Asset Securitization report

The Premier Guide to Asset and Mortgage-Backed Securitization

www.asreport.com

PUBLISHED BY THOMSON MEDIA | VOL. 4 / NUMBER 34 | AUGUST 23, 2004

Accredited first subs welcomed by buy-side

Accredited Home Lenders, Inc. priced a $1 billion senior/subordinate deal last week via lead agent **Lehman Brothers**, marking the home equity lender's largest ABS to date and its first transaction offering yieldier subordinate bonds.

Following the creation of a captive Real-Estate Investment Trust (REIT) subsidiary, Accredited was put in a position to sell subordinated bonds technique more readily, due to the tax benefits, said Accredited co-founder **Ray McKewon**.

"If you execute a senior/subordinated transaction, you don't get the privilege of paying the tax [over time] as a C Corporation. Rather you are forced to pay the tax upfront as though you had sold the loans," said McKewon. It is interesting to note, he added, that there is no current tax if an issuer sells a senior/subordinated transaction as a REIT. The company still pays tax, however, but only when it receives a security from borrowers, making it tax-neutral among all structured options.

Nonetheless, the massive transaction does not insinuate that this will be Accredited's strategy going forward. While securitizing each quarter and examining the marketplace, Accredited will continue choosing the best execution — including future wrapped offerings — at any particular time, without locking into one technique, added McKewon.

The series 2004-3 deal consisted of a total of 25 classes, aimed at making individual classes appealing to buyers, while reducing the company's cost of money on a blended basis. Out of the 25 tranches, 11 were triple-A rated, eight of which priced wider than initial guidance. However, the subordinated bonds seemed to do much better than expected with tighter spreads, perhaps because of the higher yields, and name scarcity theorized McKewon.

The $10 million single-A rated 2M4 tranche priced at 135 basis points over one-month Libor, versus expectations in the 140 basis point area over. Similarly, a $7.16 triple-B rated class ended up pricing at 350 basis points over one-month Libor, when it was initially marketed between 350 and 375 basis points over.

Co-managers for the Lehman-led offering were **Barclays Capital**, **Credit Suisse First Boston**, **Goldman Sachs** and **Morgan Stanley**.

As interest rates rise, the loan origination pipeline looks solid going forward, said McKewon. The company is not depending on any marketplace to do one thing or the other — "grow, shrink or grow sideways. As long as people will require its solution, the company will continue to grow," he added.

The San Diego-based company is not planning to offer any new loan types. "The fancier you try to get, you might find yourself ending up doing something that nobody else does — for a good reason because it's a bad idea," added McKewon. "Ultimately," he added, "the product is money." The only product innovation currently out there is interest-only loans which have found their way into the non-prime sector, noted McKewon.

Earlier this month, **Accredited Home Lenders Holding Co.** announced the appointment of **Joseph J. Lydon**, as president and chief operating officer, and **Bowers W. Espy**, former **Merrill Lynch** investment banking executive, to serve as the seventh and eighth members of its board of directors, according to corporate information. — *HBO*