XI GLOSSARY

Adequate Compensation[42]	The amount of benefits of servicing that would fairly compensate a substitute servicer should one be required, which includes the profit that would be demanded in the marketplace.
Account Additions	Accounts that are added to (technically, designated for) the securitization vehicle in order to maintain the investor's interest in the underlying assets at the prescribed level, establish new series within a *master trust*, or change the existing credit quality on the aggregate pool of receivables.
Accumulation Period	See definition for Controlled Accumulation Period.
All-in-Funding Cost	All costs, such as transaction cost, equity, and debt.
*Attached Call**	A call option held by the transferor (bank) of a financial asset that becomes part of and is traded with the underlying instrument. An attached call held by the transferor could result in the transferor retaining effective control, and its existence could preclude sales treatment on the transaction.
Attrition	The loss of accounts either involuntarily through charge-off or death; or voluntarily, at the option of the cardholder.
Amortization Period	See definition for Controlled Amortization Period.
Base Rate	The sum of the coupon rate paid on the investor certificates and the servicing fee.
*Beneficial Interest**	Rights to receive all or portions of specified cash inflows to a trust or other entity, including senior and subordinated shares of interest, principal, or other cash inflows to be "passed-through" or "paid-through," premiums due to guarantors, commercial paper obligations, and residual interests, whether in the form of debt or equity.
Bank Identification Number (BIN)	A series of numbers assigned by Visa to its member financial institutions to identify each institution for acquiring and issuing processes. The term ICA is used by MasterCard and is similar to a BIN. VISA BINs start with 4, and MasterCard ICAs start with 5.

[42] The terms identified with an asterisk (*) were obtained from the definitions provided in Appendix E to FAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*.

Bullet Payment	A single principal payment made on the certificates when the series matures.
Cash Collateral Account	A segregated account established by the securitization trust, funded at the time a series is issued, that can be used to cover interest and/or principal on the investor certificates and other trust expenses (such as servicing expense) when the excess spread falls below zero.
Cash Flow Waterfall	Required, orderly cash flow allocations as specified in the pooling and servicing agreement.
Cherry Picking	The propensity to select credit card receivables of higher or the highest quality for the purpose of securitization in order to improve the performance of the securitization. The resultant risk is that the bank may retain the riskier receivables on its balance sheet.
*Clean-up Call**	An option held by the servicer or its affiliate, which may be the transferor, to purchase the remaining transferred financial assets, or the remaining beneficial interests not held by the transferor, its affiliate, or its agents in a securitization vehicle (or in a series of beneficial interests in transferred assets within a securitization vehicle), if the amount of outstanding assets or beneficial interests falls to a level at which the cost of servicing those assets or beneficial interests becomes burdensome in relation to the benefits of servicing.
Collateral Invested Amount (CIA)	Un-certificated, privately-placed ownership interest in the securitization trust, subordinate in payment rights to all investor certificate holders.
Contractual Servicing Fee	The fee paid to the servicer in accordance with the terms and conditions of the pooling and servicing agreement.
Controlled Accumulation Period	The period during which principal payments made by the cardholders and collected by the securitization trust are deposited into a principal funding account and reinvested for a specific period of time. The funds are distributed to the investors as a bullet payment when the certificates (bonds) mature.
Controlled Amortization Period	The period subsequent to the revolving period in which an even distribution of principal payments is made to the investor certificate holders (versus a controlled accumulation period).
Credit Enhancements	Various internal and external facilities designed to reduce the credit risk to the investors with the goals of achieving higher ratings on and improving the marketability of investor certificates.

Credit-Enhancing Interest-Only Strip (CE IO Strip)
An on-balance sheet asset that, in form or in substance, (1) represents the contractual right to receive some or all of the interest due on the transferred assets; and (2) exposes the bank to credit risk that exceeds its pro-rata share claim on the underlying assets whether through subordination provisions or other credit-enhancing techniques.

Direct Reduction Method
For risk-based capital calculations, a bank includes an institution-specific amount in its risk-weighted assets for its maximum contractual dollar amount of exposure that is calculated using the actual amount of the bank's total risk-based capital.

Designated Accounts
Credit card accounts corresponding to securitized loans versus credit card accounts held on book (sometimes referred to as trust accounts).

Dilution
A decline in credit card receivables due to charge reversals, such as merchandise returns, customer disputes, and fraudulent charges.

Direct Credit Substitutes
Direct credit substitutes arise from an arrangement in which a bank assumes, in form or in substance, credit risk associated with an on- or off-balance sheet asset or exposure that was not previously owned by the bank (that is, it was a third-party asset), and the risk assumed exceeds the pro-rata share of the bank's interest in the third-party asset. Examples of direct credit substitutes include purchasing a subordinated certificate of another bank's securitization, guaranteeing a mezzanine certificate of another bank's securitization, or providing a letter of credit to an asset-backed commercial paper program.

Early Amortization
An unplanned liquidation of the assets generally due to deterioration in the credit quality of the underlying receivables. Another term for "Wind Down Event."

Econometric Models
Forecasting models that assess the impact of the economy on the performance of a specific pool of assets.

*Embedded Call**
A call option held by the certificate issuer of a financial instrument that is part of and trades with the underlying instrument. An embedded call is not held by the transferor (as is the case with an attached call) and as a result, embedded calls do not preclude sales treatment.

Excess Finance Charges
The difference between the gross yield on the pool of securitized receivables less the cost of financing those receivables (weighted average coupon paid on the investor certificates), charge-offs, servicing costs, and any other trust expenses (such as insurance premiums, if any). Excess finance charges are typically a source of credit enhancement for the certificates since they are

commonly available to absorb losses on the assets. As long as the excess finance charges are positive, the deal (securitization) is able to cover all its costs. The amount of excess finance charge is a measure of a securitization trust's profitability. Excess finance charges spread is also referred to as *Excess Spread.*

Excess Spread — The difference between the gross yield on the pool of securitized receivables less the cost of financing those receivables (weighted average coupon paid on the investor certificates), charge-offs, servicing costs, and any other trust expenses (such as insurance premiums, if any). Excess spread is typically a source of credit enhancement for the certificates since it is commonly available to absorb losses on the assets. As long as the excess spread is positive, the deal (securitization) is able to cover all its costs. Excess spread is a measure of a securitization trust's profitability. Excess spread is also referred to as Excess Finance Charges.

Expected Final Payment Date — The date the credit card issuing bank expects the final payment of principal and interest to be made on the certificates.

Finance Charges — The sum of cardholder interest charges, annual membership fees, cash advance fees, transaction fees, and any other fees charged or incurred by the cardholders in connection with their use of the credit cards.

Forward Commitment — A provision that requires an institution, for specified period of time, to provide replacement assets to the securitization vehicle as the originally transferred receivables are repaid. Typically these contracts are entered into at market rates; therefore, its value at the date of the securitization is zero.

Gross-up Method — For risk-based capital purposes a bank includes an amount in its risk-weighted assets for its maximum contractual dollar amount of exposure that is calculated under the assumption that the bank's total risk-based capital ratio equals eight percent.

Hedging Instruments — Any contract that effectively reduces an institution's exposure to the risk in changes in price or interest rates.

Implicit Interest Rate Swap — An implied component of a securitization transaction that occurs when the interest rate paid by cardholders, whether fixed or variable, differs from the basis paid to the investors.

Implicit Recourse — Implicit recourse arises from an institution providing post-sale, non-contractual support to either improve the credit quality or cash flow in a securitization series.

Interchange Fees — A fee paid by one bank to another to cover handling costs and credit risk in a card transaction. It is usually a percentage of the transaction amount, which is typically set by the Associations. It is normally extracted from the merchant discount by the acquiring bank (in essence paid by the merchant) and paid to the separate issuing bank to compensate it between the time of settlement with the acquiring bank and the time of recouping value (payment) from the cardholder. The merchant typically bears this expense since it receives the payment for the purchase immediately while the issuing bank must wait until the cardholder is billed and makes payment (covers the float time allowed by the grace periods).

Interest-Only Strips (IO Strips) — The contractual right to receive some or all of the interest due on an interest-bearing financial asset. The IO strip may or may not provide credit support for the transferred assets. If it provides credit support, it is defined as a credit-enhancing (CE) IO strip for this manual.

Liquidity Facility — Funds cash flow shortfalls on ABCP when mismatches occur in the receipt of cash flow from the underlying assets and obligation to pay commercial paper investors, or when there is a disruption in the capital markets. Liquidity facilities are generally not associated with or used to compensate for credit risk or credit losses.

Low-Level Exposure Rule — Combined capital charges shall not exceed the face amount of a bank's residual interests.

Master Trust — A securitization trust that houses more than one securitization issue. The master trust structure is designed to provide flexibility and a cost-effective means of securitizing credit card receivables.

Moral Recourse — A term used when a bank is compelled to provide non-contractual credit and yield to support the securitization and protect its reputation in the marketplace.

Pooling and Servicing Agreement — A legal, valid, and binding contract between the securitization trustee, the selling bank, and the servicer, which includes specific terms, such as the maintenance of a minimum seller's interest, servicing requirements, reporting requirements, cash flow structures (priorities – also known as the cash flow waterfall), and the addition and removal of accounts.

Principal Funding Account — An account set up by the securitization trustee during the accumulation period for the purpose of investing these funds until the Pooling and Servicing Agreement requires principal payments to be made to the investors.

Principal Receivables — The portion of monies collected from cardholders representing principal payments. The term is synonymous with principal collections.

Qualified Special Purpose

Entity (QSPE)	In a **two-step securitization** structure, the *QSPE* is the entity that issues the certificates (the second step). QSPE's are designed to operate with limited decision-making authority. Whether or not the securitization vehicle is a QSPE is very important for determining whether or not the assets and liabilities of the securitization vehicle should be consolidated. The goal is to avoid consolidation. In accordance with FAS 140, there are three qualifying conditions: 1) legal isolation, 2) the ability of the transferee to pledge or exchange the transferred assets, and 3) surrender effective control. QSPE is also referred to as securitization vehicle or trust in this manual.
Recourse	Recourse arises from an arrangement in which a bank retains, in form or in substance, the credit risk in connection with an asset sale in accordance with GAAP, if the credit risk exceeds a pro-rata share of the banks claim on the assets. Examples of recourse include off-balance sheet contractual agreements to repurchase assets, spread accounts, cash collateral accounts, retained subordinated certificates, and retained CE IO strips.
Reserve Accounts	An account established to ensure the distribution of principal and interest on the certificates.
Residual Interest	Residual interest refers to any on-balance sheet asset that represents an interest (including a beneficial interest) created by a transfer that qualifies as a sale (in accordance with GAAP) of financial assets, whether through a securitization or otherwise, and that exposes a bank to any credit risk directly or indirectly associated with the transferred asset that exceeds a pro-rata share of that bank's claim on the assets, whether through subordination provisions or other credit enhancement techniques. Residual interests do not include interests purchased from a third-party, except for CE IO strips.
Revolving Period	The period of time when the investors receive only interest payments on the certificates. During this period, all principal receivables collected and remitted to the securitization vehicle are used to purchase new credit card receivables from the bank, to pay down other issues in the master trust that are amortizing or in their accumulation period, or are distributed to the seller.
Roll-rate	The percentage of balances or accounts (units) that moves from one delinquency stage to the next delinquency stage. It measures the rate that accounts (units) or balances move (roll) to the next level of delinquency and are used in migration analysis.
*Securitization**	The process by which financial assets are transformed into securities.

*Seller**	A transferor that relinquishes control over financial assets by transferring them to a transferee in exchange for consideration. The seller is typically the bank under examination and is also referred to as the transferor.
Seller's Interest	
Senior/Subordinated Structure	A structure that establishes two or more classes of ownership within a series. Sometimes this is referred to as tranching.
Series Final Termination Date	The legal date when principal and interest must be paid on the certificates.
*Servicing Assets**	A contract to service financial assets under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are expected to more than adequately compensate the servicer for performing servicing.
*Servicing Liabilities**	A contract to service financial assets under which the estimated future revenues from contractually specified servicing fees, late charges, and other revenues are not expected to adequately compensate the servicer for performing the servicing.
Socialized Trusts	A type of trust where each series has an undivided interest in all of the receivables of the trust and where principal payments and finance charges collected are shared between all the series in the master trust.
Special Purpose Entity	Any vehicle that places the transferred assets presumptively beyond the reach of the transferor (e.g. legally isolated).
Spread Accounts	In a securitization, the governing documents may require that if specific performance indictors fall below certain thresholds, any excess spread will be "trapped" into an account for the benefit of the certificate holders as a form of credit enhancement against future credit losses. The performance indicators are usually based on the performance of the underlying receivables, rating agencies actions, or excess spread falling below a specified threshold.
Stand Alone Trust	A securitization trust that houses only one securitization issue. At the termination of the issue, the trust is dissolved.
Static Cash Flow Model	Estimating future cash inflows and outflows based on a static environment (point-in-time estimates) and then discounting these using an appropriate discount rate to determine the value of an asset.

Structural Termination Triggers	Triggers established as part of an ABCP issuance aimed at protecting investors from a deteriorating pool of credit card receivables and their corresponding losses.
Subprime	Exhibiting characteristics that indicate a significantly higher risk of default than traditional bank lending customers. Risk of default may be measured by traditional credit risk measures (credit history, debt to income levels, and so forth) or by alternative measures such as credit score.
Surety Bonds	Guarantees issued by third parties, usually a triple-A rated, mono-line insurance company. Surety bond providers guarantee the payment of interest and principal to specified investor certificate holders. The cost of this guarantee is a component of the trust expenses and is taken out of the cash flow generated by the underlying receivables (a component of the excess spread calculation).
*Transferee**	An entity that receives a financial asset, a portion of a financial asset, or a group of financial assets.
*Transferor**	An entity that transfers a financial asset, a portion of a financial asset, or a group of financial assets that it controls to another entity.
Two-Step Securitization	Two transfers are generally used in a securitization to isolate the transferred receivables beyond the reach of its creditors. The first step involves the transfer of the assets to a special purpose entity or corporation (often referred to as the depositor) that is wholly-owned by the selling bank. This step essentially isolates the assets from the transferor (bank) and its creditors and is typically deemed a true sale for legal and accounting purposes. The second step involves transferring the assets to a QSPE trust. This second transfer is done with the SPV (depositor) providing sufficient credit and yield enhancements so the QSPE trust can issue higher-rated investor certificates.[43]
Universal Default	When a lender changes the terms of a loan from the original terms to the default terms when the lender is informed that their borrower has defaulted with another lender.
Variable-Interest Entities	Refers to an entity subject to consolidation according to the provisions of FASB Interpretation No. 46. Variable interests in variable interest entities are contractually, ownership, or other pecuniary interests in an entity that changes with changes in the fair value of the entity's net assets exclusive of variable interests.[44]

[43] See Deloitte & Touche, LLP, "*Securitization Accounting: The Ins and Outs (And Some Do's and Don'ts) of FASB 140, FIN 46R, IAS 39, and More…," June 2005 edition.*

[44] See FASB Interpretation No. 46, *"Consolidation of Variable Interest Entities."* Paragraphs 2 a. and 2 c.