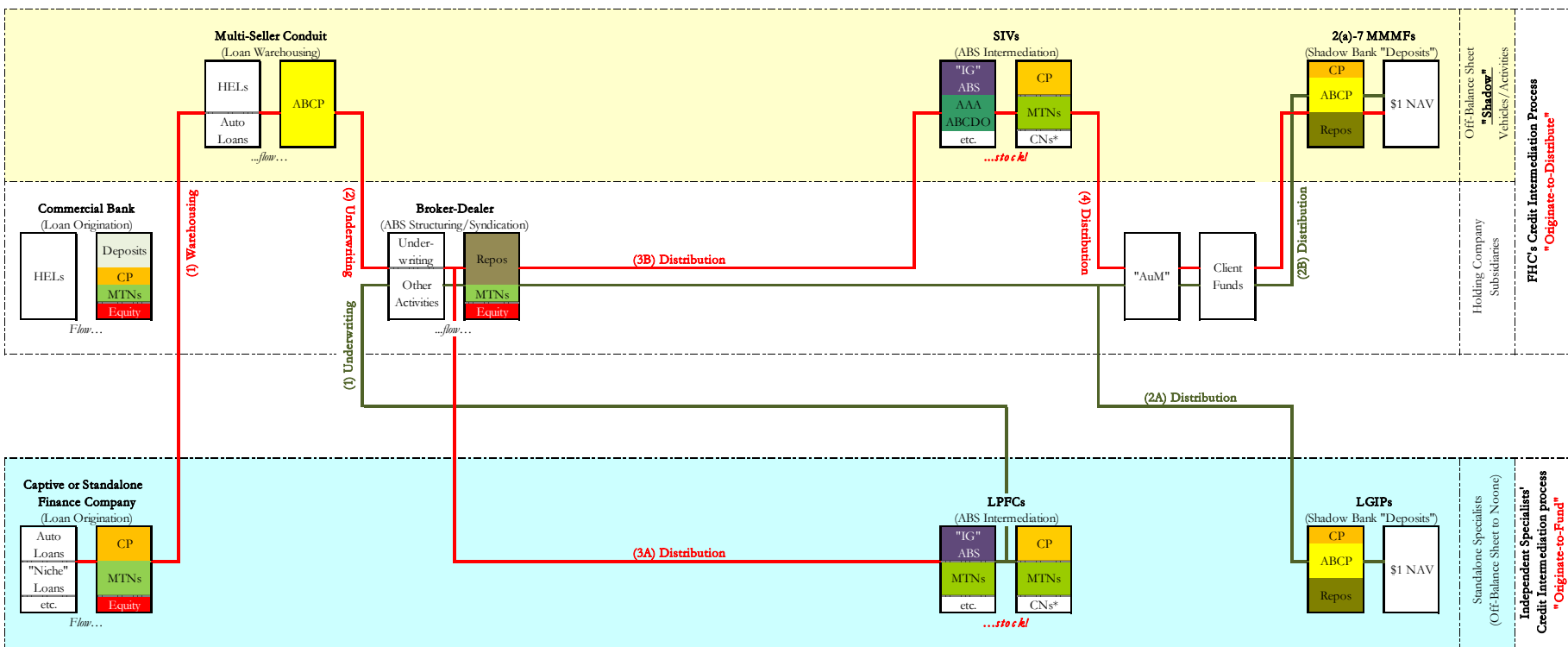
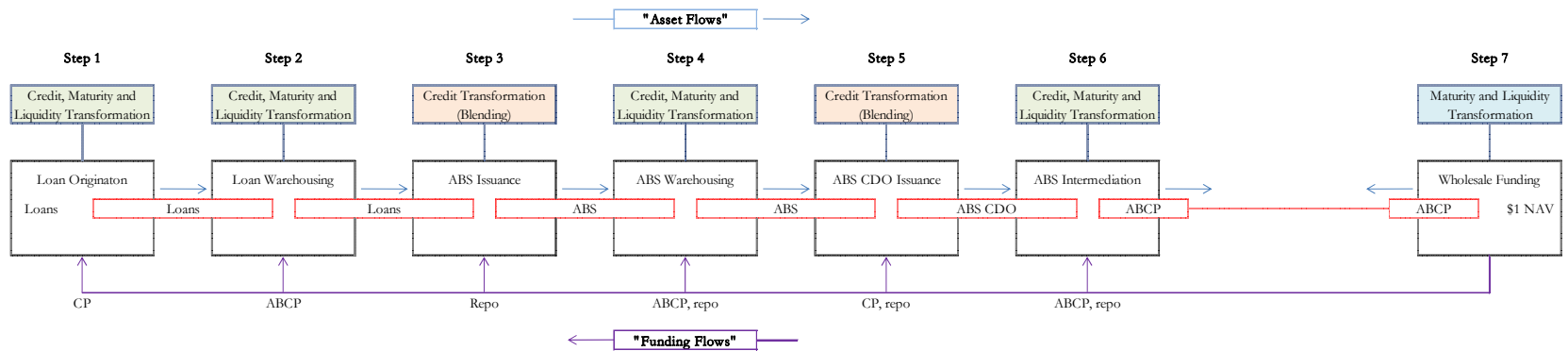


Appendix 4: The Independent Specialists-Based Credit Intermediation Process – Specialists Reliance on FHCs and DBDs as Gatekeepers to Capital Markets

The independent specialists-based credit intermediation process consists of entities like independent and captive finance companies on the loan origination side; limited purpose finance companies (LPFCs) and standalone SIVs and credit hedge funds on the ABS intermediation side; and LGIPS and non-bank affiliated MMMFs on the funding side. The independent specialists-based credit intermediation process is highly dependent on FHCs and DBDs as gatekeepers to capital markets and as underwriters of their securitization-based credit intermediation process. For example, starting from the bottom left balance sheet ("Captive or Standalone Finance Companies") and going to the right along the red line, finance companies rely on (1) FHC-affiliated multi-seller conduits for loan warehousing, (2) broker-dealers for the structuring and syndication of the ABS that funds their retained loans, which by definition are **originate-to-fund** securitizations (in contrast to FHCs' and DBDs' originate-to-distribute securitizations); (3) broker-dealers for the distribution of ABS to LPFCs (path 3A) and alternatively to SIVs (path 3B) that are affiliated with the FHC that owns the broker-dealer. Additionally, along the green line that begins from the balance sheet labeled "LPFCs", LPFCs rely on broker-dealers to underwrite their CP (as well as MTNs and capital notes) and (2) distribute them to FHC/DBD-affiliated MMMFs and LGIPS (paths 2A and 2B, respectively), as well as real money accounts, which are not depicted. Also note that the below figure do not depict the entire FHC process from Figure XX, only those parts of it that are relevant to the credit intermediation process of independent specialists.



Source: Shadow Banking (Pozsar, Adrian, Ashcraft, Boesky (2010))