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Park Sienna LLC - Moody's Structured Finance ABCP Program Review

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Park Sienna LLC

Closing Date:

December 14, 2004

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Structure Summary

Rating:	Prime-1
Securities:	Extendible asset-backed commercial paper, referred to as Secured Liquidity Notes ("SLNs") and Callable Notes ("CNs")
Program Type:	Partially supported single-seller ABCP program
Authorized Amount:	\$10.15 billion
Assets:	Non-prime and higher credit quality residential mortgages
Seller:	Countrywide Home Loans, Inc. (A3/Prime-2, SQ1 servicer quality rating)
Servicer:	Countrywide Home Loans Servicing LP
Depository:	Deutsche Bank Trust Company Americas (Aa3/Prime-1/C)
Indenture Trustee:	Deutsche Bank Trust Company Americas
Collateral Agent:	Deutsche Bank Trust Company Americas
Placement Agents:	Banc of America Securities LLC; Citigroup Global Markets Inc.; Goldman Sachs & Co.; J.P. Morgan Securities Inc.; Deutsche Bank Securities, Inc.; Countrywide Securities Corporation
Securities Act Exemption:	Section 4(2)

Program Credit Enhancement

Type:	Overcollateralization (minimum 5.75%), cash reserves (0.50%) and required excess spread (1.5%)
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Liquidity

Type:	Provided through a combination of the collateral value of underlying mortgage assets and a cost of funds swap
Support Percentage:	100% of outstanding SLNs and CNs
Swap Providers:	Bank of America (Aaa/Prime-1/A), BNP Paribas (Aa1/Prime-1/B), Calyon (Aa1/Prime-1/C+), Citibank, N.A. (Aaa/Prime-1/A), Deutsche Bank AG, NY Branch (Aa1/Prime-1/B), HSBC Bank USA, N.A. (Aa2/Prime-1/B-) and Royal Bank of Scotland (Aaa/Prime-1/B+)
Funding Basis:	Outstanding purchase price of non-delinquent loans
Outs to Funding:	Bankruptcy of Park Sienna LLC

Significant Program Wind Down Events

- Average 3-month delinquency ratio > 10%;
- Non-compliance with portfolio aging limitations or loan eligibility criteria (45 day cure period);
- Failure to maintain required cash collateral account balance (60 day cure period);
- Failure to maintain required credit enhancement (90 day cure period);
- Bankruptcy of Park Sienna LLC, Countrywide Home Loans, Inc., or Countrywide Home Loans Servicing LP

Seller's Other Conduits: Park Granada LLC (**Prime-1**)



CURRENT HIGHLIGHTS

As of May 31, 2007, Park Sienna had \$5.31 billion of outstanding SLNs issued on a discount basis. Its portfolio consisted of mortgage loans with an aggregate estimated market value of \$6.16 billion (plus cash of approximately \$54.3 million). The three-month rolling average of delinquent loans was 0.94% at May 31, 2007.

PROGRAM OVERVIEW

Park Sienna LLC Issues Extendible ABCP

Park Sienna LLC is a partially supported single-seller ABCP program sponsored by Countrywide Home Loans, Inc. (Countrywide), which is a wholly owned subsidiary of Countrywide Financial Corporation (**A3/Prime-2**). Park Sienna LLC is a wholly-owned subsidiary of Countrywide Home Loans, Inc. Park Sienna issues two types of extendible ABCP, Secured Liquidity Notes (SLNs) and Callable Notes (CNs), the proceeds of which are used to provide mortgage warehouse financing to Countrywide for its portfolio of non-prime and higher credit quality residential mortgages.

The SLNs and CNs have an expected maturity date or initial call date of up to 180 days from the issuance date. The legal final maturity date of these notes is 180 days from the expected maturity date. If, on any expected maturity date of the SLNs or CNs, the sum of available funds held by Park Sienna plus the proceeds of any new SLN or CN issuance is insufficient to make full repayment, then the SLNs will be converted to Extendible Notes (ENs) and the CNs will be converted into Non-Called Notes (Non-Called Notes). On the expected maturity date of SLNs that will be converted to ENs, neither principal nor interest is paid to note holders. Instead, the principal balance of the ENs will equal the face amount (principal plus accrued interest) of the SLNs on such expected maturity date. In contrast, on the expected maturity date (also referred to as the initial call date) of CNs that will convert to Non-Called Notes, accrued interest is paid to note holders. The initial principal balance of the Non-Called Notes will equal the principal balance of the CNs on such expected maturity date. Interest on the Non-Called Notes will be paid on a monthly basis up to the final maturity date. The interest rate payable during the extension period for both ENs and Non-Called Notes is 1-month LIBOR plus 0.25%. The final maturity date of both the ENs and Non-Called Notes is 180 days following the expected maturity date of such notes. Moody's **Prime-1** rating addresses the full and timely payment of principal and interest on ENs and Non-Called Notes on their final maturity date.

Park Sienna Is A Bankruptcy-Remote Limited Liability Company

Park Sienna was formed as a special purpose bankruptcy-remote limited liability company (LLC) under Delaware law with Countrywide Home Loans Inc. as its sole member. In addition, there is also a special member that is independent of Countrywide, any of its affiliates, or any of its major creditors. Countrywide Home Loans Servicing LP acts as servicer and is responsible for carrying out the daily administrative duties of Park Sienna.

Park Sienna Provides A Mortgage Warehouse Facility To Countrywide

The SLNs and CNs are backed by non-prime and higher credit quality residential mortgages originated or purchased by Countrywide. Park Sienna purchases these loans on a revolving basis and in compliance with its loan eligibility and portfolio guidelines. Mortgage loans must be securitized or sold within one year of their purchase by Park Sienna. Additionally, Park Sienna may purchase new loans provided that the portfolio remains in compliance with the loan eligibility requirements and concentration limits and the warehouse facility is not in liquidation.

Mitigating The Risks Of Mortgage Warehouse Financing

Since the overall credit risk of a revolving warehouse portfolio may be affected by the variability over time of the credit quality of the mortgages purchased, portfolio eligibility and diversification guidelines are used to reduce variability in the performance of collateral held by Park Sienna. These guidelines also govern the length of time collateral will be permitted to be financed by the warehouse facility and the requirements for its removal. In addition, automatic wind-down triggers are in place to mitigate the effect of any deterioration in the warehouse portfolio or breaches by the servicer in its performance obligations.

Market Value And Interest Rate Protection

Any market value risk associated with the sale or prepayment of mortgage loans is addressed through cost of funds swaps which are provided by **Prime-1**-rated Bank of America, BNP Paribas, Calyon, Citibank, Deutsche Bank, HSBC Bank, and Royal Bank of Scotland. Draws are made pro rata in accordance with the commitment percentage of each swap counterparty. In these swap transactions, the swap counterparties reimburse Park Sienna for any market value loss realized from the sale or prepayment of mortgage loans owned by Park Sienna.

The cost of funds swaps also protect Park Sienna against any potential mismatch between the yield it receives on the underlying mortgages and its monthly cost of funds and expenses. Under these swaps, the swap counterparties are required to

make monthly payments to Park Sienna equal to its cost of funds and expenses with respect to SLNs and CNs issued to finance the non-delinquent and non-defaulted loans in Park Sienna's portfolio in exchange for the yield received by Park Sienna on the underlying mortgage portfolio. These cost of funds swaps also ensure that Park Sienna retains 1.5% excess spread from the interest collections it receives from the mortgages financed by the conduit.

Liquidity Support For Timely Payment Of ABCP

Liquidity support for Park Sienna's SLNs and CNs is provided through a combination of auctions of the mortgage loans in Park Sienna's portfolio and payments under cost of funds swaps provided by **Prime-1**-rated Bank of America, BNP Paribas, Calyon, Citibank, Deutsche Bank, HSBC Bank, and Royal Bank of Scotland. If new SLNs or CNs cannot be issued or if there is a wind-down event, Park Sienna's portfolio of mortgage loans must be sold or auctioned off. The swap counterparty will make up the difference between Park Sienna's initial purchase price for each non-delinquent loan (minus any principal payments received) and the proceeds it has received from the sale or auction of such loan. The combined proceeds from the auction and the cost of funds swap will then be used to pay the face amount of maturing ENs and Non-Called Notes by their legal final maturity dates. For delinquent or defaulted loans, the swap counterparty will pay the difference between Park Sienna's initial purchase price for the mortgage loan (minus any principal payments received) and the credit adjusted price. The credit adjusted price is the market price of a reference mortgage loan that has the same characteristics as the delinquent or defaulted loan except that the reference mortgage loan is not delinquent or defaulted. In other words, for delinquent and defaulted loans, the swap counterparty is only required to cover market value losses, not any credit-related loss, arising from the sale of such delinquent and defaulted loans.

Credit Risk Absorbed By Cash Collateral Account, Excess Spread And Overcollateralization

Mortgage warehouse facilities, which hold mortgages for a relatively short period of time, generally require more credit enhancement than do longer-term transactions. In shorter-term facilities, credit enhancement is often sized based on a measure of gross rather than net losses. The calculation of expected loss on a long-term mortgage-backed security, in contrast, factors in the recovery proceeds from the sale of a house to offset the initial loss recognized attributable to delinquent mortgage obligors. The recovery process often takes months, if not years, and usually entails foreclosure of the home which collateralizes the defaulted mortgage. Due to the short period in which the mortgages are

held in the Park Sienna warehouse, recoveries on the mortgages in this program may not be available to repay the SLNs or CNs by their legal final maturity date.

In Park Sienna's case, SLN and CN holders are protected from losses on the underlying collateral by credit enhancement in three forms. First, Park Sienna has a funded cash collateral account sized at 0.50% of the aggregate outstanding purchase prices by Park Sienna of the mortgage loans on any day. Second, additional credit enhancement is provided through overcollateralization, in an amount equal to 11% (minimum of 5.75%) multiplied by the sum of the prices of notes issued on a discounted basis plus the principal amount of notes issued on an interest-bearing basis. Third, Park Sienna has required excess spread of 1.5% which is deducted from the amount of yield paid to the swap counterparties under the cost of funds swaps. Based on the eligibility parameters of the mortgages for placement in the warehouse facility, the historical delinquency record of mortgage loans serviced by Countrywide and Countrywide's servicing capabilities, the credit enhancement provided by the cash collateral account, overcollateralization and excess spread is consistent with the **Prime-1** rating assigned to the SLNs and CNs.

ABCP Investors Have A Security Interest

The note holders benefit from a security interest in all of the assets of Park Sienna. A security interest can be beneficial to an investor as it would reduce the severity of loss to investors in the unlikely event of Park Sienna's bankruptcy. However, the security interest does not add any significant benefit from a short-term ratings perspective. Moody's **Prime-1** rating addresses not only the probability of being repaid in full, but timely repayment of SLNs and CNs. The addition of the security interest does not materially enhance note holders' probability of being repaid on time.

Park Sienna's Ratings Correlated To Prime-1 Rating Of Swap Counterparties

Park Sienna's **Prime-1** rating is not highly correlated to the rating of Countrywide Home Loans Inc. (**A3/Prime-2**). However, Park Sienna's structure does result in a heavy reliance on funds obtained under the cost of funds swaps to repay the SLNs. As a result, there is a high degree of correlation between the rating assigned to Park Sienna and the ratings of the swap counterparties. If these entities lose their **Prime-1** ratings, Park Sienna's rating may also be negatively affected.

RATING OPINION

The **Prime-1** rating of Park Sienna's SLNs and CNs is based on:

- Credit enhancement provided through overcollateralization, a funded cash collateral account (0.50%) and excess spread (1.5%);

- Liquidity support for non-delinquent and non-defaulted mortgage collateral through market value and an interest rate swap provided by **Prime-1**-rated swap counterparties;
- Capability of Countrywide Home Loans Servicing LP in its role as servicer for the portfolio;
- Structural protections, including a requirement to cease issuing SLNs and CNs if the portfolio is not in compliance with aging limitations or if the credit enhancement is not at the required level;
- Bankruptcy-remote structure of Park Sienna LLC.

ASSET OVERVIEW

Countrywide, produces mortgage loans secured by residential real property through a variety of channels on a national scale. Nearly all of the loans Countrywide produces are sold into the secondary mortgage market, primarily in the form of mortgage-backed securities. Countrywide Home Loans Servicing LP performs the ongoing servicing functions related to the mortgage loans produced by Countrywide. Nonprime mortgage loans sold by Countrywide to Park Sienna are primarily pooled into private-label asset-backed securities, with the remaining loans sold as whole loans.

All of the loans financed by Park Sienna must meet the program's loan eligibility criteria and portfolio

concentration limits. These include maintaining specific portfolio and loan eligibility requirements which ensure a certain amount of asset diversification and credit quality within the loan portfolio.

Another means of controlling the variability in the credit quality of Park Sienna's portfolio is through the adherence to strict aging guidelines for mortgage loans in the portfolio. These guidelines ensure that periodically certain loans are securitized or sold so as to avoid concentrations of hard to place loans and thus limit the potential impact of asset deterioration.

Current Portfolio

At May 31, 2007, Park Sienna's portfolio consisted of eligible mortgages with an aggregate estimated market value of approximately \$6.16 billion (and cash of about \$54.3 million). The weighted average loan-to-value ratio (LTV) of the loans in the portfolio was 63, and the weighted average FICO score was 700. In terms of delinquency performance, 0.69% of these loans were delinquent by between 31 and 60 days, while none were delinquent by more than 90 days. These measures of portfolio quality are well within the established guidelines. A summary of important portfolio statistics can be found in *Table 1*.

Table 1

Park Sienna LLC

As of May 2007

Portfolio Limitations		Program Limit	Actual (% of program size)*
Loan Size	Unpaid principal balance below \$75,000	5%	0.94%
Loan Types	I/O loans	35%	14.58%
	Non-owner occupied	3%	2.95%
	2 - 4 unit	8%	2.12%
Wet-Funded Loans	Reduced documentation loans	35%	26.57%
	Countrywide rated Baa3 or higher	100%	11.72%
	Countrywide rated below Baa3	30%	Not Applicable
Geographical Distribution	CA	45%	16.69%
	FL	15%	5.16%
	NY	15%	2.44%
	NJ	15%	2.33%
	AZ	15%	2.28%
Loan To Value ("LTV") Distribution	Other		
	Weighted Average LTV	85	63
FICO Score	Maximum CLTV	95	In compliance
	Weighted Average FICO	600	700
	FICO < 560	30%	1.05%
Aging Status	FICO < 520	0%	0.00%
	> 90 days	55%	7.18%
	> 180 days	25%	2.58%
Delinquency Trigger	> 365 days	0%	0.00%
	Rolling 3-month average delinquency trigger	10%	0.94%
	60 days and < 90 days trigger	2%	0.30%

* Computed based on Park Sienna's program limit of \$10,147,500,000.

CREDIT ENHANCEMENT

Credit support consists of overcollateralization currently sized at 11% (minimum of 5.75%) multiplied by the sum of the prices of notes issued on a discounted basis plus the principal amount of notes issued on an interest-bearing basis, a funded cash reserve account equal to 0.50% of the aggregated outstanding purchase prices of the mortgage loans on any day, and excess spread in an amount equal to 1.5% (per annum) of the sum of the average outstanding purchase prices of the mortgage loans and the average of the cash and eligible investments held. Excess spread is captured in the deal structure from interest collections and reinvestment income received by Park Sienna. The required excess spread amount is deducted from the payment made to the swap counterparties by Park Sienna under the interest rate swaps.

If certain portfolio performance-related trigger events occur, then the required overcollateralization would increase from 5.75% to 7.75%. These events include the following: where the three month average delinquency ratio exceeds 5%, the default ratio (calculated daily) exceeds 0.75%, or excess spread is less than 1.50% or certain loan aging limitations are breached. The required overcollateralization percentage may not be reduced back to 5.75% until the trigger event has been cured for 90 consecutive days.

LIQUIDITY

Liquidity support for Park Sienna's SLNs and CNs is provided through payments under a cost of funds swap provided by **Prime-1**-rated Bank of America, BNP Paribas, Calyon, Citibank, N.A., Deutsche Bank AG, NY Branch, HSBC Bank USA, N.A. and Royal Bank of Scotland. To ensure timely payment of the SLNs and CNs, if new SLNs and or CNs cannot be issued or if a wind-down event occurs, a sufficient amount of collateral is sold or securitized by the Servicer within 90 days following the occurrence of such wind-down event. If such loans have not been sold by the 90th day, then the Collateral Agent will auction the remaining loans by the 120th day following the wind-down event. This liquidation procedure ensures that Park Sienna will receive funds by no later than the final maturity date of the ENs and Non-Called Notes, which is 180 days following the expected maturity date of such notes.

If the proceeds from the sale of non-delinquent and non-defaulted mortgage loans are below the outstanding purchase prices of such loans, then the swap counterparties will reimburse Park Sienna for the shortfall. For delinquent or defaulted loans, the swap counterparties will pay an amount equal to the market value loss arising from the sale of such delinquent and defaulted loans. Together, these amounts will be used to pay maturing ENs and Non-Called Notes on their final maturity date.

WIND DOWN EVENTS

Critical Wind Down Events Provide The Framework For Risk Analysis

Significant protection is provided to the program through cease-issuance and cease-purchase triggers that effectively wind down the program if there is credit deterioration or the risk profile of the portfolio begins to shift. During the wind down, Park Sienna's portfolio of mortgage loans is sold or auctioned. The proceeds received from the collateral and payments from cost of funds swaps are used to pay the face amount of maturing CNs and Non-Called Notes on their respective final maturity dates.

The wind-down events include the following:

- Funds on deposit in the reserve fund are less than 0.50% of the aggregate outstanding purchase price for 60 consecutive days or more.
- Failure of Park Sienna to maintain required credit enhancement for 90 consecutive days or more.
- Non-compliance with portfolio aging or concentration limits for 45 consecutive days or more.
- On any day, the 3-month rolling average ratio of the outstanding purchase price of delinquent loans (i.e., loans which are 1 month past due) to the outstanding purchase price of all eligible loans exceeds 10%, or the ratio of the outstanding purchase price of loans which are 2 months past due to the outstanding purchase price of all eligible loans exceeds 2% on any one day.
- Cost of funds swap ceases to be in effect in a notional amount at least equal to the program size.
- One or more swap counterparties fails to agree to any extension of the cost of funds swap and no eligible replacements have been obtained by at least one year prior to the scheduled termination date of the swap in a notional amount at least equal to the notional amount of the swap represented by the non-extending counterparty, or, if the program size has been modified, in an amount equal to the then current program size less the notional amount of all effective swaps.
- Bankruptcy of Park Sienna, Countrywide Home Loans, Inc. or Countrywide Home Loans Servicing LP.

PROGRAM ADMINISTRATOR

Countrywide Home Loans, Inc. is the seller and performance guarantor for Park Sienna. Countrywide Home Loans, Inc. is a full service residential mortgage lending institution. It is involved in all aspects of the origination and servicing of mortgage loans. Countrywide Home Loans, Inc. is a wholly owned subsidiary of Countrywide Financial Corporation (rated **A3**).

Countrywide Home Loans Servicing LP will act as servicer of the loans purchased by Park Sienna and

will also act as administrator of Park Sienna and manage its day to day operations. Countrywide Home Loans Inc., as performance guarantor, unconditionally and irrevocably guarantees the performance and timely payments of all amounts owed by Countrywide Home Loans Servicing LP in its capacity as servicer for Park Sienna.

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