



# Securitization of Remittances

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# What the heck is a Securitized Remittance Bond?

- Basically it is a bond that is backed by the future flows of offshore remittances that flow through a trust account (an SPV)
- It differs from an asset backed bond (such as an MBS or a credit card securitization) because it based upon expected future flows
- These types of bonds can actually have a higher rating than sovereign bonds because the flows originate from outside the country and therefore are somewhat insulated from domestic risks
- In fact, the flow of remittances have proven to be very steady in terms of growth in good times and bad, perhaps even a bit counter-cyclical



# A Very Short History of Securitized Remittances

- First deals were done in Mexico during the 1994 Tequila crisis
- Since that time, more 40 future flow securitizations have been successfully issued in Latin America
- For Fitch rated deals, Latin America is about 75% of future flow deals; Europe 20% (mostly Turkey); Asia about 5%
- Excellent track record: in Latin America, no Diversified Payment Rights (DPRs) or securitized bonds have missed a payment

## Some salient characteristics

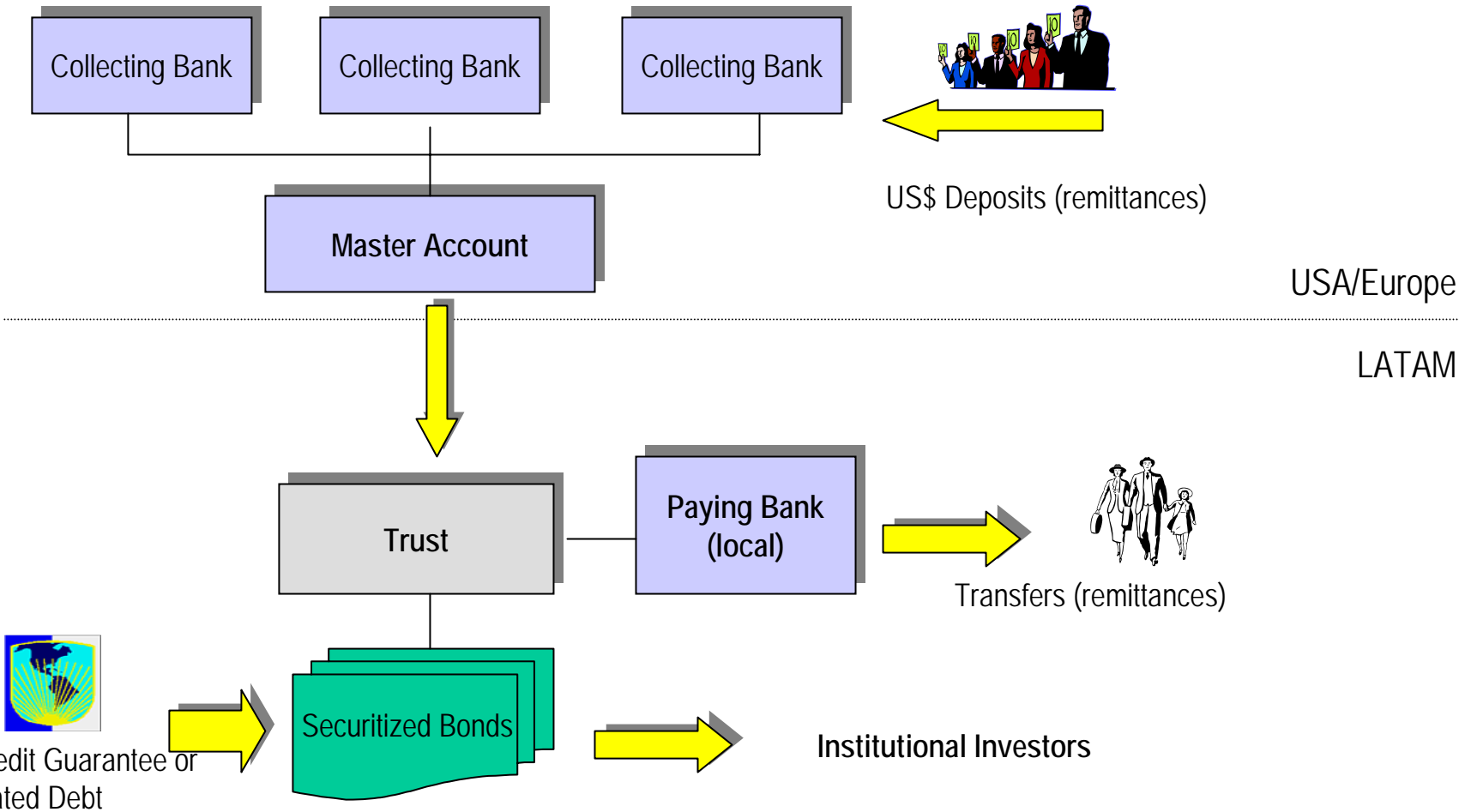
- ❖ Remittances have become another type of future flow financial assets with regular cash flows predictability and stability
- ❖ Remittances flow is composed by a large number of small transactions that by themselves are less predictable than the aggregate amount. Thus a securitization of the flow requires an over-collateralization.
- ❖ Collateral requirements will vary depending on the specific characteristics of the remittance flow (i.e., uses of the money, composition of the immigrant, recipient communities, etc).
- ❖ A partial credit guarantee and/or subordinated tranche can enhance the rating of bond using securitization of remittances



# Benefits of Securitized Remittances

- For banks: Banks can access longer term financing with remittance securitization
- Better ratings means cheaper funding—for example, more than 150bp from an increase in the credit rating of B to BBB
- Improve the asset liability management of local banks through access to longer term/lower rate funding sources.
- For borrowers: Banks can pass on savings from remittance securitization to its customers and clients (e.g., longer-term loans or new products such as mortgage loans).
- For investors: Very low past defaults in future flow transactions Latin America<sub>5</sub>

# Transaction Structure



# Repayment Flows

