

# STRUCTURED FINANCE INTERNATIONAL



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## Best Securitisation of Emerging Market Assets: South Africa goes synthetic

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### Fresco 1 FirstRand Bank Lead manager: Rand Merchant Bank R12.5bn May 2002

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Until recently South Africa's ABS market consisted of a handful of cross-border deals and one managed CBO.

But in December 2001, the South African Reserve Bank introduced new regulations, allowing banks to use a greater range of structures, and altering the way they can support deals. The result was one of the securitisation success stories of 2002. In just six months the domestic market blossomed, with a plethora of structures from lease backed deals to sophisticated securities arbitrage conduits.

Perhaps the most challenging deal for the nascent investor community was First Rand's R12.5bn (\$1.2bn) partially funded synthetic CLO. The bank has a tradition of innovation: its \$250m offshore credit card deal via Credit Suisse First Boston won this award two years ago.

Most securitisations in South Africa have been fully funded, but Fresco 1, brought by Rand Merchant Bank, consisted of a senior credit default swap for 90% of the capital structure, above R1.25bn of funded notes.

Of these, the top five tranches, worth R914m, were sold. The deal is collateralised by R194 government bonds and referenced to 107 loans on FRB's balance sheet. Almost 94% of the loans were to South African corporates, and the reference portfolio was assigned an average rating of AA- to A+ by Fitch on its national scale.

The novelty of the structure made investors demand a premium. The triple-A rated senior notes pay a 10.5% coupon to give a spread of 55bp over the R194 government bond. Fifteen investors participated, including asset managers and pension funds.

To bring such a deal at all is a notable achievement, and it could turn out to be a signpost for the market. The capital ratio requirement for banks was recently raised to 10%, and other banks may start to explore ways of boosting their returns for shareholders.



## **FITCH RATINGS AFFIRMS FRESCO'S 5 CLASSES OF NOTES**

Fitch Ratings-Johannesburg/London-11 June 2004: Fitch Ratings, the international rating agency, has today affirmed Lexpub 15 Investments Limited's ("Fresco") five Classes of notes (listed below) following a satisfactory review.

- ZAR188,000,000 Class A secured fixed-rate notes 'AAA(zaf)';
- ZAR183,000,000 Class B secured fixed-rate notes 'AA(zaf)';
- ZAR191,000,000 Class C secured fixed-rate notes 'A (zaf)';
- ZAR228,000,000 Class D secured fixed-rate notes 'BBB(zaf)';
- ZAR124,000,000 Class E secured fixed-rate notes 'BB(zaf)';

This transaction is a synthetic securitisation of mainly South African corporate credits originated and managed in South Africa by FirstRand Bank Limited ("FRB"), rated 'AA(zaf)'/F1+(zaf)'. Using credit default swaps, the transaction provides protection to FRB on the corporate names up to the value of the portfolio amount.

As part of the affirmation process, Fitch reviewed the credit quality of the individual assets in the portfolio. The portfolio has experienced minimal asset quality migration since the transaction was originated in 2002. To date there have been no credit events and the portfolio has experienced minimal change to the weighted average rating factor ("WARF"), never exceeding the maximum WARF of 36. Accordingly, Fitch has determined that the current ratings assigned remain appropriate.

As a transaction moves closer to its maturity date, the loss horizon decreases and the credit enhancement available may exceed the level necessary to support the rating on an individual tranche. Fitch's analysis identified that some of the Fresco tranches are beginning to build a cushion compared to closing, because the transaction is due to mature in 2007.

Fitch will continue to monitor and review this transaction. Additional deal information and historical data are available on the agency's subscriber web site at [www.fitchresearch.com](http://www.fitchresearch.com).

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Note to Editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(zaf)' for National ratings in South Africa. Specific letter grades are not therefore internationally comparable.

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