



# Structured Finance



## *Titularizadora Colombiana NPL*

### HIGHLIGHTS

- First non-performing loan (NPL) securitization in Latin America
- US\$67mn equivalent issue, denominated in inflation-indexed Colombian pesos, backed by non-performing mortgages
- US\$3.3mn equivalent partial credit guarantee by IFC

### THE COMPANY

Titularizadora Colombiana, Colombia's first secondary mortgage market company, specializes in supporting the country's residential mortgage market through securitizations and related activities. Its primary lines of business comprise: portfolio business, mortgage securitization, repo lending and trading of MBS, and support services to mortgage participants.

Main shareholder groups include three of the largest, most established, private groups in Colombia: Grupo Bolivar, Grupo Suramericana, and Grupo Social. Through their participations in their respective subsidiaries, the groups control 43% of Colombia's mortgage stock, 22% of the pension funds, and 37% of the insurance funds. IFC has a 21.25% equity stake in the company.

### FINANCING OBJECTIVES

As a result of the country's financial crisis in 1998, the banking system generally, and the housing finance sector specifically, suffered significant losses. As of December 2003, delinquent mortgage loans accounted for 28% of the entire mortgage stock in Colombia, with the balance of non-performing mortgages equal to US\$796mn. In order to create a market for these mortgages, and thus provide additional liquidity for banks, Titularizadora Colombiana launched an initiative to help banks securitize these assets. The creation of a secondary market for non-performing loans is expected to remove a major obstacle in the recovery of Colombia's banking sector.

### THE STRUCTURE

Titularizadora's first issue backed by non-performing assets involved the securitization of pools from two originating banks, Conavi and AV Villas amounting to US\$76mn and US\$77mn, respectively.

Overall, the issue totaled US\$67mn equivalent of non-performing mortgage-backed securities denominated in inflation-indexed local currency. The issue consisted of triple-A rated senior bonds in two tranches of differing maturities. The 5 year tranche offered monthly coupons of 4.7% (i.e. 4.7% over the inflation index rate), and the 7 year tranche offered monthly coupons of 5.4%. IFC's credit enhancement facility was in the form of a US\$3.3mn partial credit guarantee of the issuing vehicle's obligations to the senior bondholders. Additional credit enhancement was provided by the originating banks in the form of cash reserves and over-collateralization by retaining the B and C bonds (see diagram on reverse side).

## OUTCOME

This transaction was the first securitization of non-performing loans in Latin America. As a credit enhancer, IFC contributed not only to the development of domestic capital markets by helping to introduce a new asset class, but also as a catalyst to expedite the recovery of the banking sector. IFC's presence and enhancement in this new asset class also provided first time investors with a degree of assurance that international standards were being followed.

Titularizadora's first NPL securitization has already been replicated in a second and third transaction similar in structure but with non-performing mortgages from multiple originating banks. The second issue amounted to US\$68mn out of which IFC invested US\$8mn in addition to guaranteeing 5% of the issuing vehicle's obligations. The 5-year tranche paid a monthly coupon of 5.9%, while the 7-year tranche, which was more than twice over-subscribed, carried a coupon of 4.9%. The third issue amounted to US\$22mn, of which IFC guaranteed 2.25% of the issuing vehicle's obligation.

## TERMS AND CONDITIONS

<b>Amount</b>	UVR 1.27bn (approximately US\$67mn)
<b>Currency</b>	Unidades de Valor Real (UVR)
<b>Issue Date</b>	June 9, 2004
<b>Maturity</b>	Tranche A1: 5 years Tranche A2: 7 years
<b>Series</b>	Tranche A1: UVR 635mn (approximately US\$33.5mn) Tranche A2: UVR 635mn (approximately US\$33.5mn)
<b>Interest Payment</b>	Tranche A1: 4.7%, payable monthly Tranche A2: 5.4%, payable monthly
<b>Principal Payment</b>	Soft amortization
<b>Rating</b>	Both tranches rated AAA.co by Duff and Phelps de Colombia and BRC
<b>Enhancement</b>	UVR 63.5mn (approximately US\$3.35mn) guarantee of Tranche A1 and Tranche A2 bonds by IFC

