

AUTO FINANCE NEWS

THE INSIDER'S GUIDE TO AUTO LENDING & LEASING OPPORTUNITIES

WWW.ROYALMEDIA.COM



CPS POCKETS \$43 MILLION FROM RARE SECURITIZATION DEAL

Consumer Portfolio Services Inc. earned \$43 million earlier this month in a private securitization deal the likes of which are rarely seen in the auto finance industry.

The nonprime indirect auto lender said on March 16 that it had issued a \$44 million asset-backed security, yielding a 10% interest rate, which was backed by residual interest in previously securitized pools of auto loans. CPS pocketed \$43 million from the deal, after deducting fees and expenses.

After a lender securitizes a pool of loans, a portion of the interest remaining to be paid stays on the lender's balance sheet. A residual interest, or net-interest margin, transaction involves securitizing that portion of the loan.

In this particular deal, CPS securitized its retained interests from eight existing deals.

Securitizing residual interests in previously securitized pools of auto loans allows an issuer to trade higher future income for less capital more immediately.

"It depends on how urgent it is for the issuer to raise cash," said **Jerry Kalmus**, director, structured finance at **Standard & Poor's**. Kalmus worked with CPS in this transaction.

This was the second time CPS had done a deal in this format — it issued a similar security in 1998 — but this was the first time it had a

rating agency grade this kind of offering, said **Robert Riedl**, CPS's chief financial officer. The deal's bonds were rated triple-B by Standard & Poor's, based on the structure of the transaction and CPS's experience as a servicer.

Having the deal rated at investment grade — triple-B or higher — helped broaden the investor base, Riedl explained.

"There have only been a handful of deals like this one in the last five years, and most of them were private."
— Jerry Kalmus, director, Standard & Poor's

The complex structures in residual securitization deals make the offerings rare in the auto finance industry. Issuers must have a significant number of outstanding securitizations to generate enough residual interest to make a new securitization.

"There have only been a handful of deals like this one in the last five years, and most of them were private," said Kalmus.

"The response from investors to the offering was good, and we hope to do another deal of this nature either at the end of this year or early in 2005," Riedl said.

The notes were secured by CPS's outstanding interest in four securitizations issued by CPS itself, two securitizations issued by affiliate **MFN Financial Corp.**, and two securitization transactions issued by another affiliate, **TFC Enterprises**. The sale was a private offering that did not need to be registered under any federal or state securities law.

The proceeds will be used to refinance long-term subordinated debt that is due this year, said CPS spokesman **John Fernquest**.

RMG
ROYAL MEDIA GROUP

Auto Finance News is published
by Royal Media Group
1359 Broadway
Suite 1512
New York, NY 10018
www.royalmedia.com

To subscribe: 800-320-4418 x106
2004 © Royal Media Group
All rights reserved
ISSN 1098-8335