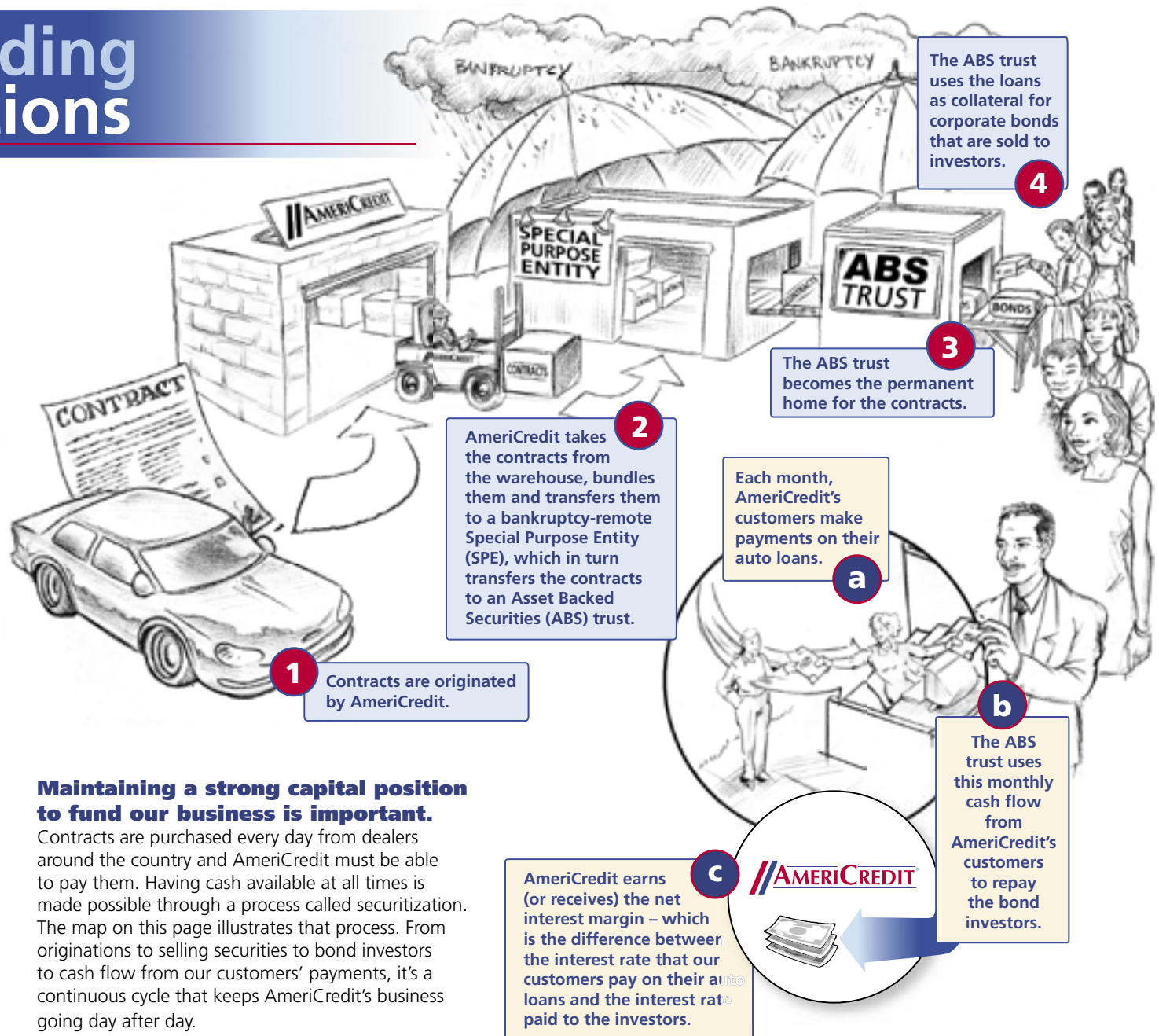


# Understanding Securitizations

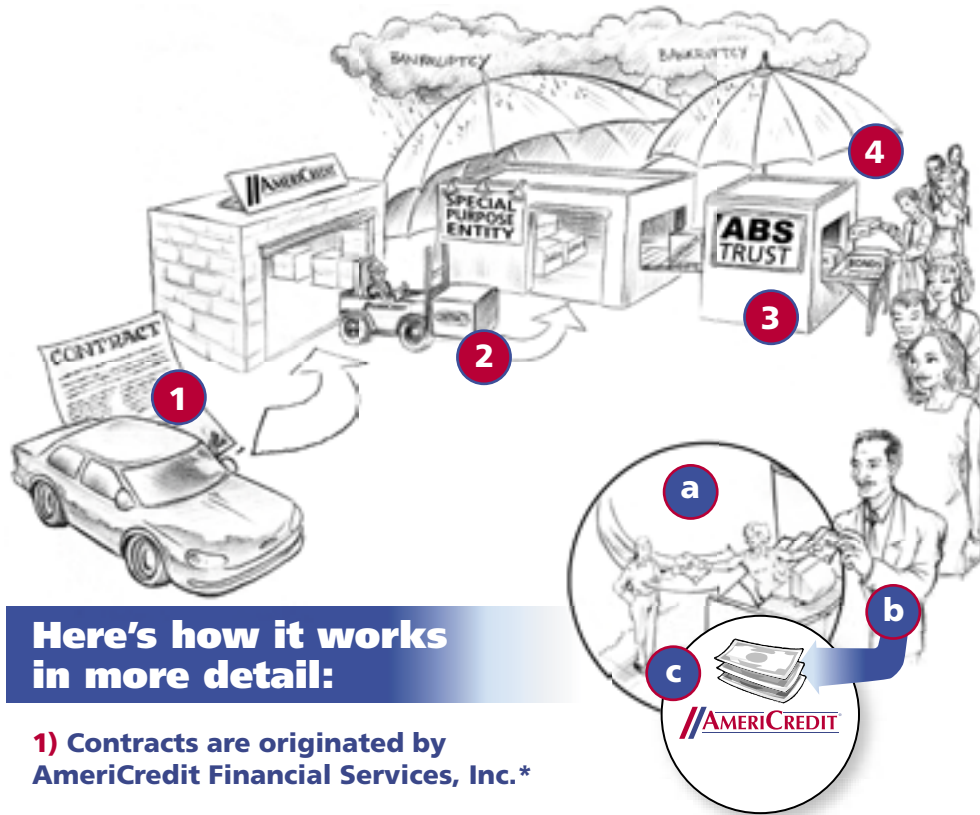
**Securitization** is a big word often heard at AmeriCredit, but it still produces a puzzled look on many faces. While it's not considered a direct step in the contract process, the act of securitizing plays an essential role in financing our business. The Structured Finance team ensures that the company has access to additional capital by creating and maintaining various funding vehicles to which recently originated loans are transferred. This additional capital is used to fund the purchase of new loans from dealers.

**Why does the company use securitization?** Finance companies have several funding sources available to obtain the necessary capital to run their business. These sources include deposits, bank loans, issuing corporate stock or unsecured bonds and finally asset-backed securities (securitizations). While we do obtain capital through the issuance of corporate stock and unsecured bonds and also utilize bank loans, our primary source of funding is through securitizations. The securitization market allows AmeriCredit to raise large amounts of capital at lower costs (than unsecured bonds or stock), therefore maximizing the "net interest margin" for the life of the loans.



## Maintaining a strong capital position to fund our business is important.

Contracts are purchased every day from dealers around the country and AmeriCredit must be able to pay them. Having cash available at all times is made possible through a process called securitization. The map on this page illustrates that process. From originations to selling securities to bond investors to cash flow from our customers' payments, it's a continuous cycle that keeps AmeriCredit's business going day after day.



## Here's how it works in more detail:

**1) Contracts are originated by AmeriCredit Financial Services, Inc.\***

**2) We then package together a pool of contracts that we originated over a period of time.**

The bundled contracts are transferred to a bankruptcy-remote Special Purpose Entity (SPE), which in turn transfers the contracts to a bankruptcy-remote Asset Backed Securities (ABS) trust.

**3) The ABS trust becomes the permanent home for the contracts.**

**4) The ABS trust uses the loans as collateral for corporate bonds that are sold to investors.** The trust uses the proceeds from the sale of the bonds to pay the company for the loans that were transferred to the trust. Bonds backed by the expected payments on a pool of assets (such as auto loans or student loans) are known as asset-backed securities. The transaction itself is referred to as a securitization.

**In between securitizations,** the company utilizes warehouse lines of credit (bank loans) for short-term financing. This allows us to have cash on hand every day to purchase contracts from dealers and provide funding to them quickly. The process of transferring bundled contracts to an SPE and then to the warehouse trust is identical to the process involved during a securitization.

## How do the investors get paid?

**a) Each month, AmeriCredit's customers make payments on their auto loans.** AmeriCredit receives a fixed amount of money: 1) loan principal and 2) the interest portion of the customer's payment. These monthly payments are submitted directly to the ABS trust.

**b) The ABS trust uses this monthly cash flow from AmeriCredit's customers to repay the bond investors.** The investors receive a monthly payment: 1) principal (to repay the borrowed money) and 2) interest, or coupon, which is the interest rate paid on the bonds.

**c) AmeriCredit earns (or receives) the net interest margin – which is the difference between the interest rate that our customers pay on their auto loans and the interest rate paid to the investors.** For example, the securitization named 2004-C-A has an average customer interest rate of 15.9 percent, but we are only required to pay the investors approximately 3.2 percent. Therefore, AmeriCredit will earn a 12.7 percent net interest margin (15.9 percent minus 3.2 percent) on these loans before covering credit losses and any fees associated with the securitization.

Utilizing a securitization locks in the net interest margin for the company for the entire life of the securitization, removing exposure to changes in interest rates for these specific loans.

As net interest margin is generated, cash is available to the company to cover operating costs, credit losses and taxes. Anything left over is our profit. This can be reinvested in new loans. Then, we start the cycle again – originating new loans, funding our dealers quickly and transferring loans to securitization trusts.

