

COASTAL SECURITIES, INC.



Amortizing Prepay Linked Securities

Financial Strategies

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Product: GSEs such as FHLB, FFCEB and FNMA issue Amortizing Prepay Linked Securities (APLS) which are debentures (structured notes) that pay principal based on prepayments (measured in PSA) of specific mortgage pools called reference collateral. APLS have stated final maturity dates by which all principal will be paid regardless of what is currently remaining on the reference collateral.

Cash Flow Characteristics: Interest payments are received monthly. A deal can be structured to begin principal payments either immediately or on or after a Lockout Date. The amount of principal to be paid for a given month is determined using the Monthly Amortization Rate of the reference pool and is dependent on the reference one month PSA speed. A mandatory redemption occurs at the maturity date of the APLS, giving a balloon-like effect to the cash flow.

Coupon: Fixed

Principal Payments: Based on very large, diverse, specific “reference pools”. The reference pool or pools will be stated in the description of the APLS. The principal payment is based on the reference collateral’s one month PSA speed.

Tax issues: For example, FHLB and FFCEB APLSs are treated to the same state tax advantage in certain states as any other FHLB or FFCEB debt.

Risk weight: 20%

Advantages: Short stated final, and coupons can be “stripped,” lowering the dollar price. APLS will also invariably pass the FMED test.

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