



Structured and Securitized Products

Risk Sharing Facility

HIGHLIGHTS

- **Bilateral Agreement between IFC and an originator of financial assets**
- **IFC reimburses originator for a portion of principal losses incurred on a pool of eligible assets**
- **Eligibility is based on pre-agreed criteria—no IFC review of individual assets at origination**
- **First loss retained by originator or covered by other third-party**

PRODUCT DESCRIPTION

A Risk Sharing Facility (RSF) is a bilateral loss-sharing agreement between IFC and an originator of assets in which IFC reimburses the originator for a portion of the principal losses incurred on a portfolio of eligible assets. The originator may be a bank or a corporation.

The RSF product allows a client originator and IFC to form a partnership with the goal of introducing a new business or expanding an originator's target market. In addition to sharing the risk of loss associated with the covered asset portfolio, IFC is often able to arrange for the provision of advisory services designed to expand a bank's or corporation's capacity to originate, monitor, and service the assets.

Risk sharing facilities are available to cover loans from a wide variety of sectors, including (but not limited to), mortgage, consumer, student, school, energy efficiency, and SME businesses. Portfolios of corporate receivables can be considered as well. The RSF typically covers assets newly originated during the term of the RSF, but, under certain circumstances, coverage may also be extended to assets originated prior to the initiation of the RSF coverage.

The RSF product by itself is most appropriate for originators requiring credit risk protection but not funding. If funding and credit protection are both desired, IFC can offer a loan in conjunction with a RSF to help build the portfolio of eligible assets.

WHEN IS IT APPLICABLE?

Originators typically find RSFs of value when introducing new products or when targeting new consumer or business segments—circumstances in which little or no historical performance data may be available to estimate potential losses. The absence of historical loss experience in volatile markets may serve as a significant constraint on the extension of credit to underserved markets. The IFC RSF is designed to reduce this constraint by sharing with originators some of the risk of loss associated with the desired extension of credit. In addition, the IFC RSF may enable a bank or corporation to originate additional business without exceeding internal country, single-obligor, or industry exposure limits and may reduce the portfolio's economic capital allocation.

HOW IT WORKS

An IFC RSF typically reimburses an originator for a fixed percentage of incurred losses that exceed a predefined threshold (or first loss). The originator and IFC will agree prior to signing the RSF on eligibility criteria specifying the assets to be covered under the RSF. Servicing procedures for performing, delinquent, and defaulted assets will also be agreed upfront. All newly originated assets must be added to the facility portfolio during a ramp-up period that generally lasts 2 to 3 years, or until the portfolio reaches a predefined maximum

volume. After the ramp-up period, no new assets may be added, but IFC will continue to share losses with the originator in the amortizing portfolio until the last asset has been repaid or the RSF termination date has been reached.

Portfolio performance will be monitored by the originator and reported to IFC on a regular basis. Once losses exceed the first-loss threshold, IFC will reimburse the originator in accordance with the agreed risk-sharing formula. As long as IFC disbursements are outstanding, any recoveries associated with the defaulted assets will be shared between the originator and IFC based on the same risk-sharing formula.

STRUCTURE VARIATIONS

Several options exist for structuring RSF transactions. Depending upon the needs of the originator and possible third-party participants, the availability of historical performance data, and the nature of the assets to be covered by the facility, one or more of the structural options illustrated in the diagrams below may be appropriate for a client originator to consider.

In addition to the options presented below, other variants can be considered as well. Each structural approach provides different risk/pricing trade-offs. Based on the experience it has gained in structuring RSFs around the globe, IFC is able to assist originators in determining the optimal structure to meet their specific requirements and circumstances.

OVERVIEW OF BENEFITS

IFC RSFs completed to date have covered portfolios of SME, school, student, and energy efficiency loans. An IFC RSF offers the following benefits to client originators:

Portfolio Growth: By shifting a portion of the risk associated with an asset portfolio to IFC, a RSF may allow an originator to introduce or expand a new or existing product. This may allow an originator to attract new clients, generate additional fee income, and spread the fixed costs of the covered product line over a larger portfolio of assets.

Technical Assistance: In certain cases, IFC may be able to offer advisory services to enhance an originator's capacity to originate, monitor, and service the assets covered by the RSF.

Third Party Guarantors: IFC's role in structuring and sharing the credit risk of an asset portfolio may attract third party sponsors. These sponsors, for example, often work together with IFC and potential originators in designing RSFs intended to mobilize lending to economic sectors in which the sponsors are involved.

Potential balance sheet/risk management improvements: Because IFC is a highly rated (AAA/Aaa) credit enhancer, an IFC RSF may allow client originators to overcome single obligor, industry, or regional exposure limits and improve measures of risk-adjusted return.

Preparation for future securitization: In jurisdictions in which securitization is not yet feasible due to legal or other institutional constraints—or for originators that have not yet been able to develop a performance history for the relevant product line—an IFC RSF may be used as a preparatory step toward securitization. Use of a RSF allows originators to build an asset performance track record and to develop the internal monitoring systems necessary to service a potential future securitization.

