



Structured Finance

Baltic American Enterprise Fund (BaIAEF)

HIGHLIGHTS

- **First residential mortgage securitization out of Central and Eastern Europe**
- **Approximately US\$65mn issue backed by residential mortgages originated in Latvia**
- **US\$7.1mn investment by IFC in mezzanine and senior notes**
- **Initial transaction in a program to issue \$60mn+ each year in local and cross border bonds out of the three Baltic states**

THE COMPANY

The Baltic American Enterprise Fund (BaIAEF) is a privately managed Delaware corporation that began operations in 1995. It is headquartered in Washington, D.C. and has representative offices in Latvia, Lithuania, and Estonia. The company was initially capitalized with \$50mn from USAID funds.

BaIAEF commenced its mortgage lending operations in 1997 and has become a leader in the development of primary and secondary mortgage markets in the Baltic states. Incorporating US-style mortgage lending practices, BaIAEF has enjoyed strong growth and brought visibility to the housing market while strengthening the prospects for securitization in the international markets.

The mortgage loans are provided in Euros, US dollars, and local currency for terms of up to 20 years. The underwriting criteria for the mortgages include a maximum loan to value (LTV) ratio of 80%, 36% maximum debt to income ratio, owner-occupancy, and a first lien position. BaIAEF's US dollar denominated mortgage is indexed to 1-year LIBOR, which adjusts at the beginning of each year.

Mortgage loans are sourced principally through the retail channel, either directly by BaIAEF or via referrals from realtors and mortgage brokers.

FINANCING OBJECTIVES

BaIAEF has financed its mortgages through warehousing lines with IFC and local banks. IFC previously extended a US\$50mn warehousing line to BaIAEF in April 2003. Rather than continuing to borrow and thus increase its debt-to-equity ratio, BaIAEF needed to develop a successful securitization program. Such a program was seen as a sustainable avenue to achieve funding objectives in line with the company's growth plans.

BaIAEF now has in place a program to issue approximately US\$275mn equivalent of mortgage backed securities over the next three years. The first issue under the MBS successfully took place in December 2004.

THE STRUCTURE

BaIAEF's first MBS involved the securitization of approximately US\$65mn worth of adjustable rate mortgage loans originated and underwritten by BaIAEF in Latvia. The issue consisted of US\$60.05mn (93%) in senior notes and US\$3.6mn (5.5%) in mezzanine notes rated Aa2 and Baa1 by Moody's respectively. Credit enhancement to the senior notes consists of excess interest, subordination, over-collateralization, and a basis-risk reserve account. The structure also benefits from a political risk insurance (PRI) policy provided by MIGA which covers certain currency transfer restrictions and expropriation events.



IFC's participation consisted of a US\$2.1mn investment in the mezzanine notes and the purchase of US\$5mn senior notes. IFC's experience in structuring transactions in emerging markets was instrumental in helping to create a structure that appealed to a large number of investors in the U.S. and Europe.

OUTCOME

The transaction was extremely well received by investors, pricing at the tight-end of expectations. This success demonstrated the viability of mortgage-backed securities as a funding alternative not only for BalAEF, but also for housing finance institutions throughout Central and Eastern Europe. BalAEF's strong management, as well as

high standards in origination, underwriting, and servicing were critical to the success of the deal. Additionally, the active role of IFC, not only as an investor, but also as a structurer, helped BalAEF to create an issuance program which will enable the company to access cross-border investors, as well as regional investors, on an ongoing basis. Finally, in addition to the many counterparts to the transaction, an extremely important group of beneficiaries are the future homeowners in the Baltic region who now have access to the continued financing that BalAEF is able to provide.

TERMS AND CONDITIONS

Amount	Approximately US\$64mn
Currency	US Dollar
Issue Date	December 09, 2004
Maturity	22 years
Series	Class A US\$ 60.05mn Class B US\$ 3.6mn
Interest Payment	Class A 3mLibor+0.75%, payable quarterly Class B 3mLibor+1.8%, payable quarterly
Principal Payment	Quarterly
Rating	Class A rated Aa2 by Moody's Class B rated Baa1 by Moody's
Weighted Average Life	Class A 3.57 years Class B 3.57 years
Enhancement	Excess interest, subordination, over-collateralization and PRI. IFC purchased Class B notes.