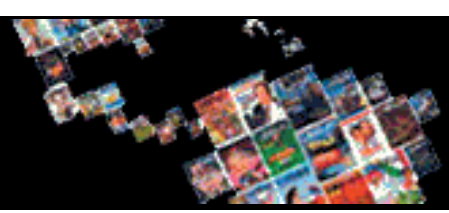


# LATIN FINANCE

## DEALS OF THE YEAR 2004



### COLOMBIA SECURITIZES MORTGAGES

Securitization - repackaging mortgages into tradable securities - became popular in Colombia long before it started to catch on in other Latin American countries. Now Colombia has taken another important step forward by launching the region's first-ever securitization of non-performing mortgages.

In June, Títularizadora Colombiana and its partner, the International Finance Corp. (IFC), which is the World Bank's private sector arm, launched a \$66.9 million-equivalent securitization of non-performing mortgage loans on the local capital markets. The deal cleared bad loans from the books of mortgage lenders. This increased their liquidity and their ability to boost lending. The deal also created a financial asset for Colombian institutional investors.

Colombia has a growing mortgage market and a sophisticated capital market. But this transaction is remarkable because it comes only five years after a financial crisis that crippled the country's banks. Interest rates surged ahead of wage increases, triggering a wave of defaults as homeowners could no longer afford to stay current on their mortgages. Housing prices fell 30% and the unemployment rate rose to 15%. At the end of December 2003, non-performing mortgages still stood at \$796 million.

Mortgage loan origination collapsed by 80% in 1998 but the crisis has continued to affect the market for years. Títularizadora President Alberto Gutiérrez says: "After the financial crisis, past-due mortgages came to represent 25% of total outstanding mortgages. As banks began securitizing their performing mortgages, the quality of their portfolios deteriorated. We needed to get rid of the non-performing loans to generate liquidity, limit the risk of this portfolio and improve the banks' balance sheets."

A pool of delinquent mortgages issued by Banco Conavi and Banco AV Villas backs the securities. The structure consists of two tranches of senior mortgage-backed securities (MBSs) with five- and seven-year maturities respectively, a mezzanine tranche and a junior tranche. The IFC provided a peso-denominated partial guarantee for the senior tranches. This, plus credit enhancements from the mezzanine and junior tranches, won the structure a local AAA rating.

The timing of the deal was important, as it came in the wake of new Colombian legislation that significantly cut the time it takes for lenders to foreclose on properties. Prior to the reforms, it took almost five years to successfully foreclose on a mortgage. Now the process takes 32 months, or about half the time. Proceeds from the sale of foreclosed properties are used to pay principal and interest on the MBSs. This, plus a reserve fund and over-collateralization, ensures repayment and allows the issue to pay an annual 7% coupon on the index-linked securities.

### Best Local Market Securitization

**Company:**

Títularizadora Colombiana

**Transaction:**

\$66.9 million-equivalent  
securitization of non-performing  
residential mortgages

**Rating:** AAA Colombian scale

**Maturity:** 5 and 7 years

**Coupon:** 7% annually

**Guarantor:** International Finance  
Corporation (IFC)



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Peter Cashion, the IFC's structured finance officer who worked on the transaction, says that in the first four months since issuance, cash proceeds from the sale of properties were three times higher than originally forecast. The funds are used to amortize the five-year tranche first. Once it is fully amortized, the funds are then applied to amortizing the seven-year tranche.

The highly rated transaction proved an attractive addition to the portfolios of Colombian institutional investors. "We got a very good reaction from the institutional investors, the pension funds and insurance companies," says Gutiérrez. "The deal was heavily oversubscribed." Cashion adds: "I was surprised by the level of trading in the non-performing MBSs. About 10% have traded, which is pretty significant."

Titularizadora, a secondary mortgage company specializing in residential mortgage securitizations, plans to build on this transaction with more bonds backed by bad loans. Colombian mortgage lenders, including Conavi and Banco AV Villas, own Titularizadora. IFC also has a 21% stake in the company, which was set up in June 2001 and has pioneered mortgage securitization in Colombia.

Lee Meddin, deputy treasurer and global head of structured finance at the IFC, says the deal will both help develop Colombia's capital markets and create a vehicle that could be replicated elsewhere in the developing world. He says this structure will likely work best in countries "with a large pool of mortgages, in which a single originator has accumulated a critical mass of delinquent assets." He adds: "Typically this has been the case in countries emerging from a financial crisis or a housing market crisis."

Fortunately, there are few Latin America countries other than Colombia that meet these criteria. However, Meddin speculates that the structure could be adapted for Argentina, which still has an enormous overhang of non-performing corporate loans from its 2001-2002 default, devaluation and financial crisis. LF

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