit cash flows and operations — an in-house sponsor with expertise — or outside providers?
- What happens if and when the ABCP conduit is forced to wind-down, particularly with security arbitrage deals?
- Are the reserves sufficient to handle peak default levels in recessionary times?

- Are the underlying financial assets structured to weather periods of economic stress?

While the answers to these ABCP specific concerns may be straightforward, fund managers look at these fundamental areas for any deal they are considering for purchase.

Program Monitoring Reports

ABCP program monitoring is facilitated by reports provided by the administrator of the program. These reports contain summary statistical information about the assets financed and required credit enhancement levels. Breakdowns of pool data, including delinquencies, pool losses and credit protection levels, are all important in understanding program credit quality. Because each seller in an ABCP program is unknown to the investors, monitoring reports are the only tie into a conduit's seller(s).

These reports are critical to money market fund managers who are challenged continuously to monitor the diversification of their risk by guarantor. This includes monitoring exposure limits by obligor so as not to violate the 10% obligor concentration limit required by money market fund governing rule 2a7.

While helpful, these reports are not standardized and may not always tell investors the full story of an ABCP program and the risks and mitigants associated with them. Some reports are short or may have minimal descriptive and analytical value. Reporting inconsistencies may appear with differences at the pool level, including nuances in structural supports or in tracking the flow of money. Surveillance problems are further compounded by changes in the composition of program receivables and divergent reporting standards, which can result in the use of old data or in a lack of clear definition and proper use of data terms.¹⁰

Structures are becoming more Standardized Overall...

Over time as the ABCP market has grown, bank-sponsored multi-seller ABCP programs have become more uniform in terms of structure. This is particularly true of multiple ABCP conduits sponsored by some of the larger commercial banks, which may have similar credit and investment policies and administrative procedures. This streamlining process has benefited issuers, investors and rating agencies in rolling out new programs.

In general, the majority of the ABCP market — classified as multi-seller conduits — are structured similarly and reflect consistent levels of credit enhancement. These conduit structures are supported by 100% liquidity to guard against a number of risks, including an inability to roll over and refinance maturing ABCP. Slowly over the past ten years, permutations on this basic structure have developed. As ABCP conduits become more complex, they are shifting away from standardization. This trend is particularly pronounced among the multi-seller conduits that have dominated the market.

...But the Need for Liquidity is Triggering Innovation

Despite the trend toward more uniform structures, there has been a recent increase in the cost of liquidity lines coupled with a shortage of third party liquidity lines (related to bank consolidations and downgrades below **P-1**). These events have forced a growing number of conduits to move away from the traditional 100% liquidity and to begin utilizing 'alternative' liquidity structures.¹¹

To replace the traditional liquidity back-up lines, programs are designing structures that require lower percentages of liquidity support as an alternative. These alternative structures may rely, for example, on a credit derivative or a swap to mitigate risk usually assumed by a traditional liquidity bank. Some recent conduits, like Eureka Asset Securitization PLC¹² and Lake Front sponsored by Citibank and Bank One respectively, look to the underlying asset cashflow as a way to provide partial liquidity to ABCP holders of these conduits.

¹⁰ For a more detailed review of some of the pitfalls of reporting of ABCP programs see Moody's article: ABCP's Song of the Sirens: Reporting of Monthly Performance Data May Lure Investors Into The Rocks, February 1999.

¹¹ For explanation of this aspect of liquidity see Special Report: "Alternative Liquidity comes of Age: A Decade of Development", Second Quarter 2000 Asset-Backed Commercial Paper Market Review.

¹² A new trend in less than 100% liquidity support is seen with Eureka Securitization Incorporated/Eureka Securitization plc. By relying on cash flow from the underlying assets, liquidity back up lines moved from over 100% to less than 70%. See a detailed analysis by Sam Pilcer in "Moody's Global Asset-Backed Commercial Paper Review", First Quarter 2000.

Several conduits, Harwood Funding LLC, Brahms Funding and ASAP, rely on a total rate of return swap or similar derivative from a **P-1** entity in addition to an extension feature on the ABCP as a way to provide conduit-wide liquidity. This is a viable substitute for traditional liquidity lines that may cover a package of risks ranging from market value declines on the assets to yield shortfalls.

More Complex Structures Require Increased Investor Scrutiny

ABCP conduits' moving away from traditional structures poses challenges to money market funds and other investors in their analysis of ABCP.

In evaluating the implications of new liquidity structures, such as < 100% liquidity, investors must continue to rely on the quality of the conduit sponsor and its ability to underwrite and monitor each asset interest to avoid losses to investors and manage cash flows. The roll of the sponsor in managing risk is needed to ensure that there be sufficient liquidity available to pay ABCP in a timely manner.

In some cases risk management may take the form of implicit rather than contractual support with the conduit sponsor actively managing the portfolio assets. For example, in the past, administrators have removed assets from a program at the first signs of credit deterioration even though they were not legally contracted to do so.

Risk management is both quantitative and qualitative in nature. Investors rely on the administrator to analyze and monitor each asset pool and the program, but also on its dedication to the program.

ABCP RISK EVENTS — PROGRAM SUPPORT DOWNGRADES

Any downgrade in a support provider's rating may have an immediate impact on the ABCP programs that have commitments from that provider.¹³ While substitution of the credit or liquidity support provider can occur, there is no rating grace period during the time it takes to switch to a new support provider. The rating of the ABCP program may be subject to downgrade if the downgrade of the support provider is judged to cause a deterioration of the whole program. This may hold true even if the downgrade occurs only a short period before the provider is substituted. This is also true where liquidity or credit risks are borne by swap or derivative counterparties.

ROLLING UP RISK EXPOSURE — THE END ANALYSIS

The risk analysis framework for credit support speaks to each layer of the portfolio. When rolling up risk, it is necessary to view the sum of the credit support providers and their total commitment. Structural support at the portfolio level incorporates both the risk of explicit sellers and also the support they provide through their participation in asset-backed program construction.

To fully understand the risk diversification profile of a portfolio, it is critical to measure the potential exposures — both explicit and implicit — in the structural framework, both at the deal level and at the program level. Thus the complex and changing elements to a program may challenge investors through their holding period.

CONCLUSION

Investors continue to discover and better understand the benefits of ABCP — secured by financial assets, diversified, and strong structural credit/liquidity support. At the same time, these investors should be cognizant of the need to perform a full analysis of ABCP programs and closely monitor them.

¹³ For a discussion on ABCP downgrades, see the Moody's Special Comment "Downgraded Support Providers in ABCP Programs: Grace Periods Don't Exist" 3rd Quarter 1998 Asset-Backed Commercial Paper Market Review.

While recent innovations with ABCP conduit structures may provide opportunities for yield pick-up in a normal market, this incremental pricing may not always be adequate in an uncertain interest rate environment or with other risks that investors may bear. However, the direction is clear: ABCP investors will continue to be faced with a broadened menu of structural choices. The ultimate analysis will rest on several elements outside of the pricing consideration — the strength of the conduit sponsor and administrator, the mitigation of risk through various forms of credit enhancement, liquidity support and structural protections, and the quality of the underlying assets.

ABCP's historical performance has been exceptional. However, some money market fund portfolio manager's feel the market has not been exposed to enough market cycles that would test the integrity of all the various assets and structures employed by ABCP conduits.

In the mean time, more investors have a better understanding of ABCP than ever before and have supported this by making big investments in this asset class.

ABCP RISK PROFILE HIGHLIGHTS SUMMARY

These risks highlight some of the exposures ABCP investors may focus on when evaluating conduit structures. ABCP programs differ and may pose different structural solutions to risks listed below.

Risk	Scenario	Possible Result	Mitigants
<p><u>Structural Risks</u> Bankruptcy-Remoteness</p>	<p>Bankruptcy remote structure is challenged in the bankruptcy court for the first time.</p>	<p>Payments due to ABCP investors are delayed in bankruptcy court.</p>	<ul style="list-style-type: none"> Independent directors and unanimous consent required for voluntary filing, strict limitation of corporate purpose of conduits, non-petition and recourse limitation required of each counterparty in each contract entered into by the conduit.
<p><u>Support Risks</u> Liquidity & Credit Support Provider Downgraded</p> <ul style="list-style-type: none"> Includes Liquidity Banks Swap Providers Third Party Credit Support - (Surety Bonds) 	<p>Support provider downgraded below P-1</p>	<p>Unless the downgraded support provider is immediately replaced, this action would probably result in a downgrade of the conduit and a possible liquidation of the underlying assets.</p>	<ul style="list-style-type: none"> Many programs have contractual requirements for downgraded support providers to be drawn on immediately. Investors may be exposed for a relatively short time and downgrade does not mean a default is imminent during that time.
<p><u>Liquidity & Credit Risks</u> Liquidity Coverage</p> <p>Market Value Fluctuations</p> <p>Asset/Liability Mis-Matching</p>	<p>Liquidity can cover a variety of risks ranging from bankruptcy of the underlying seller (i.e. deemed collections) to dilution risk, (i.e. in trade receivables deals related to returned goods) or insufficient yield on the underlying assets.</p> <p>Limited Purpose Investment Companies (LIPICs) and Mortgage CBO ABCP conduits rely on the market value of the underlying assets. Market value could deteriorate under certain circumstances.</p> <p>Loan Backed Programs and Cash Flow Supported Programs (Eureka) can experience mismatches between the underlying asset cashflow and ABCP repayment.</p>	<p>Risks not fully covered by the liquidity providers, or credit enhancement could be passed on to ABCP investors resulting in shortfalls.</p> <p>Potential for market loss if assets are not managed according to the credit and investment policy. This may include daily mark-to-market to ensure appropriate levels of overcollateralization are maintained.</p> <p>Timing mismatches and repayment shortfalls.</p>	<ul style="list-style-type: none"> What liquidity funds is an integral part of the P-1 rating. Reserves, liquidity, and credit enhancement are designed to insulate investors for assuming these exposures. Provisions to strictly monitor the market value of the collateral often include daily or weekly mark-to-market requirements. Over-collateralization levels are strictly maintained with requirements for frequent adjustment. Conduit administrators are required to strictly match assets with debt prior to issuance or bridge the difference with bank liquidity.

<p>Coverage of Credit Losses</p>	<p>Exposures not covered by liquidity are either covered by credit enhancement or borne by investors.</p>	<p>Inadequate credit enhancement leaves investors exposed to the risk of loss due to credit or related portfolio deterioration.</p>	<ul style="list-style-type: none"> • Credit enhancement levels are sized on two levels — conduit level and individual transaction level. • Residual risk is covered by either liquidity or conduit level credit enhancement after transaction level protection is exhausted. • Draws on conduit level credit enhancement may trigger the conduit to be terminated and all assets liquidated. Administrators avoid this scenario by carefully monitoring all individual asset exit strategies.
<p>Seller/Service Insolvency</p>	<p>Lower rated or unrated sellers could be subject to insolvency or bankruptcy. Any collections remitted to an ABCP transaction could in theory be subject to the 'claw-back' provisions of the bankruptcy code.</p>	<p>Insolvency risk in ABCP transactions is covered by the liquidity providers.</p>	<ul style="list-style-type: none"> • Liquidity will fund the obligations and purchase the underlying non-defaulted assets in the event of a seller insolvency, as long as the ABCP conduit is not bankrupt. • In the limited cases, this risk can be covered by conduit level credit enhancement.
<p>Administrator Performance</p>	<p>Failure by the Administrator to perform its duties resulting in severe portfolio deterioration</p>	<p>Administrator fails to perform required duties, including monitoring the required credit enhancement. Losses on assets exceed available credit enhancement and liquidity</p>	<ul style="list-style-type: none"> • Administrators are often conduit sponsors and primary support providers. There is thus a strong economic incentive for them to perform because other banking relationships could be affected by their negligence. • Administrators provide indemnifications to the conduits. • Independent board of trustees can replace an administrator immediately for breach of responsibilities.

ABCP GLOSSARY

Administrator: Entity that administers ABCP programs by monitoring receivables, compliance with the program documents and with the credit and investment policy. The administrator may be the party who draws under the credit and/or liquidity enhancement if needed. The administrator approves the sellers and receivables pools to be included in the program. The administrator is often the program sponsor, although programs with multiple sponsors may have a single administrator.

Asset Purchase Agreement: Agreement to purchase a specified pool of receivables (provided that performance has not deteriorated beyond specified trigger levels). Asset purchase agreements provide liquidity for ABCP programs and permit the issuer to sell the receivables to the asset purchase provider at any time for any reason. Asset purchase agreements are especially useful with term receivables pools because those pools do not have inherent liquidity as do trade receivables pools.

Authorized Amount: Maximum authorized amount of an ABCP program.

Borrowing Base: A calculation for determining how much liquidity a bank will fund against a prescribed percent of assets. Typically, the borrowing base includes non-defaulted current receivables and cash.

Credit Enhancement/Credit Support: Used to cover credit losses, and often dilution, and may include external and/or internal support. It may be seller specific or programwide.

Dilution: Events such as disputes, returns of sold goods, offsets, credits, rebates, and warranty claims that dilute the value of outstanding receivables. For example, if receivables totaling \$1 million are created when goods are sold, and \$50,000 of those goods are subsequently returned, the receivables have 5% dilution.

Eligible Receivable: Receivable that meets the issuer's eligibility criteria for purchases. Eligibility criteria typically include extensive provisions in addition to a receivable being a non-defaulted receivable.

External Credit Support: Credit support supplied by a party other than a seller. May take the form of a cash collateral account, guarantee, letter of credit, or surety bond. May be provided at the program and/or seller level.

Floor: A minimum dollar amount below which the program-level credit enhancement cannot decline (unless reduced by credit losses).

Freeze: The program-level credit enhancement may "freeze" if a specified trigger event occurs. Effectively, a freeze in the credit enhancement means that a floor is established at a certain dollar amount.

Internal Credit Support: Credit support supplied by the seller, usually in the form of overcollateralization or seller recourse.

Issuer: Party that issues ABCP. The issuer is typically a bankruptcy-remote, special-purpose vehicle or trust.

Liquidations: Collections on receivables, usually during a specified period of time, such as one month or one year.

Liquidity Facility: Covers liquidity or timing risk, which arises, for example, because ABCP is maturing but sufficient collections have not yet been received to pay maturing ABCP.

Losses: Credit losses due to an obligor's failure to pay what is owed on a receivable. Losses are often deemed to occur when receivables remain unpaid for a specified period of time past their due date, even though seller may not have chosen to write them off. For example, a receivable may be deemed to have defaulted, and thus to have incurred a loss, if it is not paid 90 days following its due date.

Losses/Liquidations: The ratio of losses on receivables to the liquidations of those receivables during a specified time period, such as a month or a year. This ratio is calculated somewhat differently between programs, so it may be misleading to compare it between programs, although it does give a relative indication of one program's performance over time.

Losses/Outstandings: The ratio losses on receivables over a period of time, such as month or a year, to outstanding receivables, preferably those outstanding at the beginning of the time period. This ratio calculated somewhat differently between programs.

Non-Defaulted Receivables: Receivables that either have not defaulted or been deemed to have defaulted (see *Losses*).

Obligor: Party who owes payment on a receivable to a seller.

Outstandings: May refer to outstanding ABCP or outstanding receivables. Outstanding ABCP is ABCP that is issued and not yet paid. Outstanding receivables are those that have been created and that are not yet paid.

(continued)

Overcollateralization: A form of internal credit support that arises when an issuer purchases receivables from a seller at a discount. For example, a seller may pay \$100 for \$110 of receivables, generating overcollateralization of \$10.

Pool: Refers to a pool of receivables.

Pool Purchase Agreement: Asset purchase agreement.

Program: Asset-backed commercial paper program. The program includes all the receivables pools from all the sellers who have sold receivables to the issuer.

Program-Level Credit Support: Credit support available to cover losses incurred by any seller in the program.

Program-Level Liquidity Support: Liquidity support available to any and all sellers in the program.

Receivable: Amount a seller is due to receive from an obligor as payment for goods, services, or other items under the terms of contract.

Receivables Pool: A pool of receivables sold by a seller to an issuer. A single seller may sell more than one pool of receivables to an issuer, especially if it has heterogeneous product lines that are sold under different terms.

Related CP: A negative structural feature found in some ABCP programs that requires the issuer to track the use of the proceeds of each tranche of ABCP to a particular receivables pool and to limit which liquidity banks can be drawn upon as the related ABCP matures. The presence of a related ABCP structural feature in an ABCP program increases the probability that there will be delays in payment if unexpected operational or administrative problems arise in the liquidity funding process.

Seller: Party that sells receivables to an issuer.

Seller Level Credit Support: Credit support provided to cover losses incurred by a particular seller, and only by that seller. It does not cover losses incurred by other sellers in a program. Typically it is in the form of overcollateralization or seller recourse, but may also include a seller specific LOC, guaranty, or surety bond. It is usually the first form of credit enhancement to be tapped if losses arise.

Seller Recourse: Recourse a seller gives to an issuer to cover losses, dilution, or other offsets on that seller's receivables. The seller is agreeing to cover losses, etc. up to specified recourse percentage. The value of seller recourse is tied to the seller's credit quality. For that reason, seller recourse is often limited to sellers whose rating is at least as high as the rating assigned to an issuer's ABCP program.

Seller Reserves: Internal credit support.

Seller-Specific Liquidity Support: Seller-Specific Liquidity Support: Liquidity support for a single seller or for a specified sub-group of the sellers in the program. Unlike program-level liquidity support, it provides liquidity only for the specified seller(s).

Sponsor: Entity that has set up the ABCP program. The sponsor often serves as administrator.

Term Receivables: Receivables that have a term longer than one year. Term receivables may have consumer or corporate obligors.

The 10 Bank Rule: A structural mechanism in an ABCP program that mitigates the possibility that delays in payments of ABCP will happen because of the occurrence of operational or administrative problems. Pursuant to the 10 Bank Rule, once the number of banks equals or exceeds 10 the liquidity documentation in an ABCP program should provide that non pro rata draws from any liquidity bank (up to the amount of the particular bank's commitment) in the event that the requisite funds under a liquidity draw are not received from all of the liquidity banks by the prescribed time.

Trade Receivables: Receivables that arise between business entities and that are due and payable in less than one year; often trade receivables have a turnover period of 30-60 days.

Turnover: Describes how often receivables "turn over" during the year. For example, if receivables are usually paid in 30 days, they turn over 12 times a year, or it takes 30 days for receivables to turn over.

Wind-Down Events: Trigger events that cause an issuer to cease purchasing receivables or to cease issuing ABCP. For example, if a seller reaches a wind-down event, the issuer will cease purchasing receivables from that seller. If there is a program wind-down event, the issuer will cease issuing ABCP.

Moody's Rated Prime Money Market Funds

March 2001

Fund	Advisor	Rating	Assets (\$ millions)
ABN AMRO Institutional Prime Money Market Fund	ABN AMRO Asset Management (USA), Inc.	Aaa	1,852
AIM Cash Performance Fund	AIM Advisors, Inc.	Aaa	203
Short-Term Investments Co. Liquid Assets Portfolio	AIM Advisors, Inc.	Aaa	29,646
Short-Term Investments Co. Prime Portfolio	AIM Advisors, Inc.	Aaa	12,108
ARK Prime Cash Management Portfolio	Allied Investment Advisors	Aaa	21
AON Money Market Fund	AON Advisors, Inc.	Aaa	1,016
Nations Money Market Reserves	Banc of America Advisors, Inc.	Aaa	10,029
Bank One Government Operating Money Market Fd	Banc One Investment Advisors	Aaa	1,032
Bank One School District Operating Money Mkt Fd	Banc One Investment Advisors	Aaa	340
Illinois Metropolitan Investment Fund	Banc One Investment Advisors	Aaa	206
One Group: Institutional Prime Money Market Fund	Banc One Investment Advisors	Aaa	9,535
BNY Hamilton Money Fund	Bank of New York	Aaa	6,883
Bear Stearns Funds Prime Money Market Portfolio	Bear Stearns Asset Management Inc.	Aaa	1,964
Provident Institutional Funds-TempFund	Blackrock Institutional Management	Aaa	22,753
Catholic Money Market Fund	Catholic Financial Services Corp.	Aaa	12
J.P. Morgan Prime Money Market Fund II	Chase Manhattan Bank	Aaa	30,934
CitiFunds Institutional Cash Reserves	Citibank, N.A.	Aaa	1,437
BT Cash Management Portfolio	Deutsche Asset Management	Aaa	8,265
Dreyfus Cash Management Fund	Dreyfus Corporation	Aaa	12,210
Evergreen Cash Management Money Market Fund	Evergreen Investment Management	Aaa	290
Liquid Cash Trust	Federated Investors	Aaa	450
Prime Cash Obligations Fund	Federated Investors	Aaa	6,398
Prime Obligations Fund	Federated Investors	Aaa	16,129
Prime Value Obligations Fund	Federated Investors	A	5,418
Cash Management Funds: Prime Fund	Fidelity Management and Research	Aaa	10,415
Fidelity Instl Mny Mkt Fds: Domestic Port	Fidelity Management and Research	Aaa	9,631
First American Fds: Prime Obligations Fund	First American Asset Management	Aaa	12,938
Goldman Sachs Financial Square MMkt Fund	Goldman Sachs Asset Management	Aaa	9,483
Goldman Sachs Financial Square Prime Oblgn Fnd	Goldman Sachs Asset Management	Aaa	17,902
NIFCU\$ Natl Investment Fund for Credit Unions	Highmark Capital Management Inc.	Aaa	588
J.P. Morgan Prime Money Market Portfolio	J.P. Morgan Investment Management Inc.	Aaa	20,487
Janus Money Market Fund	Janus Capital Corp.	Aa	14,787
Vision Institutional Prime Money Market Fund	Manufacturers & Traders Trust	Aaa	182
Puerto Rico Government Investment Trust Fund	MBIA Municipal Investors Ser/ Wellington Mgmt Co.	Aaa	353
Liquid Institutional Reserves: Money Mkt Fund	PaineWebber Incorporated	Aaa	2,664
PIMCO Money Market Fund	PIMCO	Aaa	349
Reserve Institutional Trust -Prim. Inst. Fund	Reserve Management Company	Aaa	884
The Reserve Fund-Primary Fund	Reserve Management Company	Aaa	5,997
Riverside Pooled Fund Investment Portfolio	Riverside County Treasurer	Aaa	1,819
San Bernardino County Investment Pool	San Bernardino County Treasurer	Aaa	2,204
Strong Heritage Money Market Fund	Strong Capital Management Inc.	Aa	1,896
SEI Daily Inc Trust: Prime Oblig Portfolio	Wellington Management Company	Aaa	6,366
Wells Fargo Funds Trust Prime Investment MM Port	Wells Fargo Bank, N.A.	Aaa	1,678
Private Money Market Fund Ratings			108,001
Total			\$407,752

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Rating Methodology and Research

Moody's Managed Funds Fixed-Income Ratings Brochure

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Default and Recovery Rates of Corporate Bond Issuers: 2000, February 2001

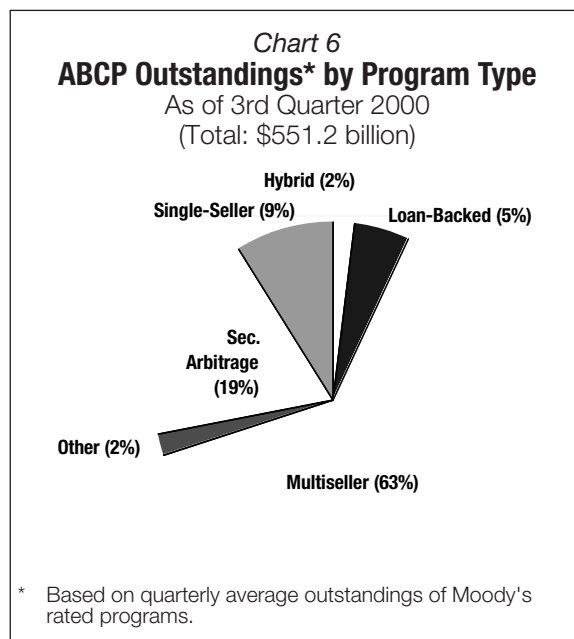
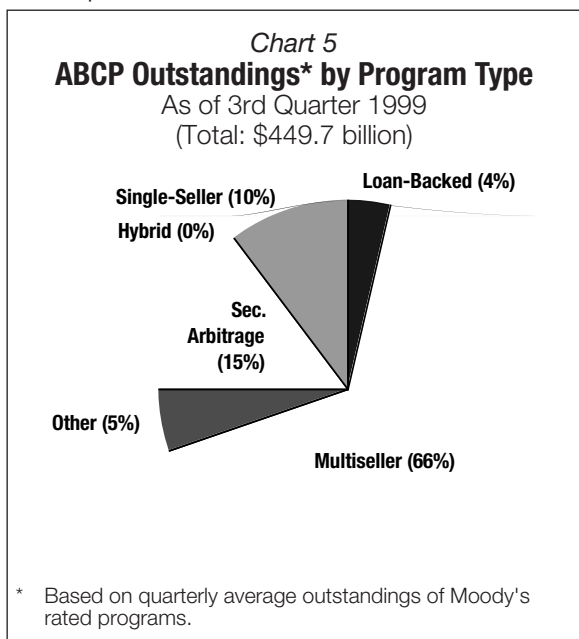
20 LARGEST MOODY'S RATED ABCP PROGRAMS

Ranked by Avg. ABCP Outstanding Fourth Quarter 2000

Rating	Program Name	\$ Millions
P-1	Edison Asset Securitization LLC	15,802
P-1	Falcon Asset Securitization Corporation	13,109
P-1	Variable Funding Capital Corporation	12,391
P-1	Windmill Funding Corporation	11,939
P-1	Asset Securitization Cooperative Corporation	11,405
P-1	Corporate Receivables Corporation (CRC)	10,949
P-1	Atlantis One Funding Corporation	10,849
P-1	Sheffield Receivables Corporation	10,649
P-1	Sigma Finance, Incorporated	10,634
P-1	Preferred Receivables Funding Corporation (PREFCO)	10,311
P-1	Corporate Asset Funding Company, Incorporated (CAFCO)	10,307
P-1	MOAT Funding LLC	9,861
P-1	Delaware Funding Corporation	8,795
P-1	Jupiter Securitization Corporation (formerly International Securitization Corporation)	8,368
P-1	Moriarity Limited	8,378
P-1	Park Avenue Receivables Corporation (PARCO)	8,358
P-1	Galaxy Funding, Incorporated	8,304
P-1	Barton Capital Corporation	8,255
P-1	CXC Incorporated	7,901
P-1	Greyhawk Funding LLC	7,357

ABCP PROGRAM TYPES

Significant in the comparison between 1999 and 2000 is the introduction of the Hybrid category. Hybrids incorporate multiple program types: multi-seller, securities arbitrage and loan-backed. Moody's expects to see more of these complex structures as the market continues to develop.



ABCP ASSET TYPE TRENDS

20 Largest Partially Supported, Multi-seller Programs by Asset

Program type	Sept 97 % Total	June 99 % Total	June 00 % Total
Trade Receivables	27%	19%	19%
Credit Cards	24%	27%	23%
Autos	16%	12%	12%
Equipment Leases & Loans	9%	8%	8%
Mortgages	4%	4%	5%
CLOs/CBOs	2%	12%	13%
Other	18%	18%	12%
Outstandings	\$210 bn	\$427 bn	\$570 bn

MOODY'S ASSET-BACKED COMMERCIAL PAPER RESEARCH

Moody's publishes articles quarterly on most of the ABCP programs that it rates in Moody's Global Asset Backed Commercial Paper Market Review. These reports include detailed information on program structures, support providers and counterparties, and features of the program that could be volatility factors in the ratings. The Market Review also contains indexes of important parameters of programs, such as program size, program administrators, program types and other data points as well. The Market Review additionally contains special comment articles of interest to issuers, investors and intermediaries in the ABCP industry. These include a quarterly market overview, as well as articles dealing with credit, legal and accounting issues that are unique to ABCP. The Market Review is available either in hard copy format or electronically on Moody's Investors Service web site — www.moody.com. For a complimentary copy of any of these reports, please contact Investor Relations at (212) 553-7941.

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On Being a Prudent Investor: Understanding the Nuts and Bolts of Australian ABCP Structures, August 1998

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