

ARGENTINA

SECURITIES & CAPITAL MARKETS

THE ARGENTINE ABS MARKET

Since the early 90s, Argentina has achieved economic stability with inflation and interest rates - in terms of price index variations- gradually conforming more closely to the developed countries' standards. Within this scenario, longer financing terms were possible which, logically, resulted in the development of new borrowing techniques.

The Securitization process provides access to Capital Markets to the public and private sectors, as a worthy financing alternative beyond the traditional banking financing.

A transaction volume over US\$ 7,000mn traded through Securitization processes is a clear sign of the regulatory framework strength and the growing market sophistication.

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The following are some of the most important characteristics of the Argentine capital market:

a) Safe Regulatory Framework

Passed in January 1995, Law 24441 laid down an integral reform to develop the Securitization market in Argentina. A new concept of Trust was thus introduced as the applicable approach for the whole securitization process.

Law 24441 provides that the underlying assets transferred to a trustee, for the purpose of securitization, be treated as an allocated property completely isolated from the risks affecting the process participants. In this way, the underlying assets is separated from the patrimony of the transferring entity and of vehicle entity receiving such assets (Trustee).

Additionally, the Law expressly sets forth that neither the originator's nor the vehicle entity's creditors are entitled to seize any of the assets so transferred.

Based on the isolation established by law the fiduciary transaction constitutes a true

sale for the purpose of Securitization.

The provisions of the law were later implemented by the regulations issued by the applicable authorities, the Banco Central de la República Argentina and the Comisión Nacional de Valores. Additionally, and also by operation of the same law, investors in a securitization process benefit from tax advantages including major tax exemptions.

b) Broader Investor Base

An increasing number of pension and investment funds channeling private saving in Argentina has joined on the demand side. We can mention, among others, the Administradoras de Jubilaciones y Pensiones (Pension and Retirement Funds Management) who manage portfolio investments of over US\$ 21,000mn. On the other hand, the investment funds manage around US\$ 9,000mn

These institutional investors require medium- and long-term investment options matching the maturity of the underlying assets used in the securitization process. Therefore,

they become ideal recipients for the issuance.

Pension and Investment Funds manage portfolio investments for an amount over US\$ 30,000mn with only US\$ 500 mn in Securitizations, far below the maximum amount permitted in their investment options

Among the issuers, the performance of the banks profiting from securitization should be stressed. Access to capital markets as a cheaper funding source with longer maturities is believed the main benefit. Argentina's minimum capital requirement (Capital Adequacy Ratios) which, unlike the developed countries, is around 12%, is also a plus. For this reason, it is advisable to remove the securitized assets from the balance sheet of financial entities.

c) Wide range of underlying assets and Diversification of Issuers

Securitization in Argentina developed by using a wide range of underlying assets as security repayment source.

Another remarkable aspect is that transactions are concentrated not only in small issuer groups but they are also accomplished by a large number of participants, from small banks and companies to major local market participants.

Some other assets add to the traditional residential mortgage market: automobile loans, consumer loans, export receivables, credit card vouchers, deferred checks, Sub-sovereign issues backed by oil and gas royalties or tax revenues, private financing under the International Finance Corporation and the Inter-American Development Bank's B loan programs, and a wide range of Structured Notes.

We have already summarized the features of the issuances made by the Argentine provinces (see issue of 05/31/2001). The following is an overview of other market sectors.

Consumer Loans and Personal Loans:

Taking advantage of the interest rate spread, securitization transactions using consumer and personal loans as underlying assets occupy a growing portion of the market.

These transactions resulted from financial entities granting loans for the purchase of household appliances or as personal loans for not established purpose.

In the first case, borrowers are mostly persons having no access to other financing sources or who cannot prove their actual income. The household appliances purchased cannot be treated as collateral as they are subject to wear and tear thus preventing the recovery of any money value in case a legal action is brought.

The expected risk constitutes the basis for extremely high financing interest rates.

Nevertheless, these securitizations' performance has proved to be highly successful in the underlying loans, scarcely beyond the mortgage loan delinquency level. This is particularly so because of the borrowers' specially careful compliance with the obligations undertaken with one of the few financing sources available for them.

In this market sector, the borrowers of loans composing the underlying asset accept

annual interest rates between 36 to 48 % while market-traded securities backed by those assets offer an annual rate from 11% to 15 %

The current spreads enable issuers to raise low cost funds at the capital market through successive issuances, thus renewing their lending capacity.

Mortgage-Backed Securities.

The existence of unsatisfied demands in all the segments of the real estate market clearly shows a large residential shortfall.

Market potential growth can be grasped by comparing the mortgage loan/GDP ratio of Argentina (just 4%) with that of Mexico (11%), Chile (17%), Australia (35%), the US (57%) or the United Kingdom (77%)

As in most countries, Argentina promoted the real estate and the mortgage secondary markets by means of governmental agencies, encouraging the construction industry and the creation of mortgages for securitization through the Banco Hipotecario Nacional.

The BHN carried out mortgage loan securitizations for an amount over US\$ 500mn -of a total US\$ 650mn market volume-, placed either within or without the Argentine Republic with an international BBB- rating (A+ for the last series), even higher than the country's own rating.

Also the prevailing rates at both ends of the process should be noted, where securities offer a 7.5% average yield for senior class securities compared with mortgage loans agreed at an average rate which doubles the rate of the securities issued.

Furthermore, delinquency levels of mortgage loans constituting the underlying assets were below expectations, about 12% and 4.2% respectively for a 60 day and 90 day delinquency period. Mortgage foreclosures were about 1.6% although default loans were replaced by the originator. Prepayments did not exceed 7%.

In view of Argentina's enhanced possibilities to overcome the economic recession, the banks have increased their mortgage credit facilities with interest rates falling sharply to 11%, longer repayment terms of up to 30 and 40

years and a growing LTV ratio averaging 80%.

Export Receivables and B Loan Programs

Foreign currency rating of Argentine corporations is constrained by the so called "sovereign ceiling", i.e. Argentina's sovereign foreign currency rating.

The Argentine private sector corporations successfully resorted to B Loan Programs and Export Receivable securitizations to pierce the sovereign ceiling

Structured financing has proved to be one of the most economical ways of funding for the main exporters.

Using a commodity as the underlying asset – oil, aluminum or grains-, these financing structures have isolated the security repayment source preventing export receivables from entering the country. Receivable funds are directly transferred from foreign importers to a trust account in an offshore facility, thus avoiding transfer risk affecting the cash flows used to service the securities.

Generally, price hedge agreements cover risks resulting from commodity price volatility.

The International Finance Corporation and the Inter-American Development Bank enabled Argentine corporations' access to the international markets through their B Loan Programs.

Those multilateral institutions enjoy a "de facto" preferred creditor status as security for the collection of loans they granted to borrowers in the emerging market countries. Historically, local governments have

never hinder the service of such obligations, even despite crises, in the expectation that these institutions will continue being a financing source in case of financial stress.

The multilateral institutions purchase securities issued by local corporations and issued participations on them which are placed at the international markets through a trust. Additionally, they acquire a portion of such issuance for themselves in order to show their commitment to the transaction and also to act as a credit enhancement.

This structure enables private sector companies, having a local investment grade, to borrow funds through securities placed in the international markets at their same local rating. This involves a lower financing cost compared to an unsecured corporate bond.

Since cash flows used for security service are generated in local currency within the country, transferability and convertibility insurances must be provided to protect from default of the issuer in obtaining the type of currency in which the securities were issued. This credit enhancement is supplied by the OPIC (Overseas Private Investment Corporation) and the MIGA (World Bank's Multilateral Investment Guarantee Agency).

Finally, more sophisticated forms of structured notes (Synthetic Securities) have started attracting investors's interest, reflecting the Argentine market's versatility to conform to the structures used in more developed markets. Among the most prevalent structures, we can mention the FIERA, TIFON, Principal-Protected Outperformance Notes, MATES issuances in a market segment having an issuance volume over US\$1,000mn.

Conclusion

Since its very beginning, in 1995, the Argentine securitization market has improved in diversity and sophistication, developing an increasing volume of transactions. The adoption of the most complex structures used in developed markets was possible thanks to a reliable and safe legal framework. A successful future may be anticipated on the basis of the potentiality of certain assets which, even in low economic growth times, have supplied the market participants with enormous benefits. Therefore, we can conclude that Securitization has come to stay.

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