BENEFITS
Securitization can be an advantageous financial tool for companies seeking to manage their balance sheet more actively or to broaden their funding options beyond the usual bank and unsecured corporate debt market options. The term “securitization” encompasses a wide range of capital markets structures and instruments. Almost any asset pool with predictable cash flows can be securitized, including mortgages, credit cards, auto and consumer loans, corporate debt, export receivables, and offshore remittances.

Securitization Benefits:
• Alternative source of funding
• Access to capital markets
• Risk transfer
• New investor base
• Potentially lower cost of funding
• Long-term funding even using short-term assets
• Economic and regulatory capital relief
• Capital market development

PRODUCT DESCRIPTION
IFC structures and invests in two categories of securitization: “future-flow” and “existing asset” structures.

Future-Flow Securitization
A future-flow transaction involves a sale of assets by a bank or company that are expected to be generated in the future in exchange for the purchase of securities by investors.

Banks use future-flow structures to borrow against expected future foreign currency inflows from export financing operations, worker remittance flows, foreign direct investment, and other cross-border financial activity. Commodity exporters, telecom firms, and universities also use future-flow structures to raise funds less expensively and for longer tenors than if they borrowed on an unsecured basis.

Structure and cash flows of a typical DPR transaction

HIGHLIGHTS
• A funding tool involving the bundling and sale of financial assets to achieve higher credit quality and lower financing costs than unsecured borrowing.
• A risk transfer mechanism that can potentially provide loan originators with economic and regulatory capital relief.
• A structuring technique that can create high quality securities from lower quality assets.
• A financing technique that provides access to local and cross-border markets and investors.
Existing Asset Securitization:

Existing asset securitization, or asset-backed securitization (ABS), is the sale of pools of already originated assets, such as mortgage and auto loans.

The credit quality of the assets is de-linked from the credit quality of the originator through a true sale of the loan assets to a bankruptcy remote vehicle which, in turn, finances the purchase by issuing bonds backed by the repayment flows of the assets in the pool. The assets needed to service repayments to investors already exist, so there is little or no credit linkage to the originator. The credit ratings of the senior class of ABS deals can be significantly higher than the rating of the asset originator if the asset pool is large, well-diversified, and expected to perform well.

Risk layers, or ‘tranches’, of asset pools can be structured to meet the different risk/reward trade-offs sought by investors. Typically, the expected loss on the portfolio is reflected in the sizing of a ‘junior’ or equity tranche. This is often retained by the originator to align more fully it’s incentives with those of more senior investors. The next layer of risk is often referred to as ‘mezzanine’ and is structured to absorb potential losses if portfolio performance is worse than anticipated. With sufficient subordination in the form of junior and mezzanine tranches, it is possible to structure a highly rated ‘senior’ tranche that is relatively low risk. This senior tranche can often achieve a risk/reward combination that is attractive to institutional investors, such as local pension funds, that have specific credit rating requirements for their investments.

HOW IFC INVESTS

For ABS securitizations, IFC’s investment can be in one of several different forms:

• A partial guarantee on the liability side of a transaction SPV at either the senior or mezzanine level
• A partial guarantee on the asset side of the SPV
• A funded investment in a mezzanine or senior tranche of a securitization

For future-flow transactions, IFC usually takes a funded position in the single class of notes typically available for this type of transaction.

For both ABS and future-flow structures, the IFC investment can be denominated in any currency, subject to the availability of foreign exchange hedges for funded investments. IFC can also provide other products, such as liquidity facilities, currency and interest rate swaps, and warehouse lines, to facilitate the origination of assets and the placement of securitization transactions. Because IFC performs its own due diligence and modeling work in securitization transactions, it is advantageous to involve IFC early in the structuring process.

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