



# Structured Finance

## Rio Bravo Securitizadora S.A.

### HIGHLIGHTS

- First local currency credit-linked guarantee and the first sovereign-linked guarantee
- First IFC warehouse financing utilizing Brazilian FIDC to create highly rated collateral
- Pilot transaction expected to be replicated in other countries

### THE COMPANY

Rio Bravo Securitizadora S.A. (RBSec) is one of the leading real estate securitization companies in Brazil. Its main lines of business include: (i) originating residential and commercial real estate receivables; (ii) securitizing them in *certificados de recebíveis imobiliários* (CRIs) format and placing them with investors; and (iii) acting as a master servicer for CRI transactions. RBSec's largest shareholder is *RB Crédito Companhia de Securitização Imobiliária*, which owns approximately 58% of the company. Other investors include GMAC-RFC and IFC, which hold 20% and 19.9% stakes, respectively.

With a 16% market share of total CRI issues, RBSec is a leading player in Brazil's real estate asset securitization market. Its CRI origination volumes grew over the period 2000-2005 from R\$11.7mn to R\$608.1mn (US\$284.2mn equivalent), in line with overall growth trends in the CRI market.

### FINANCING OBJECTIVES

With 28 million people with inadequate shelter, Brazil has a housing deficit of 7.1 million units and a growing demand for reasonably priced and longer tenor housing finance from middle- and lower-income households. There is also a shortage of both primary and secondary market housing finance. In particular, developers require additional funding sources, in order to satisfy middle-class demand for new housing units.

Brazilian securitization companies (*Securitizadora*) fund developers by buying pre- and post- completion receivables based on unit sales which are then securitized and funded through the capital markets. With

its enhanced capacity to warehouse such receivables pre-securitization, the transaction should help RBSec acquire developer receivables worth up to R\$150mn (approximately US\$66.9mn) over a period of five years. RBSec's additional financing is estimated to enable the construction of at least 2,500 homes over the same period.

### THE STRUCTURE

To establish the Reias denominated warehouse financing for RBSec, IFC implemented an innovative structure by providing a local currency credit-linked guarantee of up to R\$50mn (approximately US\$22.3mn) for the benefit of Banco ABN AMRO Real S.A. (the Bank) which will provide the funding to RBSec. IFC's credit-linked guarantee is an irrevocable guarantee covering 100% of the warehouse financing credit losses except when the credit-link defaults (in this case, default on local currency sovereign obligations of Brazil). In this manner, IFC has facilitated the Bank funding by taking the credit risk, while the Bank retains credit risk only when the Brazilian sovereign defaults. The credit-linked guarantee represents an efficient way for IFC to make local currency funding available to clients in situations where the client is unable to source local currency funding in a cost-effective manner.

To provide security for IFC's credit exposure to RBSec, a *fundo de investimento em direitos creditórios* (FIDC) was established to hold all receivables acquired through the warehouse financing. The FIDC was structured by IFC



and RBSec, together with FitchRatings in Brazil. The senior quotas were given a private rating on the Brazilian national scale based on Fitch's global securitization methodology. The Bank's warehouse financing is ultimately provided through a subscription to senior FIDC quotas (coupled with a repurchase Agreement from RBSec). The senior quotas provide the Bank with returns commensurate with the IFC guaranteed exposure. The senior quotas amortize in four installments after a grace period, and have a final maturity of 5 years. RBSec retains the residual interest in the FIDC, entitling it to residual earnings from the performing assets that are sold to the FIDC. The use of the FIDC structure is an efficient way to allow IFC to channel lower cost financing to *Securizadora* who do not have substantial capital. RBSec will later securitize the receivables that have been initially acquired through the FIDC in the form of CRIs to be placed with domestic capital markets investors.

**OUTCOME**

The transaction made available additional funding to support RBSec's residential real estate origination,

securitization, and placement activities. This further demonstrated the viability of an alternative, private sector entity for residential real estate finance. By complementing the relatively limited sources of funding for residential real estate construction and home purchases, this transaction hopes to address Brazil's housing deficit and enhance the affordability of home buying for middle-income families.

Moreover, the transaction required the creation of a FIDC that issues listed senior quotas which achieve and maintain an investment grade rating in accordance with international rating methodologies. Many of the safeguards implemented in the FIDC are new to the Brazilian market and service providers—it is hoped that some will set a benchmark for future transactions. Simultaneously, IFC has introduced a new guarantee instrument to the Brazilian market, allowing its participation in transactions where 100% of the credit risk must be covered to bring in local lenders.

TERMS AND CONDITIONS	
Facility Maximum	BRL 50mn (approximately US\$22.3mn)
Currency	Brazilian Reals
Lender	Banco ABN Amro Real S.A.
Commitment Date	June 22, 2006
Tenor	5 years
Principal Payment	Four quarterly installments after 36 months grace period
Enhancement	IFC provides a 100% credit-linked guarantee to the Lender
Credit-Link	Event of default under any of the bonds issued in the Brazilian financial market by the Brazilian National Treasury
Security	Privately rated FIDC by FitchRating

