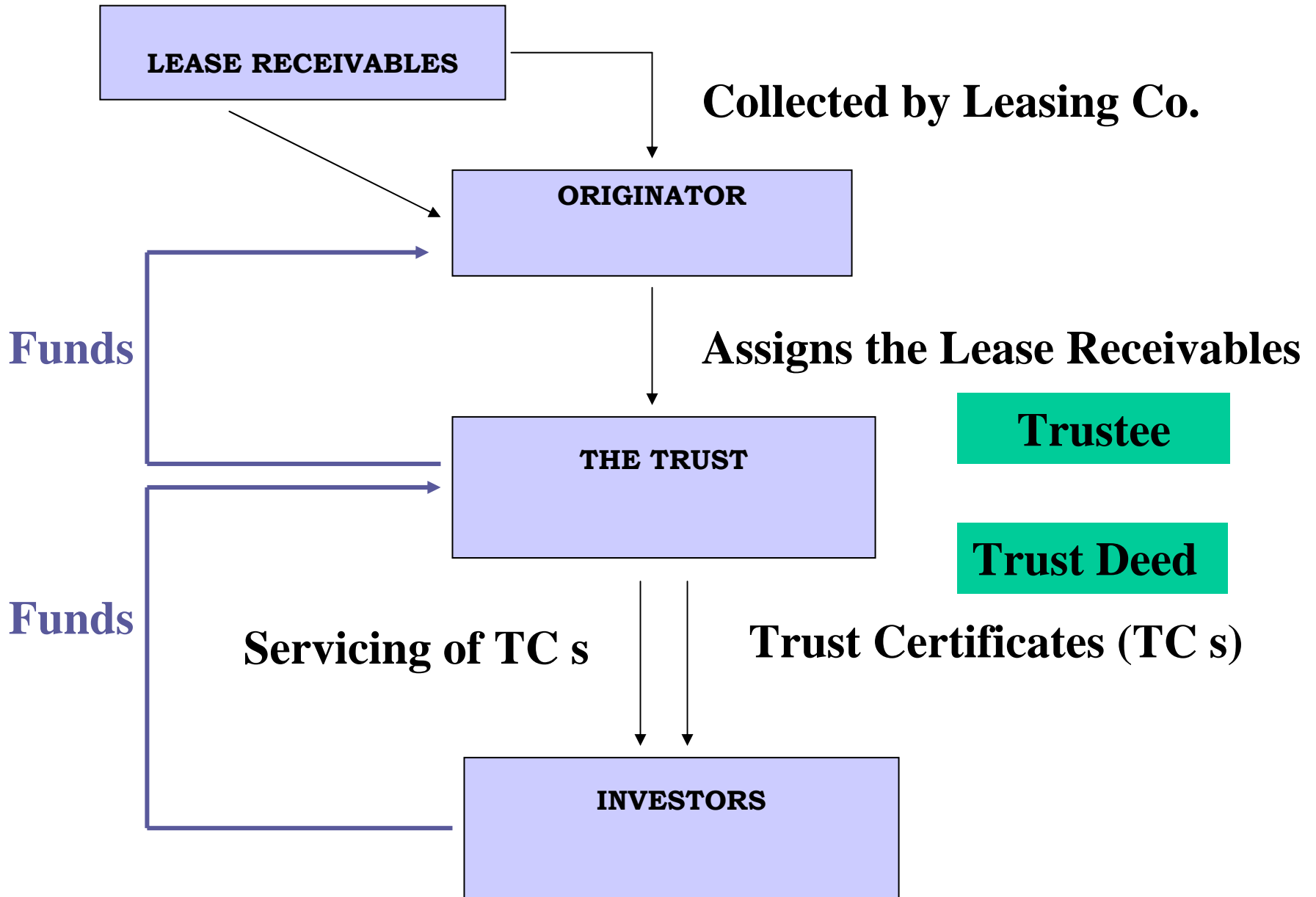


STRUCTURING A SECURITIZATION DEAL

THE SRI LANKAN EXPERIENCE

INTRODUCTION

- The basic process of a Securitization transaction
- The selecting of a pool of asset receivables
- The general Securitization structures used
- Servicing of Trust Certificates
- Issues/ impediments faced in the process



SELECTING A POOL OF ASSET RECEIVABLES

A quality pool of receivables are selected.

- A Seasoned portfolio of receivables, where the repayment pattern/trends can be assessed.
- Well performing contracts, with minimum arrears
- Sample checking of the selected portfolio will be carried out by us.
- If required due diligence on the portfolio will be carried out

GENERAL SECURITIZATION STRUCTURES

1. Pass Through Structures

- SPV pays off the investors proportionately from the collection on specified dates
- SPV is passive & merely passes the collection to the investors.

GENERAL SECURITIZATION STRUCTURES

Cont.....

2. Pay Through Structures

- SPV re-invests the money to pay to the investors at specified dates
- Investors are paid out of collections & interest on re-investments

GENERAL SECURITIZATION STRUCTURES Cont.....

Senior & Junior Pass Through Structures

- Created to provide additional security to the mortgage pass through certificates.
- 1st the pre-determined payments to the Senior Note (SN) Holders are made from the collection
- Then the remainder would be split ratably among the Junior Note (JN) Holders.
- The JN s would act as a risk absorption device.
- As a credit enhancement the JN could be held by the Originator.

Benefits of the existing Securitization Structures

- The loss of Capital Allowances to the Originator - a tax implication of a true sale transfer in the Finance Leasing Act (a major stumbling block) - **does not apply in the current context.**
- As the servicing is done by the Originator - no necessity to inform the debtors of the assignment. (Unless the initial contractual agreement does not provide for transfers, assignments etc)

Benefits of the existing Securitization Structures

Cont.....

- Useful & a simple tool for many companies for fund raising & better asset-liability management.
- As a learning experience to engage in true securitizations in the future.

ISSUES/ IMPEDIMENTS

- Investment restrictions placed by large funds.
- Unfavourable government policies, which result in higher costs to the Originator
- Pricing difficulties due to a lack of a proper long-term yield curve
- Absence of a liquid secondary market
- No proper disclosure with regard to the sale, investor's beneficial interest etc.

ISSUES/ IMPEDIMENTS Cont...

- Not a true sale transfer to the SPV
 - Lack of off-balance sheet treatment
 - Unlimited recourse to the originator
- Currently only 1 bank acts as Trustees to Securitization deals
- Lack of a proper retail market for the instrument
 - The product is too new
 - Absence of an active secondary market

ISSUES/ IMPEDIMENTS Cont...

- Absence of a Securitization law for a wider coverage of asset classes to be securitized.

Examples of Securitized Assets	
Aircraft Leases	Manufactured Housing Contracts
Auto Loans (Prime and Sub-prime)	Mortgages (Residential and Commercial)
Auto Leases	Railcar Leases
Boat Loans	Real Estate
Credit Card Receivables	Recreational Vehicle Loans
Dealer Floorplan Loans	Royalty Streams
Equipment Leases	Stranded Utility Costs
Home Equity Loans	Trade Receivables
Marine Shipping Containers and Chassis Leases	Truck Loans

ISSUES/ IMPEDIMENTS Cont...

- Insufficient development of credit & compliance culture to support Securitizations.
 - Finance Co.s should possess the necessary skills to adhere to the strict requirements - segregation, management & reporting of cash flows of assets.
 - The underlying credit quality of the transaction is vital.

CONCLUSION

- Securitization of asset receivables, future flows etc is a **modern way of raising debt**.
- As a market intermediary we see that the **corporate debt markets** compliments the bond & equity markets.
- Therefore much legal support is required to develop this market in Sri Lanka; to pave the way for a supportive Capital Market infrastructure.