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Securitisation

Innovations and
Application of New
Techniques to the
Russian Securitisation
Market

Role of ABS

- Securitisation has been beneficial for the Russian economy:
 - Issuers – greater liquidity at cheaper costs
 - Consumers – increased availability of credit
 - Investors – access to the rapidly growing Russian consumer credit market
 - Russian financial market – access to international investor base and improved efficiency

- Securitisation promotes economic expansion

Securitisation in Russia so far

- The first existing asset transaction in Russia closed in July 2005 – a USD 77 million securitisation of auto loans by Bank Soyuz
- In 2006:
 - the number of public deals increased to 12 (compared to 2 deals in 2005)
 - the volume increased to USD 3.4 billion (compared to USD 230 million in 2005)
 - the number of asset classes increased to include mortgages and leasing receivables in addition to auto and consumer / POS loans
 - the average size of a transaction increased from USD 110 million in 2005 to USD 250 million in 2006
- The main driver for securitisation remained liquidity, followed by the need for diversified funding, better asset liability management, and to a lesser extent, capital relief
- Spreads tightened throughout 2006 and in 1H 2007 (pre-current market conditions), and for the first time, senior paper in a Russian ABS deal was placed at a margin under 100 bps (Roof Russia, May 2007, 3M LIBOR+95bps)
- All trends outlined above continued in 1H 2007
 - the volume of public transactions was USD 1.9 billion for the first 6 months of the year
 - RMBS dominated the issuance during that period
- July 2007 – current
 - no new public deals
 - warehouses continue to be arranged

Structural features in Russian deals

- Typically, significant excess spread available for credit enhancement
- Both revolving and amortising structures:
 - revolving structures offer cost advantages – financing larger volume of receivables over time, and for longer maturities. Examples of such deals include Russian Consumer Finance No 1 and Russian Car Loans 1 SA
- The first Master Trust structures appeared in Russia in 2007:
 - the first deal featuring a Master Trust structure, Eurasia Credit Card Funding, a private warehouse, was closed in August 2007; the second such deal, Russian Credit Cards No. 1 closed in December 2007.
 - the Master Trust structure offers cost advantages achieved as the structure is used repeatedly. Additional benefits include the potential to access different markets and to have tailor-made liability structures, all backed by the same pool of assets held within an asset SPV
- Hedging
 - since virtually all assets in Russia yield fixed rate, and the vast majority of the deals feature floating rate notes denominated in EUR or USD, both interest rate and currency swaps are needed
 - longer term derivatives are now more readily available for the Russian market
- Wrapped vs. unwrapped
 - lack of wrapped structures; this may change going forward as pricing differentials between different rating levels increase (NB. In current market conditions wrapped deals unlikely to offer any value or
- Warehouse to term deals – because of rapid growth in consumer lending and need for immediate funding

Advantages of Master Trust vs Single Issuance

- Securitise existing and ongoing origination of large homogeneous pool of assets into a single asset SPV
- Securitisation infrastructure set up to be used repeatedly
- Economies of Scale achieved reducing costs
- Used for many transactions - simultaneously
- Access different markets e.g. international (Eurobonds), bilateral and domestic funding sources.
- Tailor made liability structures – maturities, currencies, amortisation structures

Revolving vs Amortising Structures

- Consider asset type (revolving vs amortising)
 - revolving loans, credit cards
 - amortising loans eg auto loans, residential mortgage loans
- Portfolio size and origination volumes
- Asset maturity, average life (including prepayments)
- Practicality of substituting structures (operationally)
- Cost Advantages
 - Financing larger volume of receivables over time
 - access financing for longer maturities
- Ability to structure bullet and soft bullet liabilities
- Substitution is nearly always optional and subject to meeting various criteria
 - Triggers mitigate risk
 - Triggers also impose potential risk

Sequential vs Pro Rata Amortisation

- Most transactions completed are sequential pay
 - inefficient for Seller/Originator
 - Average life of more junior tranches extended
- Cost Advantages for Originator/Seller in pro- rata amortising structures
 - Pay down of more expensive debt
 - Average life shorter
- Credit Enhancement implications
 - Floors
 - triggers

Credit Enhancement Techniques

- Whole range of techniques already applied in Emerging Europe
 - Excess Spread
 - Senior / Junior structures
 - Reserve Funds (amortising and non amortising)
 - Triggers
 - Dynamic credit enhancement

- Wrapped transactions? Conspicuous by absence
 - Market dominated by senior / junior structures
 - Will this change going forward? – unlikely in near future

Hedging

- interest rate risk
- currency risk
- Embedded Options
 - customer / borrower level
 - Prepayments
 - Delinquencies/defaults
 - seller level
 - substitution
 - calls (tax and regulatory)



Credentials

UniCredit's Russian ABS credentials

Russian Consumer
Loans No 1 SA



EUR 240.0m Bridge
Consumer ABS
Russia

Nov 2005

Eurasia Structured
Finance No 1



EUR 291.0m
Consumer ABS
Russia

Dec 2005

Russian Consumer
Finance No 1 SA



EUR 300.0m
Consumer ABS
Russia

Mar 2006

Russian Car Loans No 1
SA



EUR 220.0m
Car Loan ABS
Russia

Nov 2006

Russian Structured
Consumer Credit
No 1 SA



RUR 7.2bn
Car and Cash Loan ABS
Russia

May 2007

Eurasia Credit Card
Funding No 1 SA



RUR 8.2bn
Credit Card ABS
Russia

Aug 2007

Lada Finance No 1 SA



RUR 3.5bn
Car Loan ABS
Russia

Aug 2007

Russian Credit Cards No 1
SA



RUR 12.5bn
Credit Card Mastertrust
ABS
Russia
Dec 2007



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