

# NEW INVESTMENT FOR TRAINS I PLC

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**T**HE completion of the NIFT I £363m financing in May 1998 represents a significant milestone for financing new private investment in the UK's rail network subsequent to its privatisation in 1995/1996. It also illustrates the use of securitisation as an adaptable, efficient and deliverable financing solution that is capable of facilitating the investment required by the sector. The financing is of particular interest in that it involves a number of new features which have not been included in previous securitisations and it also includes a number of other complementary aspects to provide an integrated financing.

### Overview

The transaction involves financing the purchase by Porterbrook Leasing ('Porterbrook') of six fleets of new passenger trains, which on delivery will be leased to six train operating companies ('TOCs') for terms between four and 13 years. The trains will be built by two manufacturers - Ad Tranz and GEC Alsthom - and are scheduled for delivery from 1998 with the last unit being delivered in the middle of 2000. The manufacturing and supply contracts between Porterbrook and the manufacturers require that stage payments be made at various contract milestones. These can be divided into pre and post delivery and acceptance payments. The financing consequently incorporates two separate elements: a £273m 14 year senior subordinated securitisation secured on the expected future lease cash flows from the TOCs (and successor TOCs) - see chart 1 - and a £90m revolving corporate loan to Porterbrook Leasing Limited to finance

pre delivery stage payments. In addition the transaction can be segregated into two separate elements. The first element involves the structuring and release of the proceeds of the note issue during the manufacturing phase of the transaction. The second element involves determining the financing/credit enhancement structure and related amounts which are primarily based on the cashflows that are expected after delivery of the units.

Porterbrook is one of the three rolling stock leasing companies ('ROSCOS') established by the government as part of the privatisation process. Each ROSCO owns approximately a third of the UK's passenger rolling stock: the stock is leased to the 25 TOCs who operate train services on specific geographic routes. Porterbrook was sold to its management in January 1996 and subsequently purchased by Stagecoach Holdings plc, the diversified transport group, in August 1996.

### Structure

The transaction structure involved the establishment of New Investment for Trains I, a wholly owned single purpose bankruptcy remote subsidiary of Stagecoach Porterbrook (the Porterbrook holding company) and a sister company of Porterbrook Leasing. The financing is non-recourse to Porterbrook and Stagecoach Holdings plc (the ultimate parent company). The principal features of the transaction structure are set out in chart 2.

At closing, substantially all of the proceeds of the FRNs issued by NIFT I were lent to Porterbrook by NIFT I under a secured limited recourse intercompany loan. An important feature of the security

**SPECIAL REPORT**

**1 – AMOUNTS RAISED BY NIFT I**

Amount	Financing	Provider	Rating
£110.00m	Senior loan facility	European Investment Bank	None
£61.358m	Class A FRNs	Note investors	AA
£53.80m	Class B FRNs	Note investors	A
£25.00m	Class C FRNs	Note investors	BBB
£23.00m*	Subordinated loan facility	UBS/European Investment Fund	BB
<b>£273.158 m</b>			

\* EIF guarantees £16.00 million of the subordinated loan.

granted by Porterbrook under the inter-company loan is that it facilitates the appointment of an administrative receiver to Porterbrook in the unlikely event that Porterbrook were to become insolvent. Such an appointment would facilitate lease rentals continuing to flow to NIFT I (via the intercompany loan) to the extent that rentals are received from the TOCs.

Completing the entire financing prior to delivery of the trains provided Porterbrook with the certainty of financing it required. The terms of the inter-company loan are similar to the terms of NIFT I external obligations. The senior loan facility provided by EIB will be drawn by NIFT I in two instalments during 1999, the proceeds of the facility will be lent to Porterbrook, under the intercompany loan, and deposited in the Prefunding Deposit Account ('PDA'). Amounts under the subordinated facility are drawn on a *pro-rata* basis when withdrawals are made from the PDA and applied in an identical manner to withdrawals from the PDA.

Porterbrook may make withdrawals from the PDA to make eligible stage payments to manufacturers and in certain circumstances to repay certain drawings under the Porterbrook corporate facility. Stage payments may only be paid from the PDA subject to satisfaction of certain conditions which include that the relevant unit has obtained its acceptance certificate and safety case and that the TOC has become obliged to pay rental in respect of the unit.

**Assets**

The assets over which NIFT I's various creditors have security (which is held for the benefit of all secured creditors by the Security Trustee) are primarily the expected lease cashflows that Porterbrook is due to receive under the lease agreements for the new trains it has with six

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TOCs and any successor lease agreements until all of NIFT I's outstanding debt has been repaid. A principal difference to earlier rolling stock lease securitisations is that none of the TOC obligations to make lease payments are guaranteed by the UK government. The six TOCs are London, Tilbury & Southend, South West Trains, Gatwick Express, Midland Mainline, Scotrail and Chiltern. In addition, certain leases in respect of Porterbrook's existing rolling stock were included. Collectively the TOCs have geographic diversity and are not reliant on one type of passenger.

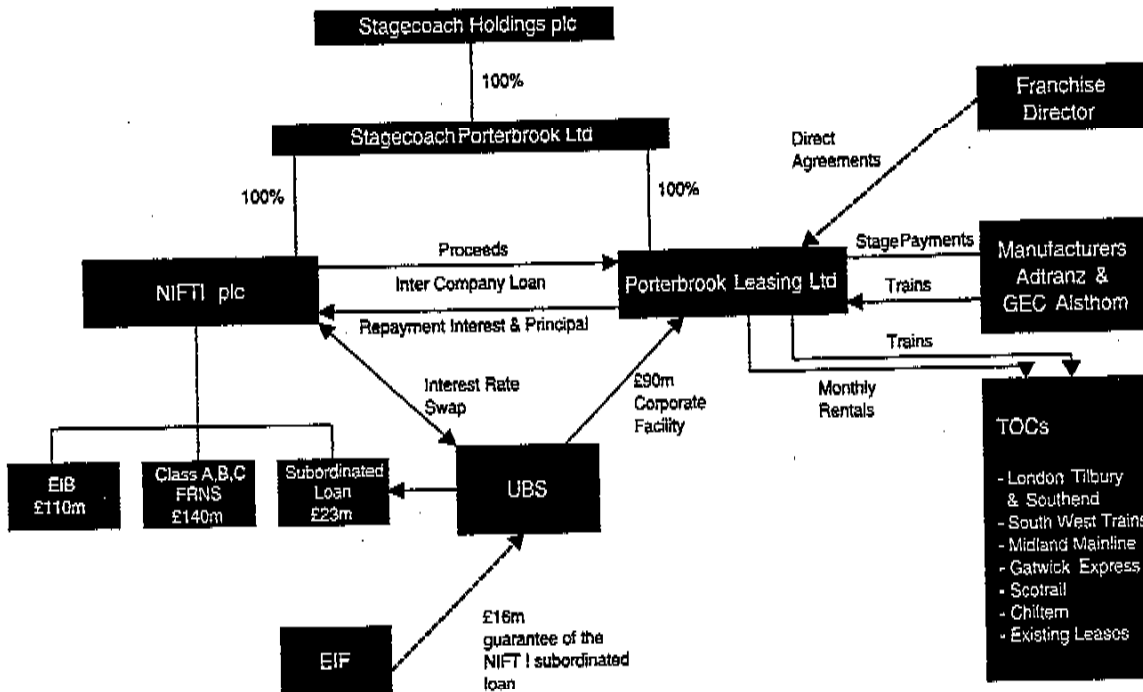
The leases all provide for a fixed amount of capital rental paid monthly in advance that is an unconditional obligation of the TOC once a relevant unit has been accepted. The 'hell and high water' nature of the leases limits rights of set off by the lessee. The lessee is responsible for the maintenance of the unit. The leases terminate at the end of the particular TOC's franchise. Four of the TOC franchises expire in 2003/4, whilst the franchises for London, Tilbury & Southend and Gatwick Express expire in 2011. As a result of this, certain assumptions were made as to the timing and level of rentals that could be expected to support the transaction in respect of the leases that expired prior to the final maturity of the securitisation.

In addition to the contracted and uncontracted expected future lease cashflows, Porterbrook has also granted security over the actual trains. In the unlikely event that the trains were ever sold, the proceeds of disposal would be applied (subject to the order of priority) to NIFT I debt obligations. The trains represent a mix of diesel and electric multiple units. These have a flexible route footprint that allows them to be deployed over a wider section of the UK network than has historically been the case. These types of trains also form the core of the UK's passenger rolling stock.

**Financing and credit enhancement**

The amount raised by NIFT I via the various floating rate debt instruments represents the value of the expected

**2 - THE STRUCTURE OF THE TRANSACTION**



lease income until the maturity of the transaction based on certain criteria relating to defaults, release levels and timing of the delivery of the units. The division of risk via tranching of debt instruments enabled a number of pricing efficiencies to be achieved.

Porterbrook receives fixed amounts of rental every month and so the interest rate exposure created by having floating rate liabilities is eliminated via an interest rate swap which provides NIFT I with fixed rate borrowing (which is replicated under the intercompany loan).

The loans and notes fully amortise (but at varying rates at varying times depending on the ranking of the obligation) during the life of the transaction. The amortisation schedule for each class is fixed at closing of the transaction. All amounts paid to NIFT I under the intercompany loan by Porterbrook are applied to meet NIFT I's obligations under a strict order of priority

such that amounts can only be paid to lower ranking obligations once amounts due under the higher ranking obligations have been met.

**Conclusion**

The undoubted success of the transaction should be judged on a number of criteria. From the investors' standpoint, the financing was well received in the market with strong interest in all of the classes of notes. This was based on a strong credit and identifiable risks contained within a clear capital structure. For Stagecoach, the transaction achieved all the primary goals of certainty of funding at an attractive all-in price on a non-recourse basis.

The transaction provided Stagecoach with committed fixed price term financing prior to delivery of the underlying assets. Such certainty of long-term

financing at an early stage is a very important feature, especially when considering the level of capital expenditure being undertaken by its Porterbrook subsidiary. The overall flexibility and cost of the financing compared to alternative funding techniques was also an important and attractive aspect. The inclusion of EIB and EIF for the first time in a securitised transaction was another important and very positive factor for both Stagecoach and investors.

The requirement to finance transport and infrastructure projects across Europe is not in doubt and the NIFT I transaction is illustrative of securitisation's ability to finance, in an efficient and flexible manner, these types of projects. It seems more than likely that, given the benefits it provides, securitisation is here to stay as a financing technique for transport and infrastructure projects in Europe. □