

# **Master Credit Participations; the *Un*-Securitization**

Written by

**Joanne Marlowe**

*Original Publication Date:*

*15 December 2008*

*Updated:*

*01 April 2010*

Joanne Marlowe, Chief Executive Officer  
United Financial Technologies, Inc.  
One Conway Park  
100 N. Field Drive, Suite 270  
Lake Forest, IL 60045

847-604-8055

[jmarlowe@unitedft.com](mailto:jmarlowe@unitedft.com)

## **Master Credit Participations; the Un-Securitization**

**By Joanne Marlowe**

*A Credit Participation Certificate founded upon a master set of terms and conditions will bring an opportunity for institutional investment capital to be re-introduced to the credit markets, kindling “ground-up” transparency and a restoration of investor confidence.*

For centuries, commercial banking institutions and lenders have been the backbone and source of debt capital to the marketplace. Through an intricate system of agreed best practices, standards and policies that initially have evolved from solely localized authorities to a national stage via the likes of the Federal Reserve and other central banking authorities until finally making their way into a coordinated international forum via the likes of Basel I and II governance, the banking sector has kept pace with the increasing needs of a global credit marketplace. Interestingly, however, the depth and fluidity of the global credit marketplace has grown exponentially during the last quarter century due to the introduction of new institutional capital to the debt sector. This fresh capital has found its way into the credit markets not necessarily by adapting or competing with those skilled banks and commercial lending institutions in the front lines of the commercial and consumer credit marketplace, but by relying upon them. Institutional investors have, through the use of and in reliance upon the good faith performance of expert lenders, positioned themselves as happily passive investors supporting the credit decisions of qualified credit originators. Specifically, through the birth and wide-spread application of debt securitization and credit bundling practices, institutional investors have gained access to the highly lucrative commercial credit marketplace that was once home solely to direct lenders and commercial banks. At first, such an encroachment into that marketplace may be expected to breed angst between investor and entrenched financial institutions, but in actuality the means by which the securitization marketplace has grown has fueled a symbiotic relationship between bank and institutional investor that has permitted the global credit markets to expand exponentially in just the last thirty years.

Debt bundling and securitizations have evolved as the conventional wisdom and practice to be applied to reselling and diversifying credit risk amongst a wide array of secondary market capital sources that are willing recipients of the benefits of holding well-defined credit exposure. Securitization practices fostered many benefits for institutional investors wishing to gain exposure to bank-underwritten or other high-quality credit, both originated on a consumer as well as commercial basis. As a core precept of effectuating a securitization, similar risk-rated credits were grouped together in such a way as to permit the institutional

credit buyer/investor to “buy in bulk” without having to assess individual, underlying credit profiles. Over the last thirty years, securitizations have in many ways become the “favorite son” for credit originators to aggregate, package and sell-off credits into the much broader and deeper institutional credit markets. This practice generates efficiencies that appealed to the institutional investor as credit buyer, inclusive of being able to process substantial blocks of diversified credits in a single action and decision. Moreover, this securitization and bundling practice grew in popularity among credit originators as it represented a consistent model whereby debt capital could be recycled on a systematic basis. Thus, it created what appeared to be a perpetual motion machine for capital replenishment following origination and a reliable source of fee-generation for those originators and the Wall Street brokers that built allegiances with them. In general, the securitization methodology for originating, aggregating, selling and managing credit established a fresh-faced economic model that successfully fed the hungry mouths at the large commercial banks and within the Wall Street broker community while fulfilling a real need for institutionally ingestible credit products that could be acquired and administered in high-dollar volumes by large investors and mega-institutions.

Securitizations, through the bundling of dozens, hundreds or even thousands of individual credits, catered to the basic human desire for greater ease of one’s labors. Institutional investors could gain definable credit exposure to many different credit sources without needing to have an in-house credit underwriting infrastructure to analyze each credit individually in order to make a risk assessment. They could allow banks, financial institutions and lenders to do the job that they did best – originating and underwriting credits – and expect a benefit by placing reliance on those institutions’ watchful expertise. They could rest easier upon an expectation that a highly diversified credit profile that supported a single rated class of bundled securities would lessen the likelihood of incurring any meaningful default on underlying credits or performance of the bundle. They did not need to personally manage or service the credits that had been invested in and from which financial gain was achieved, but could appoint a trustee to administer those credits in the best interests of the investors. They were now in a position to rely virtually fully on the expertise and warranties of third party credit specialists, rating agencies and underwriters pertaining to the quality of these credit baskets. Overall, bundled credits that manifested as one of many forms of securitized debt or credit obligations were an exceptional product that created a point of entry for new institutional capital to gain access, exposure and benefit from the credit marketplace. Securitizations and the derivatives that sprung forth from them were the type of product that, up until recently, had proven to be an honest and earnest improvement in credit mechanisms that vastly and efficiently expanded the pool of global capital resources that were willing and able to actively support the credit markets.

Unfortunately, as with any product, there are usually trade-offs to be considered in its practical application. Specifically, and as has been demonstrated openly since mid-2007, in exchange for this one-stop credit shopping efficiency, institutional investors have suffered a lack of transparency to the performance of the underlying credit assets, thus hindering quick performance evaluations or “spot checks” of the individual components of the securitized bundle as they age. Additionally, due to the need to standardize the administration and governance of bundled credits through the utilization of an indenture or other like agreement that realistically permits the holders’ designated fiduciary to administer a broad and diverse base of credits efficiently, the securitized credit products were not customarily built with the necessary flexibility to foster an effective means to quarantine or manage distressed individual credits as a means to pre-empt or work-out pre-default credits before a loss of value would be crystallized. Along these same lines, the uniformity of administration and lack of discretionary authority related to bundled credits as governed by a common set of securitization terms creates an inherently dangerous contagion effect among the credits; an effect that can and will impact actual or perceived value of the collateralized or credit-backed security. This indeed is what occurred in many cases with regard to securitized or collateralized credit bundles during the historic 2008 financial year.

No doubt, all of the foregoing were indicators of certain systemic risks to investors when it came to acquiring these aggregated credit products. However, of all the potentially dangerous issues that could manifest resultant from the perpetual motion of this “originate-package-bundle” credit system that has been prevalent for over three decades, the expectation that quality and attractive credit fodder was virtually *unlimited* has to be the most short-sighted and unrealistic of them all. Such a notion harkens to the naivety of what was “common knowledge” at the start of the industrial revolution – fossil fuels and natural resources were in infinite supply. This is nothing short of a fallacy of which we, as an older and wiser industrial generation, are now all-too-painfully aware. In looking back at what seems like just a few short years ago in the modern-day credit marketplace, it is this expectation that sources of quality credit were limitless and merely required new types of credit programs to access them that wrongly inspired the introduction of certain residential and commercial lending and packaging practices. Credit products were designed that redressed and retrofitted underlying credits to satisfy the high-quality credit demands of institutional appetites. It is this short-sightedness and lack of understanding of the finite nature of individual high-quality credits by the faceless cogs in the credit process that permitted the securitization macro-model to pilot itself into a state of unbalance. It permitted investment banks to continue to package securitization products and rating agencies to continue to assess quality ratings to credit bundles that, when

coupled with one or more of the other troubling byproducts of the system, permitted what once were risk-managed “trade-offs” of the credit securitization model to overtake and outweigh the primary and key benefits.

This shift to disadvantage-over-benefit within the conventions of credit securitizations and bundling practices has constricted the once wide and safe passages for institutional capital to sail into the global safe-harbor of bank-quality consumer and commercial lending via institutional investment in securitized credit instruments. Institutionally sourced capital once flowed freely from deep and fresh wells into the global commercial credit reservoir resultant from confidence in and reliance upon the underwriting rigors of collateralized debt securities. In recent months, such confidence has receded; poisoned by a lack of trust in the governance and integrity of credit bundling and underwriting practices. As such, what appears to be a far-reaching lack of capital in the credit markets may in fact be merely a relative decrease in available debt capital due to a return to historical levels of pre-securitized credit volumes when banks and commercial financial institutions relied *first* upon deposits as a core source of lendable capital rather than institutional credit buyers as a means of refreshing capital stores. Securitizations have constituted the main fiscal arteries through which large volumes of investment capital have flowed into the credit markets. These arteries have become constricted and a global economic body that has grown to rely upon the sustenance that they have delivered is suffering a system-wide shutdown. What is thus needed is an alternative method of allowing sustainable amounts of institutional capital to flow through a network of capillaries that can nourish the system on a cellular level while the main arteries are cleared, the system healed, and credit flow re-established through enhanced governance and transparency.

### *Considering Credit Participations*

Credit participations have been a reliable model for diversifying and managing a broad spectrum of credit types in the marketplace among mainstream lenders and banks without employing bundling practices or engaging in the conventions of credit securitizations. Inter-bank or inter-lender credit participation agreements have been successfully utilized on a credit-by-credit basis to syndicate specific credit risk and exposure amongst financial institutions and lenders for several decades. Interestingly, however, unlike securitizations which became the access point for institutional investors to funnel their investable capital in the direction of the credit marketplace without the investor needing to truly analyze the underlying and bundled credits, participations have previously not proven particularly useful in engaging institutional investors that were themselves not already actively and directly engaged in the granting of credit or lending

practices. In effect, credit participations, as they have been offered thus far, have not afforded an investor the luxury of agnosticism to direct credit analysis. That is, they do not permit the investor to reach a determination as to the merits and value of a credit independent of a case-specific analysis and underwriting of the underlying credit itself. As a result, historically, any institution that would consider participation in a credit must themselves underwrite the underlying credit for which the participation is being offered; thus, impeding the scalability of the credit participation and syndication markets by limiting the audience for participation to qualified direct lenders and banks. Such a protracted proposition usually holds no meaningful allure to an institutional investor seeking passive investment exposure to the credit markets.

Generally, participation practices have been used by large commercial banking institutions as the basis to create a “club bank” environment in which a handful of large banks frequently come together to participate in each others’ respective transactions in specific focus or industry areas. Likewise, they have been used as a bridge among mid-tier and community banks to enable those banks to participate in larger credit transactions that otherwise would fall outside of individual lending limits or commercial lending focus areas. Finally, syndication desks at larger banks rely on their particular participation methodology as a means of reaching out to the smaller correspondent banks in their own network to permit participation in credit transactions that, for any one of several reasons, including competition-based concerns, a bank may not wish to offer as a “club” transaction to comparably sized and potentially competing institutions. Under conventional participations, there is customarily a lead bank or lender that has originated a transaction and is seeking bank or other lender participation as the basis to reduce its total exposure to an individual credit or customer. As is the case with many bank credit products, the systems and practices applied by a given lead lender as the originator and syndication manager may vary widely from institution to institution when it comes to processing, governance, servicing and, most notably, credit underwriting.

For example, in recent years many micro-participation networks have sprung up regionally within the United States credit markets in which as few as 50 banks may be presented with specific participation opportunities that are of regional interest and that are subject to systems and policies that are indigenous solely to that micro-network. These micro-networks have in some cases proven themselves to be valuable alternative credit sources that have effectively organized several smaller lenders to support meaningful aggregate volumes of individual commercial credits. Unfortunately, what has also been evidenced through the operation of these micro-networks is that the networks and credit transactions processed through them are only as good as the systems, standards and practices that have been developed and employed by that particular lead lender as administrator of that network. In certain cases, the credit underwriting standards

were insufficient, poorly implemented, and the protections afforded by the participation documentation insufficient to protect and preserve the interests of the participating institutions. As such, 2007 and 2008 saw record defaults within some of these isolated networks; some as high as 37% of all participated loans have defaulted or are otherwise currently threatening default. This type of figure, although not necessarily unique in this recent historic credit debacle, is generally unacceptable. An objective look at a number of these defaulted credits indicates that many of these may have been averted via better governance, credit administration and servicing, reporting, and, most importantly, more comprehensive front-end credit underwriting that did not align the interests of the underwriter with the interests of the sales/participation staff.

### *Master Credit Participations*

The foregoing incidents aside, present market conditions would indicate that there is a concentration of mid-tier and smaller lenders within the banking, commercial finance and private sectors that maintain an ability to effectively lend, but for a variety of reasons have withdrawn from the credit marketplace, further exacerbating credit shortages brought on by the withdrawal of institutional capital from the securitized credit model. Through the forging of a master participation system as a basis to access, organize, coordinate, and network these qualified candidate lenders, there is an ability to begin motivating the reintroduction of debt capital into a diverse portfolio of qualifying credits. Moreover, the organization of such a coordinated network manifests an opportunity to introduce a new global credit instrument, a Master Credit Participation Certificate or “CPC”. A CPC, via a standardized set of terms, conditions and credit risk rating system, can initially contribute to restoring lender confidence among banks and financial institutions that wish to participate within the context of a Master Participating Lender Network (each participant, a “Participating Lender”). Additionally, given a variety of administrative features to be incorporated in the operation of the CPC and Master Participating Lender Network, the CPC can and would be expected to evolve as a new point of entry for institutional investors – alternative to the use of credit securitizations – to gain passive commercial credit exposure without needing to act in the front-lines as a direct lender in the credit markets.

A Credit Participation Certificate as governed by a Master Participation Agreement has many benefits associated with it. Particularly, a CPC:

- a. actively applies a master set of credit underwriting criteria as the basis to offer a CPC for participation among Participating Lenders for individual values of as little as US\$100,000;
- b. promotes transparency and accountability as to the underlying credit and performance of each participated credit (the “Credit”);
- c. permits the accredited and Participating Lenders in the Master Participating Lender Network to directly select individual Credits to be held on portfolio rather than permitting a third party packager to select and bundle underlying Credits that it has determined meet minimum credit quality considerations for investors;
- d. provides for the use of an automated, algorithmic periodic risk rating methodology for underlying Credits and corresponding CPCs based upon specific Credit reporting and performance track records;
- e. manifests a common web-based electronic platform among all Participating Lenders to enable the efficient offering, commitment, purchase and resale of CPCs;
- f. births an “unfunded” credit model that can, through uplinks to other institutional debt vehicles, create an additional in-flow for institutional capital access in support of the commercial credit markets
- g. breeds greater credit market liquidity due to the natural evolution of efficient trading strategies among Participating Lenders as well as the introduction of new sources of capital to the Master Participating Lender Network that have specific risk appetites based upon CPC performance profiles whether high-, mid- and low-quality credits;
- h. enables Participating Lenders to move freely in and out of particular Credits due to regulatory directive, individual Credit performance, event-driven considerations, or any other commercial reason via the resale of CPCs to other institutions within the Master Participating Lender Network;
- i. fosters a forum for Participating Lenders to directly acquire CPCs linked to other geographic, global regions without loss of access and information pertaining to the underlying operation of the Credit to which the CPC is tied, thereby inducing internationally sourced capital to move more freely across borders in support of easily accessed Credit opportunities; and

- j. fuels the long-term creation of CPC Futures Contracts which will aid in hedging credit market risks, performance and the cost of funded and unfunded credit.

The introduction of the CPC and the systems supporting it can inspire a significant volume of credit capital to be re-introduced to the marketplace arising not only from currently inactive commercial lenders and banks, but also institutional investors and participants. The creation of a Master Participating Lender Network and the globalized free trading of individual CPCs can be expected to contribute to the expansion of a demonstrably more resilient global credit market in years to come.

### *Forging a New Path*

The CPC constitutes a new limb on the matured tree of the credit marketplace. One that is specially pruned under a privately and prudently established Master Participation Agreement that details not only the terms under which a CPC-linked credit participation interest is governed, but that sets out the specific and common credit underwriting terms that will prequalify each credit to be availed to networked Participating Lenders via master participation offerings (“Participation Offerings”) and precisely how those Participation Offerings will be made.

In implementing this Master Credit Participation model, the system need be broken down to its core operating components: (i) establishing master terms, conditions, and operating platforms among the Participating Lenders; (ii) technological considerations; (iii) CPC accreditations, reporting, transparency and risk ratings; (iv) identifying and networking Participating Lenders; and (v) establishing an electronic exchange (primary/secondary) market and managing counterparty risk.

First, the design and engineering of the terms of the Master Participation Agreement, inclusive of the establishment of prudent and over-arching credit underwriting guidelines and the development of the systems and methodologies for delivering consistently formatted Participation Offerings, corresponding commitments, and Credit Participation Certificates among the networked Participating Lenders, is a prerequisite to the Master Participating Lender Network’s functionality. The Master Participation Agreement is built in a manner comparable to the ISDA Master Agreement, wherein the interests of an industry-wide master organization and the standardization of all features and components of the CPC and related Master Participating Lender Network are prioritized equally with the individual interests of

the parties entering into the Agreement. In other words, the Master Participation Agreement serves almost as a cornerstone trade organization master operating guideline rather than a customized, transaction-specific agreement. Although the Master Participation Agreement is always entered by and between the Network Administrator/Operator and each Participating Lender, the terms of each such individual agreement will not deviate materially except perhaps among individual classes of Participating Lenders. The Network Administrator/Operator is a party to every Master Participation Agreement in its capacity as the Co-Lead Lender on each CPC (or via its direct regional agent, "DRA") that will thereafter be issued and offered to a Participating Lender in reliance upon the terms of the Master Participation Agreement. Likewise, as the CPC market expands and reselling and electronic trading develops, the common counterparty risk for each Participating Lender will be measured and mitigated by the assignment of the Network Administrator/Operator's direct rights under the Master Participation Agreement with regard to such Participating Lender.

The Master Participation Agreement further contains a definitive summary of the credit underwriting guidelines ("Underwriting Guidelines") to be observed with regard to every CPC availed via the Master Participating Lender Network. Before a CPC is offered to Participating Lenders, the underlying Credit will be independently underwritten against the Underwriting Guidelines a minimum of twice: one to be conducted by the Network Administrator/Operator or its DRA as Co-Lead Credit Servicer; and the second to be organized by a Co-Lead Lender/Originator that is geographically located in the vicinity of the Credit and expert in the Credit type. These Co-Leads come together to bring regional expertise on the underlying Credit coupled with system-based expertise as to delivering transparency, performance rating, and oversight to Participating Lenders with regard to each CPC and related Credit. Thereafter, and once a Credit is qualified to be offered as a CPC, a network-based secure data access and delivery system is utilized to provide on-demand access to all related credit underwriting materials and agreements that have been relied upon by the originator and, therefore, relied upon by each Participating Lender that is acquiring a CPC linked to such underlying Credit. Additionally, as a CPC and underlying Credit matures, the servicing and reporting requirements related thereto are also made available via the secured document and data delivery system. This type of access to real-time reporting better guarantees full credit transparency to the owner of each outstanding CPC with regard to overall performance and Credit standing.

The processing and rating of performance data gathered and reported in relation to a CPC and its related underlying Credit is supported by the use of a two-pronged technology profile. The first is a web-

based, proprietary, on-demand technology platform to which each Participating Lender will necessarily subscribe concurrent with execution of the Master Participation Agreement. This technological component will provide for CPC tracking, subscription, sale, specialty product access (such as credit enhanced, unfunded CPC products) via an electronic platform that operates in coordination with a Participating Lender's pre-existing operating systems. Essentially, this on-demand platform can dovetail with a Participating Lender's pre-existing systems while enhancing observance of best practices consistent with bank and lender compliance guidelines and payment platforms. Most importantly, however, the platform constitutes a virtual electronic trading desk from which a Participating Lender may buy and sell its own CPCs in bulk and with benefit of full transparency.

The second technological component that supports this master credit participation model is an extensive and closed/secure data repository system. The repository tracks all data with reference to the underlying Credits, such as the identity of originators, the underwriting detail and documentation, performance track record, and all servicing information. Likewise, with regard to each CPC, the repository tracks data such as details of Participating Lenders to ensure notices and internal rating details are delivered timely and properly, individual CPC portfolio compositions, the CPC rates, performance history, credit quality, and note registrar information. Additionally, the repository contains requisite data and information to support the establishment of a regulated electronic exchange for the purposes of executing trades in CPCs and creating a liquid credit marketplace within which CPCs may flourish. This body of data can be prudently applied to assist Participating Lenders in receiving a menu of available CPC issuances tailored to their credit and investment appetites. Dollar volumes, geographic constraints, credit types, credit quality, CPC historical performance and internal risk-rating may all be matched to the objectives of each Participating Lender.

Lastly, the repository can be utilized to automatically process debt servicing data, payment histories, and certain event-driven credit triggers via an algorithmic function that can numerically quantify performance into a "credit score" or "performance rating" of any CPC within moments of the repository's receipt of underlying Credit details and servicing information related to the underlying Credit. As such, all Participating Lenders with an ownership interest in a particular CPC series will be immediately notified of any change in status of the Credit, risk-rating, or performance data of the CPC, allowing for an immediate response. Such a feature is no doubt useful to banks, conventional lenders and other Participating Lenders that are utilizing the CPC as a credit participation vehicle given data delivery is expeditious and transparency to the underlying Credit is undeniable. Moreover, this feature

is critical to the growth of the CPC market to include institutional investors as Participating Lenders that are seeking to passively operate and benefit from the credit marketplace without necessarily playing an active credit underwriting and origination role. In other words, this type of real-time data transfer to institutional investors as owners of CPCs may reasonably contribute to the growth of an alternative and secure method to enhance the flow of institutional capital (that once relied primarily on securitizations) back into the credit markets. This time, however, that institutional investment capital will benefit from near total and real-time transparency to the underlying Credits enabling the institutional investor to design and manage an underlying credit risk profile that it deems most prudent.

With such a detailed profile of operations, functions and services defined for originating, administering, offering, reporting, risk-rating and potentially trading in these instruments, what and who constitute the audience for the CPC? From what capital bases will new capital flow into the credit markets to aid in replenishing decreased stores of global credit? By definition in the Master Participation Agreement, a Participating Lender is also the equivalent of a “Qualified Investor” (as such term is defined in the Securities Act of 1934), which is:

- “(i) any investment company registered with the Commission under section 8 of the Investment Company Act of 1940; or
- (ii) any issuer eligible for an exclusion from the definition of investment company pursuant to section 3(c)(7) of the Investment Company Act of 1940; or
- (iii) any bank (as defined in paragraph (6) of this subsection), savings association (as defined in section 1813(b) of Title 12), broker, dealer, insurance company (as defined in section 2(a)(13)) of the Securities Act of 1933, or business development company (as defined in section 2(a)(48) of the Investment Company Act of 1940); or
- (iv) any small business investment company licensed by the United States Small Business Administration under section 681(c) or (d) of this title; or
- (v) any State sponsored employee benefit plan, or any other employee benefit plan, within the meaning of the Employee Retirement Income Security Act of 1974, other than an individual retirement account, if the investment decisions are made by a plan fiduciary, as defined in section 1002(21) of Title 29, which is either a bank, savings and loan association, insurance company, or registered investment adviser; or
- (vi) any trust whose purchases of securities are directed by a person described in clauses (i) through (v) above; or
- (vii) any market intermediary exempt under section 3(c)(2) of the Investment Company Act of 1940; or
- (viii) any associated person of a broker or dealer other than a natural person; or
- (ix) any foreign bank (as defined in section 3101(b)(7) of Title 12); or
- (x) the government of any foreign country; or

- (xi) any corporation, company, or partnership that owns and invests on a discretionary basis, not less than US\$10,000,000<sup>1</sup> in investments; or
- (xii) any natural person who owns and invests on a discretionary basis, not less than US\$10,000,000<sup>2</sup> in investments; or
- (xiii) any government or political subdivision, agency, or instrumentality of a government who owns and invests on a discretionary basis not less than US\$50,000,000 in investments; or
- (xiv) any multinational or supranational entity or any agency or instrumentality thereof;”

As illustrated above, the Master Participating Lender Network has not been developed expressly as a U.S. domestic credit vehicle. The Co-Lead originations structure utilized in the design and operation of a CPC has proven to be highly conducive to cultivating a base of international Participating Lenders that are not intimidated by physical distance between themselves and the underlying Credit upon which they are relying. Geographic risk is mitigated by locating a bank, financial institution or other qualified lender “on-the-ground” at the source of the Credit as one of the Co-Leads of a CPC to monitor the health and performance of the underlying Credit. Then, this institution is paired with a second Co-Lead whose responsibility includes managing data from the repository and assuring corresponding reporting transparency related to the CPC’s performance. Originally, this independent, yet coordinated, approach to Credit and CPC maintenance was aimed exclusively at inducing bank regulatory policy changes that would support widening the geographic territory for Credits in which regional and community banks may participate. The thought process being that a broader permissible geographic credit footprint would aid those banks and financial institutions in diversifying their loan portfolios while concurrently aggregating a local lender base that is more capable of “picking up the slack” for larger national banking organizations now suffering from limited liquidity and capital access. However, it appears that this approach to managing geographic risk has also unexpectedly opened the door to sourcing non-US-based Participating Lenders that are seeking diversified credit exposure in the United States market and abroad. We are seeing firsthand that many of these foreign institutions are no longer willing to endure the risks of entering the credit market through the use of first and second tier wholesale credit/secured/derivative products. With this in mind, there is a reasonable expectation that the

---

<sup>1</sup> The definition of “Qualified Investor” is subject to certain altered thresholds specific to asset-backed securities and loan participations which reduce the customary threshold for a Qualified Investor from US\$25,000,000 to US\$10,000,000 pursuant to section 206(a)(5) of the Gramm-Leach-Bliley Act [15 U.S.C.A. § 78c note].

<sup>2</sup> The definition of “Qualified Investor” is subject to certain altered thresholds specific to asset-backed securities and loan participations which reduce the customary threshold for a Qualified Investor from US\$25,000,000 to US\$10,000,000 pursuant to section 206(a)(5) of the Gramm-Leach-Bliley Act [15 U.S.C.A. § 78c note].

CPC may ultimately find value as a means to better satisfy geographically targeted appetites for credit exposure in other regions of the global community.

Finally, the beneficial impact of the CPC becomes evident in the establishment of a regulated electronic exchange through which the purchase, sale and trade of CPCs will be expedited and managed. It is with this in mind that the pains of building a standardized, transparent and universal credit participation instrument will manifest true value. A liquid credit market that can, with only a few key strokes on a Participating Lender's computer, permit the restructuring, re-engineering, or construction of a clear, concise and compliant credit portfolio for a bank, lender or institutional investor is a goal worth pursuing. Conventional credit market liquidity dried up due to loss of confidence in market functions and an inability to define value of quasi-opaque bundled securities. The fostering of a liquid exchange for individually risk-rated CPC and underlying Credits that assures greater transparency and real-time market performance data should be a priority as the global credit markets enter this newest evolutionary phase.

To be sustainable, the next generation of credit instruments must be *efficient* – enabling their investors and participants the luxury of maneuvering their capital in volume, *transparent* – giving clarity and understanding of underlying Credit performance, whether good or bad, such that response can be swift, *diverse* – guaranteeing that no single segment of the credit market can dismantle the expectation of stability of the whole, *secure* – collateral, collateral, collateral, not derivative-based, not implied value, but real market value with real assets, and *straight-forward* – the credit markets need to build around an instrument that can be understood by any reasonable professional with an appetite for passive or active credit risk. The birth of a global Credit Participation Certificate based upon a set of master terms and conditions established and agreed by those very institutions that seek to voluntarily participate will bring an opportunity for the kindling of unity in a credit market that is currently suffering from distrust and disarray.

*Joanne Marlowe is the Chief Executive Officer of United Financial Technologies, Inc., a financial engineering company located in Lake Forest, Illinois. More information about United Financial Technologies is available at [www.unitedft.com](http://www.unitedft.com), 847-604-8055.*

Joanne Marlowe, Chief Executive Officer  
United Financial Technologies, Inc.  
One Conway Park  
100 N. Field Drive, Suite 270  
Lake Forest, IL 60045

847-604-8055  
[jmarlowe@unitedft.com](mailto:jmarlowe@unitedft.com)