



# Structured Finance



## South African Home Loans

### HIGHLIGHTS

- First residential mortgage backed securitization (RMBS) issue in South Africa
- US\$128mn equivalent securitization of residential home loans
- US\$1.5mn equivalent IFC funded investment in subordinated tranche
- Excellent reception by domestic investors, resulting in heavy oversubscription

### THE COMPANY

South African Home Loans (Pty) Ltd (SAHL) is the country's first specialized residential mortgage origination, servicing, and securitization company. It began operations in early 1999 to provide affordable home loans at a significant discount compared to traditional banks, based on securitization driven funding. Since its inception SAHL has successfully originated close to R2bn (US\$200mn) of residential mortgages. Main shareholders include IFC, Standard Bank of South Africa, JP Morgan, and Peregrine Holdings.

### FINANCING OBJECTIVES

The company's business model is to provide affordable home loans at a significant discount compared to traditional retail banks. This is possible in part through securitization based funding from institutional investors and fund managers. Hence, successful RMBS transactions are fundamental for the realization of the company's business model and ultimately for the development of the housing finance sector in South Africa.

To promote a successful placement of the RMBS issue, IFC in its investing capacity contributed to the credit enhancement of the securities with a US\$1.5mn equivalent investment in the subordinated tranche. IFC also added value during the structuring period given its experience with similar initiatives in other emerging markets.

### THE STRUCTURE

The proposed structure involved the securitization of 6,462 residential mortgage. The principal amount in home loans was equal to R1,320mn, out of which R1,098mn were disbursed and R222mn corresponded to pre-financed mortgages to be originated within three months of issuance.

The issue consisted of a US\$118mn equivalent, or 92%, AAA rated senior tranche (Class A) and a US\$10mn equivalent, or 8%, BBB rated subordinated tranche (Class B). The Class A and Class B secured floating rate notes pay spreads of 0.70% and 2.30% over the 3-month JIBAR rate respectively. They mature in 2024 and are callable in 2005. This optional redemption date coincided with a step-up in the coupon spread to 0.98% for the Class A notes and 2.875% for the Class B notes.

## OUTCOME

South African Home Loans' securitization was the first residential mortgage-backed securities (RMBS) issue in South Africa. As such it was a benchmark transaction expected to establish the blueprint for further mortgage backed securitizations in the country. It was also a step in establishing credibility of local currency securitization and contributed to the overall development of the housing finance sector in South Africa.

The issue was placed among institutional investors and fund managers and was heavily oversubscribed. The second issuance has taken place at tighter spreads. Among the reasons for this success are the structuring and rating according to international standards, the introduction of new features including an A1.za rated floating rate series, and the fact that investors were able to appreciate the credit protection in the structure.

## TERMS AND CONDITIONS

<b>Amount</b>	ZAR 1.25bn (approximately US\$128mn)
<b>Currency</b>	South African Rand
<b>Issue Date</b>	November 29, 2001
<b>Maturity</b>	23 years, non-call 4
<b>Series</b>	Class A: Rand 1.15bn (approximately US\$118mn) Class B: Rand 100mn (approximately US\$10mn)
<b>Interest Payment</b>	Class A: 3-month JIBAR+0.70%, stepping up to +0.980% in year 5, payable quarterly Class B: 3-month JIBAR+2.30%, stepping up to +2.875% in year 5, payable quarterly
<b>Principal Payment</b>	Soft amortization after grace period
<b>Rating</b>	Class A: rated AAA.zaf and Aaa.za by the local affiliates of Fitch and Moody's, respectively Class B: rated BBB.zaf and Baa2.za by the local affiliates of Fitch and Moody's, respectively
<b>Enhancement</b>	Rand 15mn (approximately US\$1.5mn) investment in Class B notes by IFC

