Definition of Warehouse Line of Credit

Warehouse Line of Credit (WHL) is a revolving facility granted to a Borrower* to acquire and warehouse mortgage portfolio for future securitization. Such portfolio is pledged to IFC as collateral of WHL, and is placed into a special purpose vehicle (SPV) in the meantime for the purpose of securitization. The proceeds from future securitization will be funneled back to IFC, thus replenishing the ultimate WHL for subsequent use.

Preconditions for Warehouse Line of Credit

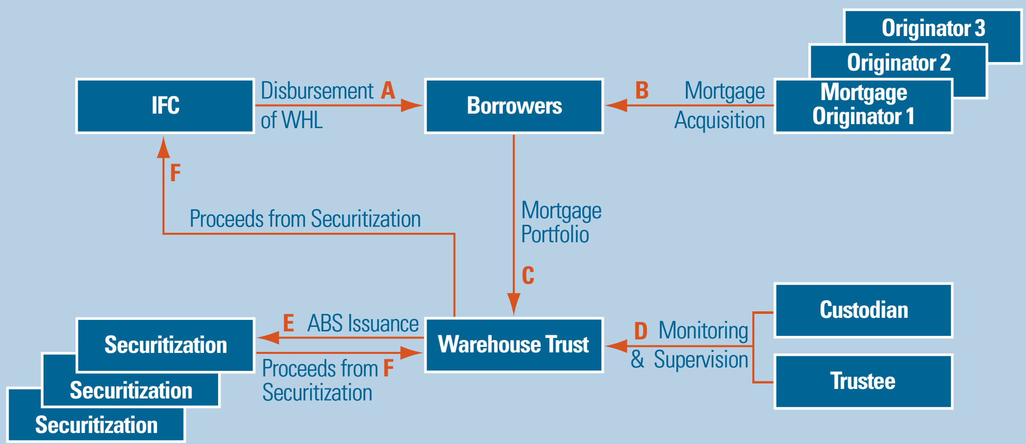
- The interest from a number of domestic mortgage originators to participate in the securitization program.
- Existence of standardized, high quality mortgage production as well as an efficient aggregation network.
- Existence of an effective lien registration system to assure IFC's interest in the collateral as a lender is recorded timely and accurately.
- Support of pledge of mortgage lien as security held by a special purpose vehicle.
- A legal and regulatory system enabling some kind of securitization.
- Legal system to facilitate foreclosure and eviction in the event of default by individual sub-borrowers of the underlying mortgages.

Features of Warehouse Line of Credit

- **Profiles of Potential Clients/Sponsors**—Commercial bank and non-bank financial institutions, Secondary Market Conduit.
- **Currency**—US Dollar or local currency of the countries specified by IFC.
- **Security Pledged as Collateral**—A qualifying mortgages portfolio.
- **Key Documentation**—Loan agreement, Trust Agreement, Security Agreement, Servicer Agreement, and MBS issuance prospectus.
- **Repayment**—Proceeds from future securitization of the subject mortgage portfolio are to be funneled back to IFC to pay down the drawn WHL.
- **Standard Fees**—Commitment fee of 0.5% per annum on the undisbursed principal amount of the line and one-time up-front fee of 1.0% of the principal amount of the line.

How Warehouse Line of Credit Works?

The structure described below is a generic one, and it may be modified under different circumstances.



A IFC provides warehouse line of credit to an eligible borrower for the purpose of acquiring and warehousing mortgage portfolio.

B With the disbursement from WHL, Borrower purchases qualifying mortgage portfolio from a number of qualified mortgage originators; In the meantime, the mortgage portfolio is pledged to IFC as collateral under WHL.

C Borrower packages and structure the mortgage portfolio into a bankruptcy-remote Special Purpose Vehicle for securitization.

D A reputable financial institution is selected as a financial trustee to monitor and supervise the trust property. A reputable financial institution is also selected as a custodian of the trust property.

E When a critical mass of mortgage portfolio is accumulated, the trust issues mortgage backed securities to capital market.

F The proceeds from each securitization will be funneled through trustee back to IFC, thus replenishing WHL for subsequent use; IFC will continue to have full recourse to Borrower in the event that the proceeds from securitization of the underlying mortgage portfolio do not fully cover the debt obligation to IFC.

* Typically, a secondary mortgage institution, or mortagage aggregator.

Risk Factors and Mitigants

Credit Risk

Arising when the actual mortgage default rate goes beyond the expected level, or the inability of MBS placement.

- External Credit Enhancement—Corporate guarantee, insurance.
- Internal Credit Enhancement—Over-collateralization, liquidity/debt service account.

Legal Risk

Arising from the ineffectiveness of enforceability of lien title in the event that default occurs at a significant scale.

- Legal opinion from local counsel

Servicer Risk

Arising from the inability of servicers to perform their obligation.

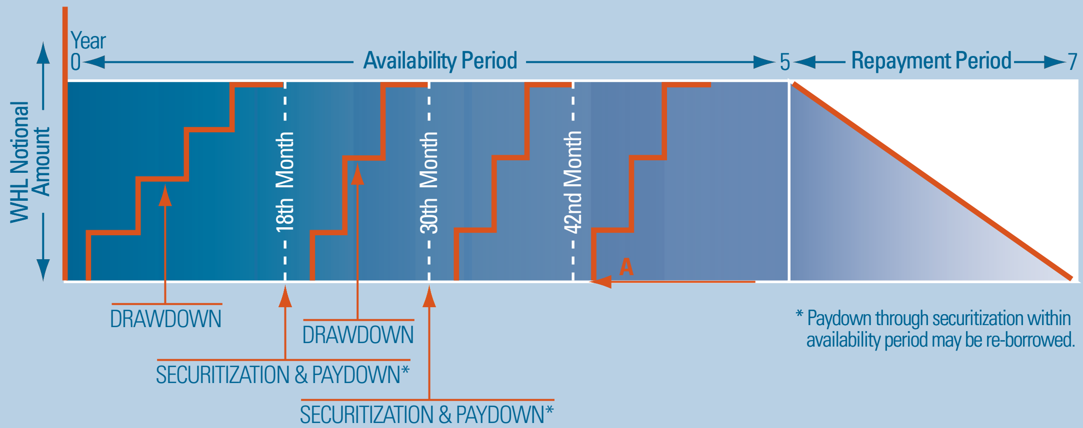
- Identify a strong master servicer

Impact of Warehouse Line of Credit

- Help introduce into the domestic capital market such innovative financial instruments as mortgage backed securities which are needed by local institutional investors.
- Develop the primary market by improving the standardization and efficiency of underwriting, documentation and servicing of mortgage business.
- Contribute to improving the legal and regulatory environment for housing finance.
- Help to leverage funds utilization by having a built-in revolving feature that affords "multiplier" effect.

Potential Scenarios of Warehouse Line of Credit

Assuming a US$50 million of Warehousing Line of Credit with a maturity of 7 years:



Examples of IFC's Warehouse Lines of Credit

Europe and Central Asia

- Baltics—BalAEF

Latin America and the Caribbean

- Argentina—BACS, Banco Hipotecario
- Mexico—GMAC, Su Casita

IFC, a member of the World Bank Group, is the largest multilateral source of loan and equity financing for private sector projects in the developing world. IFC's mission is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives.

Contact Information

Housing Finance Group
Global Financial Markets Department
International Finance Corporation

2121 Pennsylvania Avenue, NW
Washington, DC 20433
T: 202.473.4516
Web site: www.ifc.org/housing

IFC International Finance Corporation World Bank Group

Warehouse Line of Credit

Promoting Access to Affordable Housing in Emerging Markets

IFC International Finance Corporation World Bank Group