Structured Thoughts

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Typical Securitization Vehicles by Asset Type

Description	Special Purpose Corp[1]	FASIT[2]	Pay—Thru Owner Trust/Master Trust (Partnership)[3]	Grantor Trust Pass—Thru[4]	REMIC[5]
Auto Loans	Not Typical	Not Typical	Typical for Tax Financing Deals	Typical for Tax Sale Deals	Not Allowable Asset Type
CBO/CLO	Typical for Offshore Deals	Not Typical	Typical for Domestic Deals[6]	Not Typical	Not Allowable Asset Type
Commercial Paper Conduits	Typical	Not Typical	Not Typical	Not Typical	Not Allowable Asset Type
Credit Card Receivables	Not Typical	Not Typical	Very Typical	Not Typical	Not Allowable Asset Type
Leases	Not Typical	Not Typical (No Operating Leases)	Typical	Not Typical	Not Allowable Asset Type
Real Estate Mortgages	Not Generally Allowable Due to TMP Rules[7]	Not Typical	Owner Trust Typical for Nonperforming Loan Deals	Typical	Very Typical

[1] Due to double level tax considerations, a corporate structure generally is not used for domestic securitizations for many asset types. However, corporations are used, for example, in consolidated tax return structures, certain foreign bank trade receivable domestic deals, and in certain foreign securitizations, e.g., CBO Cayman Island deals.

[2] Financial Asset Securitization Investment Trust ("FASIT") is a relatively new special tax vehicle available for securitizations of most debt instruments (not operating leases), including mortgages. While some public and private FASITs have been done, currently, this vehicle is not widely popular due to an upfront gain rule and other tax uncertainties.

[3] In a Pay-Through Trust Structure, the interests in the entity consist of equity and debt. Accordingly, this is a typical financing structure for time tranched debt. The term "Owner Trust" is not a tax term; however, for tax purposes, it is generally understood to be a pay-through trust structure that typically is taxed as a partnership. For tax purposes, a Master Trust is also typically treated as a partnership, or under certain circumstances is viewed as a mere security device, and disregarded.

[4] The Grantor Trust Pass-Through Structure is typically, although not always, treated as an asset sale for tax purposes to the extent that the trust certificates are sold to third parties. The investment consists of an equity ownership in the assets – no debt interests in the entity are issued.

[5] Real Estate Mortgage Investment Conduit ("REMIC") is a special tax vehicle available for mortgage securitizations. The legal structure of the entity is irrelevant. It is not available for asset types other than mortgages. Due to the TMP rules (see discussion below), use of a REMIC (or FASIT) for time tranched securitizations is essentially "mandatory". If the mortgage assets have an unrealized loss, a sponsor may prefer REMIC status to FASIT or "Debt for Tax" Trust structures, which do not allow loss recognition on the asset transfer to the SPV. Conversely, a non - time tranched "Debt for Tax" Trust structure is typically preferable, for example, when the mortgage assets have an unrealized gain, if time tranching is not an important deal feature since it avoids the REMIC or FASIT gain on transfer rule.

[6] For CLO deals, it is also common to use a 'single owner" flow-thru master trust which is a disregarded entity for tax purposes.

[7] The Taxable Mortgage Pool ("TMP") rules generally apply to *time tranched* real estate securitizations and cause an SPV to be taxed as a corporation, that can not be included in a consolidated tax return, and hence, subject to a double level tax. The general impact is to force such mortgage securitizations to elect REMIC (or FASIT) status.

For more information about this or other Structures Thoughts' articles or to inquire about Arthur Andersen LLP Structures Finance Services, please contact David I. Berman at 212 708 3766, david.i.berman@us.arthurandersen.com, Anthony J. Donadio at 212 708 4130, anthony.j.donadio@us.arthurandersen.com or Skip W. Curth at 212 708 3833, george.w.curth@us.arthurandersen.com.