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Presentation

SECURITIZATION OF REMITTANCES

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Securitization of Remittances

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What is Securitization?

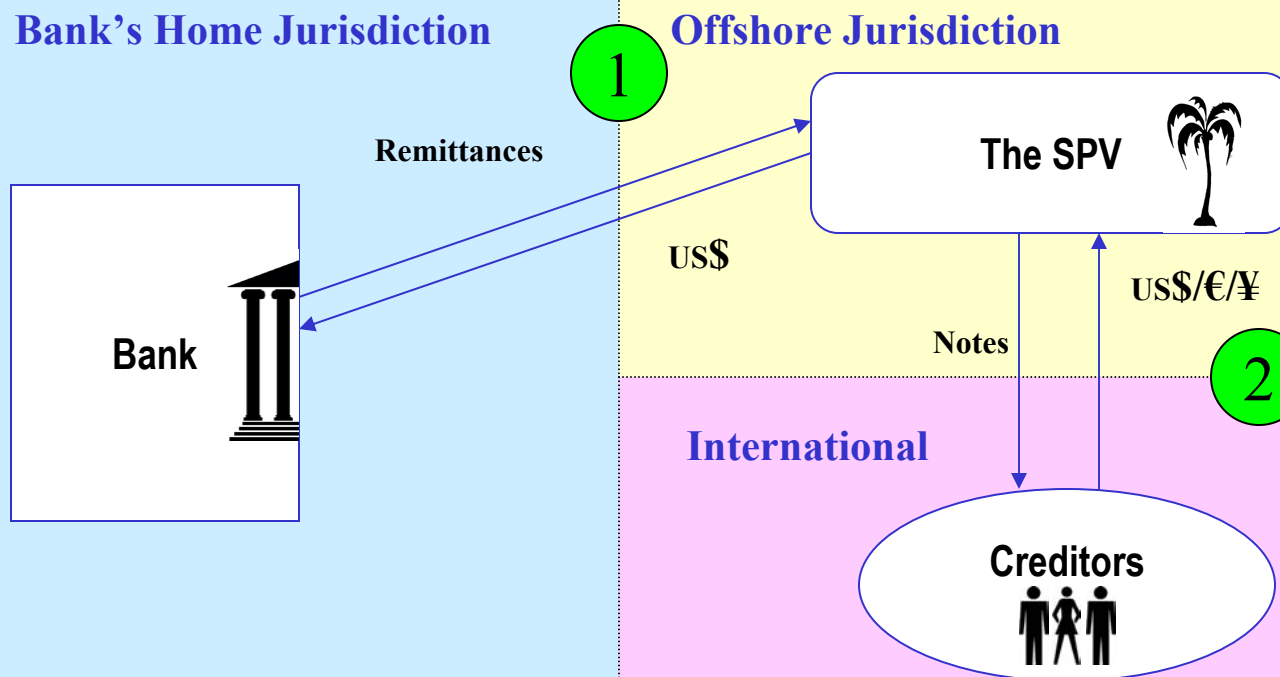
- Securitization is the transfer (generally as a “true sale”) of receivables to a single purpose vehicle (“SPV”), which SPV then incurs debt secured by its ownership of these receivables/rights
- While similar to a secured financing, a “true sale”-based securitization is distinct in various ways, including that sold receivables are not owned by the bank and would not be included in its bankruptcy estate



What is Securitization?

- Remittance securitizations can differ in some important respects from traditional securitizations in developed markets
 - These transactions are “future flow” securitizations that securitize the on-going business of the bank “Future flow” transactions are generally “on balance sheet”
- A primary goal of the structure is to insulate the remittances as much as possible from sovereign-related risks



Typical Remittance Securitization Structure



- 1) A “true sale” to the SPV under local law of the bank’s rights in (but none of its obligations under) the securitized remittances
- 2) The SPV finances its purchase of the remittances by incurring debt secured by the remittances and their collections



Advantages of the Securitization of Remittances

- Source of long term capital (5-10 years) not always available to banks in emerging markets
 - Establishing relationships with new creditors, including potential for “AAA” investors if an “wrapped” structure is used
 - Alternative to funding from commercial banks
 - Attractive pricing compared to unsecured bonds
 - Achieve a rating higher than the host country’s foreign currency sovereign rating (often as high as the bank’s domestic or “survivability” rating)
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Important Considerations

- Though this may be mitigated by having full or partial recourse to the bank, the creditors take the risk that the volume of remittances will decline or even disappear
- As a portion of the remittance collections are withheld from the bank and used to pay creditors, the bank needs alternative sources of liquidity to make its payments to the beneficiaries
- While governmental interference is intended to be mitigated, banks remain subject to oversight and control by local governments

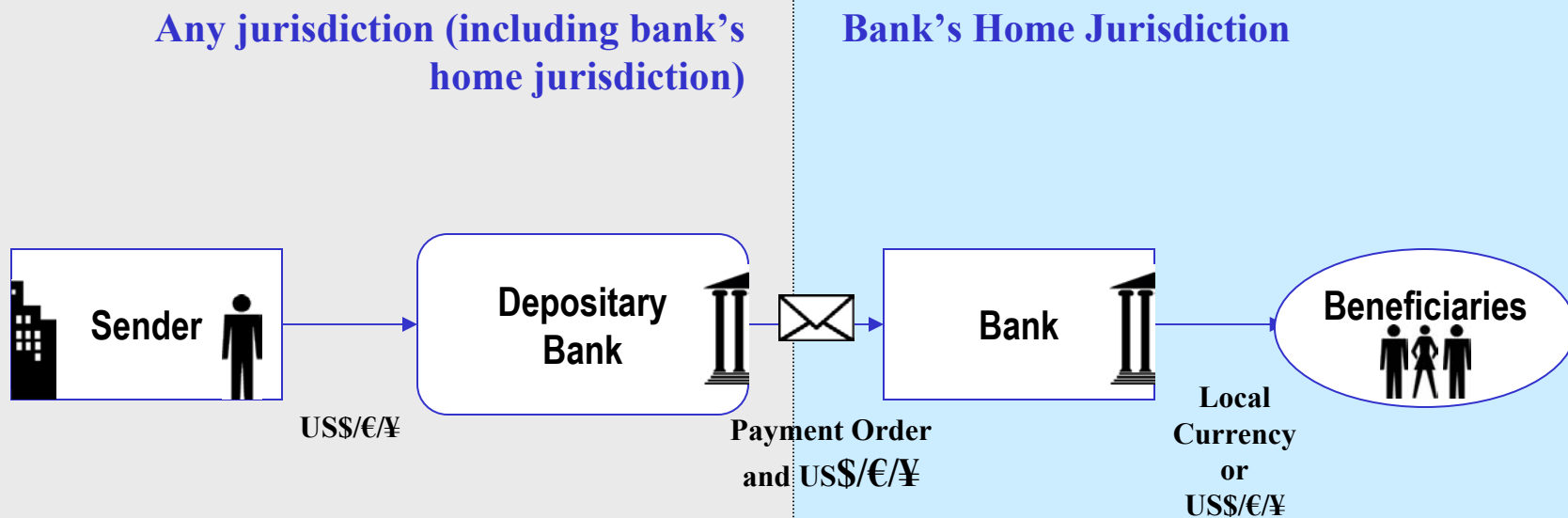


What are “Diversified Payment Rights?”

Diversified Payment Rights

- Remittances can be of various natures – such as credit card payments, wire remittances or check payments
- First remittances to be secured included credit card payments as these are relatively simple to understand and structure for
- Most common remittances for securitizations are currently wire transfers – generally referred to as “diversified payment rights” or DPRs

Wire Transfer



Definitions

- PAYMENT ORDERS: An electronic *or other message* to instruct the bank to make a payment to any beneficiary *other than the bank*
- DIVERSIFIED PAYMENT RIGHTS: All rights (but none of the obligations) of the bank in Payment Orders received (or to be received) by the bank (including its right to *receive* and/or *retain* for itself all payments made in connection with such Payment Orders)

Diversified Payment Rights

- It is very essential to note (and have confirmed in the bank’s jurisdiction) that payments to the bank relating to Payment Orders ARE OWNED BY THE BANK AND NOT THE NAMED BENEFICIARY. In other words, the bank does *not* act as a trustee of these funds but the bank is performing a service for the sending bank, gets paid for doing so by the sending bank (and thus becomes the owner of these flows) and incurs a matching obligation to the beneficiary. In this regard, such payments are similar to deposits made into a deposit account.

Legal Issues

- Confirming that local counsel can render a legal opinion that the transfer of the DPRs is a “true sale” in the bank’s home jurisdiction
- Identifying and obtaining any necessary governmental and other approvals (*e.g.*, Central Bank and shareholders)
- Confirming that the DPR transaction will not conflict with any existing contractual obligation of the bank (*e.g.*, any negative pledges or limitations on asset sales)