Structured Finance

GMAC Financiera, S.A. de C.V.

HIGHLIGHTS

- **Residential mortgage-backed securitization of low- and middle-income housing loans in Mexico**
- **Bond issuance program by GMAC Financiera for up to US$500mn equivalent**
- **Issue of US$46.5mn equivalent backed by residential mortgages denominated in inflation-indexed local currency**
- **Innovative partial credit guarantee by IFC for up to 10.6% of the outstanding principal amount**
- **Achieved a national scale rating of triple-A by S&P, Fitch and Moodys**

THE COMPANY

Established in 2000, GMAC Financiera (GMAC) is a wholly owned subsidiary of GMAC RFC, itself a wholly owned subsidiary of US-based ResCap. It was incorporated as part of GMAC RFC's international strategy to become an active player in the Mexican housing finance market. The company's main lines of business in this market include: housing finance and securitization. Through these activities, GMAC has become an important alternative source of funding for the *Sofoles* (non-bank financial institutions in Mexico) and an active participant to the country's initiatives to standardize the housing industry (products, origination, underwriting, servicing, and securitization).

FINANCING OBJECTIVES

In 2005, Mexico's housing deficit of approximately 6 million units, combined with a rapidly growing population have led to an expanding gap between supply and demand for low- and middle-income housing. To bridge this gap, GMAC Financiera is currently positioned in the primary mortgage market as a warehouse lender to *Sofoles*. On the secondary market side, it is leading the development of the Mexican mortgage-backed securities market. This is in line with its long-term objective of establishing a secondary mortgage market conduit that would make GMAC Financiera a leading and consistent player in the industry—similar to the role of GMAC Mortgage Group in the US.

As part of this strategy, GMAC began in 2005 an MBS issuance program with the help of IFC, as funding provider and credit enhancer, in pass-through mortgage-backed securitization (the Notes).

THE STRUCTURE

On August 4, 2005, GMAC issued UDIs 139.6mn (approximately US$46.5mn) backed by mortgages originated and underwritten by the Mexican *Sofole* Patrimonio. At the time of the issue, all loans in the portfolio were performing and will continue to be serviced by Patrimonio, under the supervision of GMAC as the master servicer.

The issue benefited from an IFC credit enhancement in the form of a partial credit guarantee (PCG). The IFC PCG amount was initially fixed at UDIs 13.4mn (or 9.7% of the outstanding principal at the time of issue). The guarantee then increases to a maximum of 10.6% of the outstanding principal as the Notes amortize. The escalating guarantee structure allowed the size of the credit enhancement to dynamically match the credit rating requirement of the Notes, thereby providing GMAC Financiera with a cost savings relative to other forms of subordination, such as the issuance of mezzanine notes.

The transaction also benefited from an initial over-collateralization (O/C) level (the percentage by which

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the issued debt exceeded the nominal amounts of the mortgage pool) of 0.8%. The O/C is set to increase to a target level of 3%. As such, no cashflows will be paid to the residual certificate holders until this O/C level is reached.

This innovative credit enhancement from IFC provided GMAC with an efficient structure as it improved the expected internal rate of return (IRR) of the transaction.

OUTCOME

IFC's credit enhancement helped the senior notes to achieve the mxAAA rating by Standard and Poor's, AAA(mex) by Fitch, and Aaa.mx by Moody's—all on the Mexican national scale. The issue was 2.5 times over-subscribed by institutional investors both in Mexico and Europe. This innovative structure in the Mexican market should help create an efficient and sustainable long-term source of funding for *Sofoles*, and ultimately, a long–term mortgage market in Mexico.

Attesting to the success of the first issue, GMAC replicated this transaction in October 2005 and March 2006. Both issues totaling to UDIs 326.9mn (approximately US$109.5mn), were also largely oversubscribed, receiving bids from several domestic and international institutional investors, and priced at the best end of expectations.

TERMS AND CONDITIONS

Amount	Series II: UDIs 139.6mn (approximately US$46.5mn) Series III: UDIs 183.9mn (approximately US$61.3mn) Series IV: UDIs 143.0mn (approximately US$48.2mn)
Currency	Unidades de Inversion (UDI) linked to inflation index in Mexico
Issue Date	Series II: August 02, 2005 Series III: October 18, 2005 Series IV: March 29, 2006
Maturity	Series II: 9.36 years Series III: 9.44 years Series IV: 9.50 years
Interest Payment	Series II: 6.1% on Senior Notes, payable monthly Series III: 5.7% on Senior Notes, payable monthly Series IV: 5.6% on Senior Notes, payable monthly
Principal Payment	Monthly payments
Rating	Series II: Aaa.mx by Moody's, MxAAA by S&P, and AAA(mex) by Fitch Series III & IV: MxAAA by S&P and AAA(mex) by Fitch
Enhancement	Series II: IFC PCG of 10.6% of outstanding principal of senior notes or the lower of UDIs 13.4mn Series III: IFC PCG of 7% of outstanding principal of senior notes Series IV: IFC PCG of 10.15% of outstanding principal of senior notes