

The Asian Bond Market Forum

Future Applications of Securitization in Asia

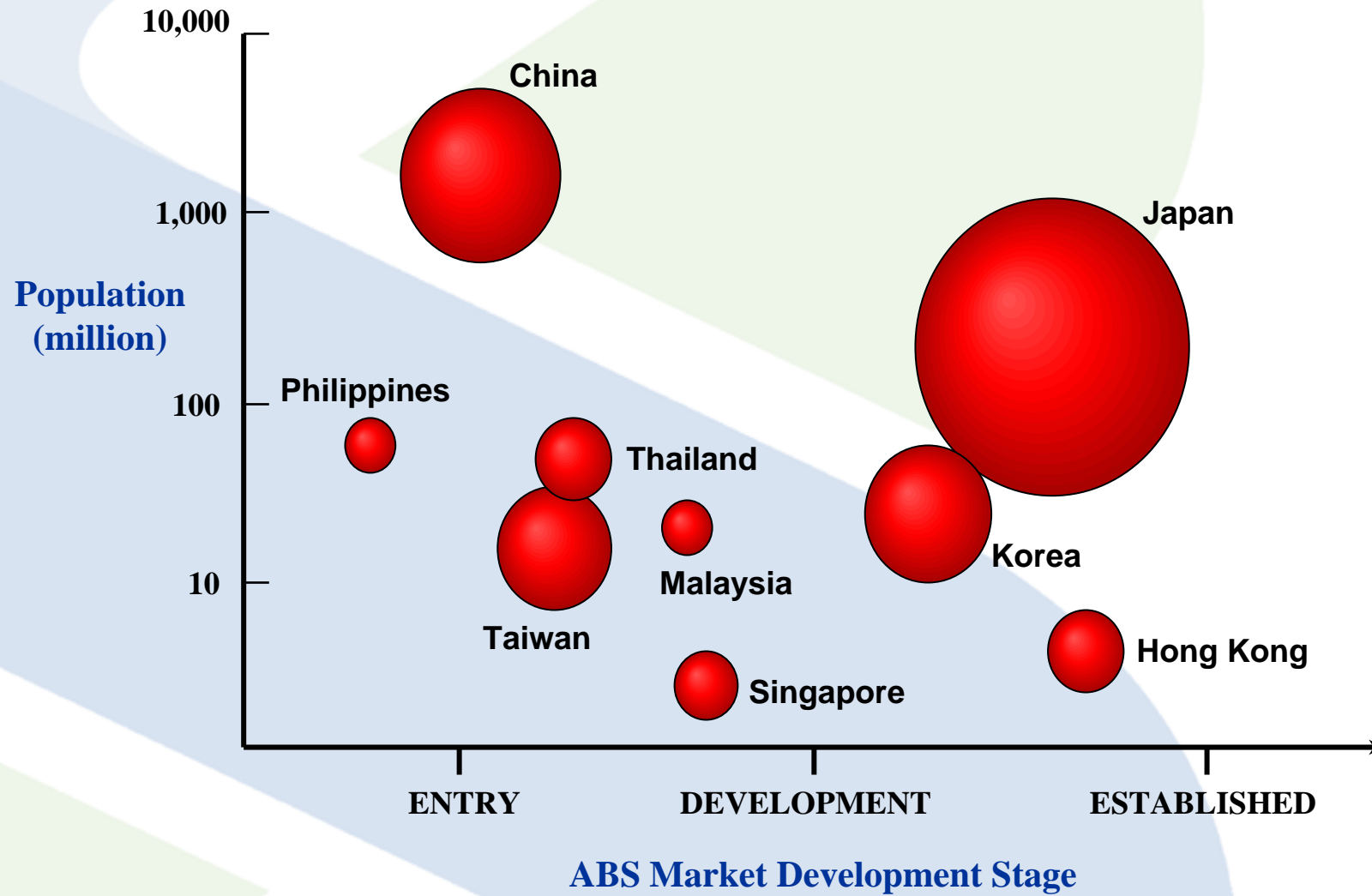
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Market Potential And Readiness



Source: GNP & Population estimated by World Bank, *World Development Indicators*

Asia Consumer Finance Growth

Country	2001 - 2002 Growth Rate (%)		
	Auto Loans	Mortgage Loan	Credit Card / Personal Credit Line
Thailand	78.95	(16.18)	(12)
Malaysia	27.32	24.41	23
Singapore	(8.20)	(17.87)	8.04
Hong Kong	NA	(7.48)	(8.48)
Korea	30	7.69	30
Taiwan	54.19	4.26	53.81

Data from: Bank of Thailand
 Bank Negara Malaysia
 Monetary Authority of Singapore
 Hong Kong Monetary Authority
 Bank of Korea

NA - Data not available

Credit Enhancement Alternatives

Internal Enhancements

Types	Advantages	Disadvantages
Overcollateralization (Static / Dynamic)	<ul style="list-style-type: none"> Self contained, sizing of OC based on stress assumptions 	<ul style="list-style-type: none"> Results are as good as your assumptions
Subordination	<ul style="list-style-type: none"> Match investor risk / reward profile 	<ul style="list-style-type: none"> Subordinated investor's rights during enforcement
Reserve Fund	<ul style="list-style-type: none"> Usually funded at closing plus excess cash flow Available to cover liquidity risk 	<ul style="list-style-type: none"> Negative implications to SPV and issuer
Excess cash flows	<ul style="list-style-type: none"> Internal cash flow in first loss position 	<ul style="list-style-type: none"> Depending on APR distribution, higher APR assets may prepay earlier

Credit Enhancement Alternatives

External Enhancements

Types	Advantages	Disadvantages
<u>Third Party Support</u> <ul style="list-style-type: none"> ■ Monoline Insurer ■ Bank guarantee 	<ul style="list-style-type: none"> ■ Full / partial P+I support ■ Third-party oversight 	<ul style="list-style-type: none"> ■ Dependent on rating of Guarantor ■ Beneficiary Controller
ISDA	<ul style="list-style-type: none"> ■ Pierce foreign currency ratings (T&C coverage) 	<ul style="list-style-type: none"> ■ Dependent on rating of swap counterparty
Multilateral / Bilateral / Government Agencies	<ul style="list-style-type: none"> ■ Political risk insurance ■ Default risk 	<ul style="list-style-type: none"> ■ Most fulfil “Purpose” ■ Risk sharing

Credit Enhancement Alternatives

Triggers

- ◆ Portfolio Performance
 - ↳ Payment Rate, DSCR, Default / Delinquency Ratio

- ◆ Seller / Servicer Related
 - ↳ Rating
 - ↳ Net Worth
 - ↳ Change in business / licence

- ◆ Tax / Regulatory Changes

Stable Ratings

Structured Finance and Corporate Rating Average Yearly Transition for Study Period 1983-2002

(%)	Structured Finance			Corporates		
	Upgrades	Downgrades	Maintained	Upgrades	Downgrades	Maintained
Aaa	NA	1.1	98.9	NA	10.2	89.8
Aa	5.5	3.1	91.5	0.8	9.6	89.7
A	3.9	2.6	93.5	2.6	6.7	90.7
Baa	3.4	6.2	90.4	6.3	6.8	87.0
Ba	5.0	8.7	86.3	6.2	11.2	82.6
B	1.4	9.6	89.0	7.1	11.7	81.2

Source: Moody's

Average Semi-annual Asian ABS Rating Transition Rates (1990-June 2003)

(%)	Downgraded	Upgraded	Maintained
AAA	0.2	NA	99.8
AA	2.0	2.3	95.7
A	2.7	2.3	94.9
BBB	3.1	1.5	95.4
BB	1.6	1.6	96.7
B	0.0	0.0	100.0

Note: Asia includes Japan, Korea, Hong Kong, Taiwan

Source: S&P