Appendix 6: The Spectrum of Shadow Banks within a Spectrum of Shadow Credit Intermediation

Shadow banks are best thought along a spectrum. Each of the seven steps involved in the shadow credit intermediation process were performed by many different types of shadow banks, with varying asset mixes, funding strategies, amounts of capital and degrees of leverage. The list of balance sheets below are an illustrative example of this. Thus, the shadow credit ... process was supported by various forms of equity of various degrees (each denoted with a red cell): as such, equity came in the form of common equity, overcollateralization (O/C), haircuts, equity tranches and capital notes. Wholesale funding providers (money market mutual funds, securities lenders) were the only actors involved in the shadow credit intermediation process without any form of capital supporting their activities. Having numerous types of shadow banks under each functional step of the shadow credit intermediation process means that each functional step can be performed many different ways. Depending on the asset mix and funding strategy employed, different shadow banks performing the same functions in the system conducted different amounts of credit, maturity and liquidity transformation. Shadow banks are listed vertically, top-down, in increasing order of riskiness.

<table>
<thead>
<tr>
<th>Asset Flows</th>
<th>Funding Flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1: Credit, Maturity and Liquidity Transformation</td>
<td>Step 1: Personal and Business Loans</td>
</tr>
<tr>
<td>Step 2: Credit, Maturity and Liquidity Transformation</td>
<td>Step 2: Credit Card Loans</td>
</tr>
<tr>
<td>Step 3: Credit Transformation (Blending)</td>
<td>Step 3: ABS Issuance</td>
</tr>
<tr>
<td>Step 4: Credit, Maturity and Liquidity Transformation</td>
<td>Step 4: ABS Warehousing</td>
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<tr>
<td>Step 5: Credit Transformation (Blending)</td>
<td>Step 5: ABS CDO Issuance</td>
</tr>
<tr>
<td>Step 6: Credit, Maturity and Liquidity Transformation</td>
<td>Step 6: ABS CDOs</td>
</tr>
<tr>
<td>Step 7: Credit, Maturity and Liquidity Transformation</td>
<td>Step 7: Wholesale Funding</td>
</tr>
</tbody>
</table>

Captive Finance Co. (Investment Grade Parent) |
- Personal and Business Loans |
- MTNs |
- Bonds |
- Equity |
- Captive Finance Co. (Junk Parent) |
- Personal and Business Loans |
- ABS |
- CDO |
- Equity |

Single-Seller Conduit (JHC Sponsored) |
- Credit Card Loans |
- ABS |
- O/C |

Master Trusts (Recycling Structures) |
- AAA |
- BBB |
- BBB |
- Bank's Trading Books |
- ABS |
- ABS |
- ABS |

Multi-Seller Conduit (JHC-Independent) |
- Master Trusts |
- Repo/TRS Conduit |
- AAA |
- BBB |
- BBB |
- Synthetic ABS CDO |
- ABS |
- ABS |
- ABS |

Static Pools (Amortizing Structures) |
- Loans and ABS |
- O/C |

Hybrid Conduit (Independent) |
- Loans and ABS |
- ABS |
- ABS |

“Static” ABS CDO (JHC Independent) |
- BBB |
- BBB |
- BBB |

LPPCs (JHC Independent) |
- ABS |
- ABS |
- ABS |

2(6)-7 MMMFs (JHC-Independent) |
- CP |
- CP |

No Equity! |

Standalone Finance Co. (Diversified Lender) |
- Personal and Business Loans |
- Portfolio |
- ABS |
- O/C |

Multi-Seller Conduit (AMO Sponsor) |
- Portfolio |
- ABS |
- O/C |

“Revolving” ABS CDO (JHC Independent) |
- BBB |
- BBB |
- BBB |

Securities Arbitrage Conduit (Landesbank Sponsored) |
- ABS |
- ABS |
- ABS |

Enhanced Cash Fund (Independent) |
- CP |
- CP |

No Equity! |

Captive Finance Co. (Investment Grade Parent) |
- Personal and Business Loans |
- ABS |
- O/C |

Multi-Seller Conduit (Independent) |
-portfolio |
- ABS |
- O/C |

Wrapped Static Pools (Amortizing Structures) |
- Loans and ABS |
- O/C |

Securities Arbitrage Conduit (Independent) |
- ABS |
- ABS |
- ABS |

Stockholders |
- CP |
- CP |

No Equity! |

Standalone Finance Co. (High-Grade Lender) |
- Home Equity Loans |
- ABS |
- O/C |

Single-Seller Conduit (AMO Sponsor) |
- Home Equity Loans |
- SLN |

“HEL” RMBS |
- ABS |
- O/C |

DBDe Trading Books |
- Loans and ABS |
- O/C |

Synthetic ABS CDO |
- Unfunded |
- CDS |

Credit Hedge Fund (Dodd-Frank Sponsored) |
- ABS |
- ABS |

Securities Lender (Insurance Co. Sponsors) |
- ABS |
- ABS |

No Equity! |

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