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SME Loan Securitisation

An important tool to support European SME lending

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Abstract

Securitisation has, after a period of significant growth throughout the last 10-15 years, become the finance area which has fallen the most from its peak – both in terms of new volumes as well as its image as an innovative and efficient financing tool.

While market insiders, including regulators, increasingly understand that securitisation can play a positive role in extending the sources of finance to the real economy, the perception of the wider public and the media remains negative. There were undoubtedly parts of the structured finance market which at least partially caused and clearly exacerbated the financial crisis. The excesses and the effects of these, notably the US subprime mortgage debacle as well as highly leveraged structures with problems of the alignment of interests, have been widely documented. The advantages of a functioning securitisation market are however often less obvious. This paper contributes to the substantiation of the discussion around securitisation.

With a focus on the securitisation of loans to Small and Medium sized Enterprises, or SMEs (SMESec), we outline the benefits of this technique for the financing of SMEs; moreover we explain the need for the use of public resources to support this important market segment.

A crisis also provides opportunities – in a more "healthy" environment of reduced moral hazard, reduced information asymmetries, and cognisant and careful risk taking, SMESec can provide an important contribution to SME's access to finance and is as such even more important in the aftermath of the crisis.

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Executive Summary

Over the past decade SME Loan Securitisation (SMESec) has become an element of the financing of Small and Medium sized Enterprises (SMEs) in Europe with growing significance in some European markets such as Spain, Germany, the UK and Italy. However, the near-collapse of the European structured finance market, in tandem with the other markets around the globe more generally, has profoundly affected the status and outlook of SMESec.

While there is no doubt that parts of the structured finance markets have significantly contributed to the financial and subsequently economic crisis worldwide, many asset classes within structured finance have performed relatively well. Whereas some areas such as subprime mortgages have been built on inflated asset prices, the market segment SMESec is suffering by and large from contagion effects – economically, but also with regard to the public perception.

Securitisation per se is not good or bad - it is a toolbox, an instrument, a technique. As such it is value-free; but its aggressive, opaque, and overly complex use has negative consequences for ultimately both issuers as well as investors. Negative repercussions are however also created by an overly simplified discussion where everything related to structured finance is lumped together and dismissed or branded as "toxic", as sometimes stated in the press.

The instrument is neither "toxic" nor is the underlying asset (SME loans!) "toxic waste". On the contrary – loans to SMEs are a key driver for the functioning of the economy and, properly applied, the securitisation technique is a replicable tool that can enhance access to finance for SMEs. Using this instrument in developed capital markets, public sector support for SMEs (e.g. guaranteeing mezzanine tranches) can create multiplier effects - and hence it is an efficient use of public resources, which is especially important against the background of a high public debt burden in many key countries. Policy makers need to withdraw from the expensive crisis-driven support measures and securitisation can help to cushion negative effects (see as well IMF, 2009). There are currently signs of a fragile recovery of the (public) securitisation market but it is still too early to identify a real re-opening.

This document explains the principles of SMESec and why it is to the benefit of SMEs. Moreover it shows ways towards a revitalization of this very important market segment.

1. Background

Certain parts of the structured finance markets have significantly contributed to the origin of the financial and subsequent the economic crisis worldwide.[1] Although it did not contribute to the emergence of the crisis, the market segment SMESec is suffering from contagion effects – economically, but also with regard to the public perception.

Over the past decade - and until the arrival of the financial crisis – the securitisation of loans to SMEs, had become an important element of SME financing in some European countries, notably Spain and Italy for funding purposes and Germany for risk transfer purposes. With a few exceptions (which will be explained later) SMESec transactions are characterized by a large number of debtors in the underlying portfolios. Typically, the majority of these debtors are SMEs (according to the EU definition).[2]

The European structured finance market - in line with markets globally - has dramatically dropped over the past two and a half years: with the exception of securitisations structured with the sole objective of benefiting from European Central Bank (ECB) refinancing, there have been only a handful of transactions. The introduction of ECB's asset repurchase or "repo" facility, which allows (among other assets) Asset Backed Securities (ABS) to be used as collateral for funding, shows the importance of the securitisation market. As a matter of fact, since mid 2007, most transactions have been retained by originators for ECB re-financing purposes (or Bank of England's equivalent interventions), as the whole market came to a complete halt during the period between mid 2007 and mid 2009.[3]

While the investor base for this asset class has not completely disappeared, it has shrunk significantly, particularly in Europe and for mezzanine tranches. Despite the recent spread tightening, spreads are currently still very high and many transactions are economically not very attractive to bank issuers. Moreover, investors are faced with new regulatory requirements (e.g. Art. 122a CRD).

In general, in Europe, there has been a large volume of the broadly defined structured finance issuance in 2009 (approx. EUR 414bn, for comparison – 2008: EUR 711bn, see figure 3 later in this paper), but this issuance was mainly (in 2009 around 95%, see figure 1) retained by the originators and used when needed for short term liquidity management through repos with the ECB (Unicredit, 2010). However, the ECB's tightening of the eligibility requirements for ABS (when used in Eurosystem credit operations) signals the beginning of a more stringent regime with regard to central bank dependent financing.

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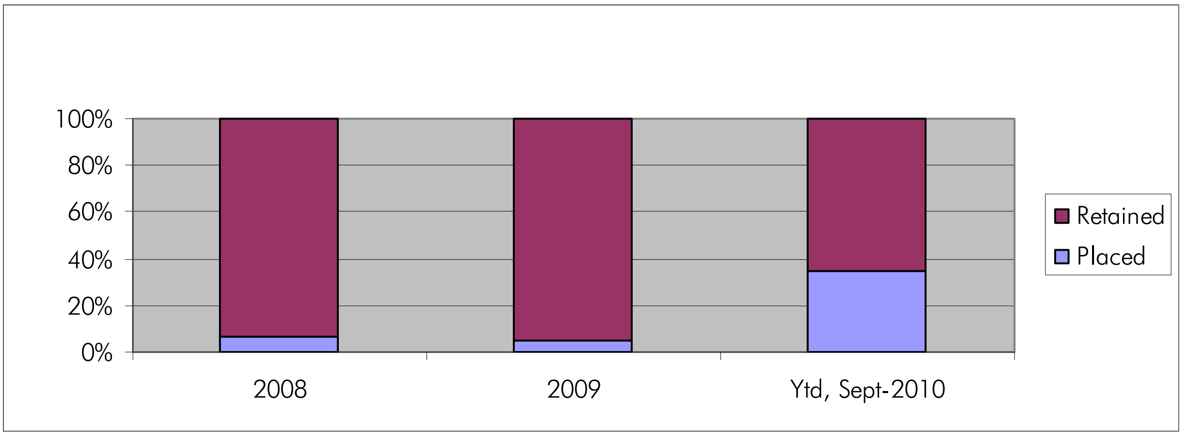
[1] "The story of the go-go years was that all of these securitisations and derivatives were about "risk management" … But then the story changed. The new story, …, suggested that securitization and the exotic derivatives could be nothing more than a new way of selling snake oil. And as this new story about the Wall Street and its products replaced the old story, the life drained out of the financial markets" (Akerlof and Shiller, 2009).

[2] For information on the EU SME definition please see: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm. Later in this paper we are going to explain in more detail the importance of the SMEs for the European economy.

[3] The proportion of collateral put forward to the ECB consisting of Structured Finance securities rose from 4% in 2004 to 18% in 2007 and 28% in 2008 and down to 23% by end 2009, when the value of Structured Finance collateral held had increased further to EUR 468bn (see FitchRatings, 2010 a and b).

Figure 1: European securitisation issuance – retained versus placed



Source: Authors, based on data from Unicredit

There are some signs of a slow market recovery for non repo-driven transactions, with a few SME deals being structured (but mostly for private placement). In H1/2010 a tentative opening of the market emerged. The volume of EUR 14.5bn placed publicly in Q1 was only equivalent to 1998/1999 levels but was a positive change from the issuance drought of late 2007 to late 2009 (Deutsche Bank, 2010a); however it is currently too early to identify a sustainable re-opening, especially with respect to SMESec. In Q2/2010 issuances went down again, but July and September showed again a recovery. The investor based market remains fragmented and limited to best-in-class and simple structures (Deutsche Bank, 2010 b and c).

In July 2010, Lloyds TSB re-opened the SME securitisation market with the first term transaction after the crisis which was actually placed with private sector investors. The securitisation comprised a portfolio of UK SME loans which was securitised through Sandown Gold plc, a special purpose vehicle set up for this transaction. The static portfolio included GBP 807m of loans with 1,407 borrowers and loan sizes ranged from GBP 25,000 to GBP 5.5m. The purpose of the transaction was to provide additional funding for Lloyds TSB. EIF supported this market opening deal with a guarantee over EUR 60m for a mezzanine tranche which provided additional credit enhancement to the senior notes. A few other transactions have closed or are expected to close towards year end, mainly through private placements.

The recovery of the structured finance market will depend heavily on several key aspects:

- Macroeconomic development: the performance of underlying pools of loans or leases depends on the macroeconomic development and the availability of bank lending; loan defaults are expected to slow down but not to the low pre-crisis levels; moreover, there is a negative correlation between default and recovery rates.
- Regulatory environment: there will be several regulatory adjustments, such as risk retention requirements, additional risk management provisions, and higher capital ratio requirements in the banking system. In this context, the rating agencies are also playing a pivotal role – they have adjusted their levels of risk tolerance and many market participants are expressing a view that the pendulum has swung from too generous towards too risk averse.

- Investor behaviour: the remaining risk appetite will be mostly in perceived 'lower risk' transactions, including requests for features like high quality pools, low counterparty risk, simple structures, high quality originators, etc. Moreover, given the perception that rating agencies have not always adequately safeguarded the interest of investors, they are likely to become less "external rating" driven than in the past – instead, they are going to perform their own due diligence of the transactions, especially for investments in respect of the more junior tranches.

Market insiders, e.g. IMF, BIS, Financial Stability Board, European Financial Services Roundtable, continue to articulate the need for and importance of securitisation. Also the introduction of the ECB's "repo" facility, which allows (among other assets) ABS to be used as collateral for funding, has shown the importance of the securitisation market. However, the public reputation of securitisation remains often negative, particularly in Europe.

It is difficult to quantify the effects of securitisation and empirical studies are rare.[4] The IMF states that policy makers need to withdraw from expensive crisis driven support measures and that securitisation can help to cushion negative effects (IMF, 2009). A recent study (BearingPoint, 2010) concludes that without a functioning securitisation market, a credit crunch cannot be avoided, but that a revival of the market will only happen in 2011.

In the following chapters we first describe SMESec and its benefit for SME financing, we then distinguish the SMESec from the sub-standard, excessively risky areas within securitisation; before finally explaining why and how the European Investment Fund (EIF) will remain a stable, long-term committed investor in this important market segment.

2. SMESec: What is it – and what is in it for SMEs?

SMEs are the backbone of the European economy and need to have reliable access to finance.[5] In recent years, and even more in the aftermath of the financial and economic crisis, there has been (besides a more important funding and liquidity discussion) a continuing focus on the scarcity of "equity capital" in the banking sector. A reason for this is inter alia the changing regulatory environment (Basel II & III). In addition to these important regulatory challenges, banks are making strong efforts to improve their risk management instruments. In this banking environment, SMESec is an important tool for banks to continue to be able to offer SME loans at attractive terms.

A key for the understanding of the usefulness of securitisations for SMEs is the realisation that banks will not lend to SMEs based purely on macroeconomic development motives (i.e. supporting the economy) which is sometimes indirectly asked by politicians and lobbyists. Banks will always make a complex calculation of the profitability of their SME lending business, especially relative to their other activities. In these calculations there are multiple parameters such as origination and marketing as well as credit assessment and servicing costs.

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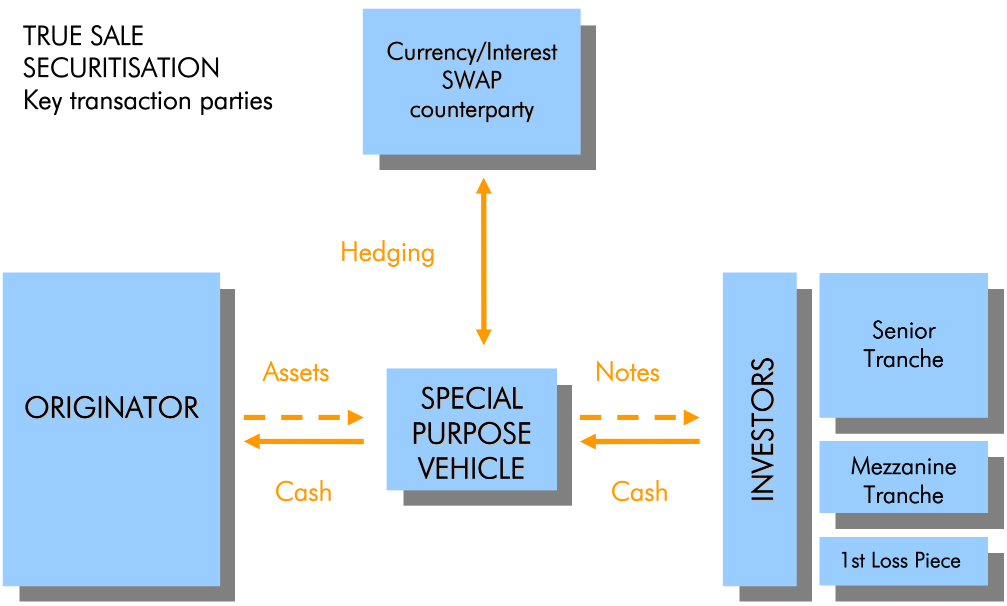
[4] One example with a focus on the US market can be found in Sabry and Okongwu (2009).
[5] More information on the importance of SMEs is provided in chapter 4 of this Working Paper.

Three areas will however have an overriding impact on the profitability of SME lending and hence on the required loan margins for SMEs: refinancing spreads, risk costs and capital requirements. While risks costs in the form of expected losses based on underlying credit quality and collateral (i.e. PD – EAD – LGD) cannot be transferred easily to third parties, securitisation can play an important role in the funding strategy as well as for capital relief purposes and we explore these aspects in more detail below. However, before going into more detail on the reasons for securitisation as a valuable funding and risk management tool, it is worth recapping the basic elements of a SMESec:[6]

SMESec creates indirectly a "secondary market for SME loans", combined with funding for the originator: a bank (the "originator") extends loans to its SME customers ("primary market"), bundles them in a pool ("portfolio"), and sells the portfolio to capital market investors through the issuance of notes by a special purpose vehicle (SPV), backed by such a loan portfolio (Asset Backed Securities, ABS).

The asset-backed notes, classified by risk categories, are placed with capital market investors and i.e. represent tranches of the underlying portfolio. Investors buy a tranche (or several tranches) of the notes and often they intend to hold the notes until maturity (Ranné, 2005), while the most junior tranche is retained in full or in part by the originating bank. Figure 2 shows a typical "true sale" securitisation transaction structure.

Figure 2: Typical structure of a SMESec transaction



Source: European Investment Fund

[6] For information: a glossary can be found in Annex 2 of this document.

As an alternative to this true sale of the portfolio there is the so called "synthetic securitisation" where traditional securitisation techniques are combined with credit derivatives. In this case the credit risk of a selected reference portfolio of loans (but not the loans themselves, which remain on the balance sheet of the originator) are transferred to a special purpose vehicle that places notes (Credit Linked Notes, CLNs), classified by risk categories, in the capital market.[7]

There are many advantages of SMESec – for banks, for investors, for the economy, and – most importantly - for the SMEs. At first sight, the advantages are mainly for banks and investors, but these benefits channel through to a positive effect on SME's access to finance and hence to the SMEs themselves (see e.g. Ranné, 2005).

From a lender/issuer perspective, the following points are generally the most relevant ones:

Economic and regulatory capital relief

The reduction of credit risk exposure can be reflected in a corresponding economic and regulatory capital relief. The pace at which the capital base can be reused for new loans increases, raising the profitability of SME lending. Replenishment features in SMESec have a positive impact as well: often, during the first years of a transaction, banks can replenish the portfolio with new loans up to a preset maximum amount and according to certain quality criteria. Hence, banks can originate new loans and include them into the existing securitisation structure, thus generating new SME loans at relatively limited capital cost.

It has been stated that securitisation does not transfer actual credit risk to third party investors but is rather used for regulatory capital arbitrage in which the originating bank merely exploits regulatory loopholes while most credit risks, except for maybe some remote catastrophic portfolio loss risks, are retained by the bank. It is true that some of the older transactions were used primarily for Basel I capital relief purposes and there are also a number of more recent private bilateral transactions which exhibit regulatory arbitrage tendencies, but pre-crisis there were a large number of transactions where the first loss position was sold to third party investors. This was particularly true in SMESec in Germany, UK, Benelux and Italy. Moreover, it can certainly be argued that the financial crisis has shown that tranches with previously relatively higher ratings can be affected in a severe economic downturn, i.e. loss expectations have significantly shifted from pre-crisis expectations – one argument why it is always difficult to discuss regulatory capital arbitrage ex ante. There is currently limited scope for economic capital relief transactions given an adjustment of rating agency methodologies in combination with still wide spreads for first loss and mezzanine tranches. However, we would forecast a return of risk transfer driven transactions because banks are likely to have continuing capital pressures going forward and we believe that investors' confidence is likely to be restored once the current economic and financial uncertainty is reduced to "more normal" levels.

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[7] There are many publications on the structures of securitisations, e.g. Fabozzi (2008), or De Servigny and Renault (2004), just to mention two. German speaking readers can find an introduction to SMESec as well in Kraemer-Eis et al. (2001).

Alternative source of funding for the originating banks

- SMESec can be an alternative source of funding for banks in cases where they have either limited access to capital markets' refinancing tools or unsecured bank bonds can only be sold at high cost. In fact, banks will need to shift capital markets funding from unsecured to secured issuance. Compared to unsecured bank bonds, securitisation provides investors with additional safety features including the securitisation by an underlying pool of assets and credit enhancement such as subordination, over-collateralization, cash collateral and excess spread. Due to these features that contribute to improve the security of the senior investor, in normal market conditions, funding costs comparable to top rating borrowers can be achieved for a large part of a granular, professionally originated and serviced portfolio sold. This is especially interesting for banks or other financial intermediaries such as leasing companies which face higher refinancing costs due to their lower ratings.

A number of different features relating to the provision of funding are worth highlighting:

- Regional banks only rarely tap the capital markets due to their size and rating, and are typically deposit-driven institutions that rely on inter-bank borrowing for the medium term funding. As such, securitisation can be a means to diversify their funding base, as well as to gain access to medium term funding at costs consistent with top rated issuers that could otherwise not be achieved through direct borrowing on an unsecured basis.

- Banks which do rely to a certain extent on wholesale funding as opposed to client deposits will and have already started to return to securitisation as a funding tool, notably using residential mortgages. We expect to see also more SME funding transactions if and when spreads on senior tranches of securitisations tighten further. This will happen if market confidence in a more stable economic recovery is restored.

- Maturity matched funding through securitisation has become more relevant in view of the tighter regulatory requirements on banks' liquidity, particularly for longer dated loans. At the moment there is limited investor appetite for long dated ABS, nevertheless we would expect that secured funding (i.e. Covered Bonds and securitisation) will become more important in the coming years particularly in view of the need for banks to control their liquidity position more closely.

- An important element of SME finance is not directly provided by banks but rather by leasing or factoring companies. Various surveys on access to finance show that bank loans and overdrafts are the most widespread debt financing methods for SMEs, but that alternative sources like leasing and factoring have been growing in importance (see e.g. ECB, 2007). In the latest ECB survey, 30% of SME respondents mentioned leasing, factoring or hire-purchasing as one of their sources of financing (ECB, 2010a). While in the past sometimes used for tax reasons, leasing has for many become the main financing source for small to medium size investment in IT equipment, cars and trucks. In many countries, leasing is used particularly by fast-growing SMEs, especially those in Belgium, Finland, Ireland and Spain (Ayadi, 2009). Leasing and trade receivables have been used widely as collateral in securitisations pre-crisis, often through Asset-Backed Commercial Paper programs (ABCP).

Independent leasing and factoring companies have previously depended on bank finance (often secured) but availability of this finance has been reduced during the crisis. Main reasons are capital constraints, liquidity issues and operational risks in smaller leasing companies which in total have led to lower availability of financing for leasing companies and in any case to significantly higher refinancing costs. Securitisation can effectively provide an additional important funding source for these non-bank finance providers.

Portfolio management and capital restrictions

For smaller banks which face lending restrictions due to their size, securitisation or similar portfolio transactions (such as basket trades) can be crucial, as limits and concentration restrictions narrow their capabilities to offer larger loans or additional loans to the same customer. Transferring risks to the capital markets therefore reduces restrictions on lending capacities of smaller banks. As closer customer relations and better monitoring capabilities give smaller banks a competitive edge in lending to smaller companies, for which public information is rarely available, securitisation enhances the overall SME lending capacities.

On a more macro level, the following aspect should be mentioned:

Risk diversification

From an investor perspective, SMESec allows for investments in assets which would otherwise not be available. This can be attractive from a risk-return as well as from a portfolio diversification perspective. Investors can diversify their portfolio risk by adding SME exposure (additional investment possibilities); moreover, the bundling of portfolios from various regional banks can have positive effects on portfolio diversification. In the past, European transactions were often placed into the bank or near-bank sector (Structured Investment Vehicles (SIV) or ABCP conduits). This investor base, with the exception of a few large banks, has largely evaporated with so called “real money” investors (investment and pension funds, insurance companies etc.) becoming more prevalent. These non-bank investors are ultimately diversifying and spreading risks originated by banks, both in terms of asset classes as well as geographically. One of the lessons learned in the crisis was the fact that banks rather than non-banks had amassed significant direct and indirect exposures to structured credit assets; hence the apparent positive effect of risk diversification across the complete spectrum of investors was actually less evident than it should have been. The transfer of risks to the non-bank sector nevertheless continues to be an important factor of securitisation going forward.

In summary, in order to lend new long term loans to SMEs, banks need long-term sources of finance and available capital. If capital resources are restricted or the return is not attractive, then SME lending can only be granted on a replacement basis. However, through the use of SMESec, the lending capacity of banks can be increased. Also, with securitisation, the pace at which the capital base can be reused for new loans increases and accordingly the profitability of SME lending activity. At the same time, the business relationship with the SME client can be maintained.

In the normal strong competition of most European banking markets, these advantages are passed on to the bank's customers, leading not only to a decrease in SME lending costs but also to higher volumes of SME lending. The securitisation of an individual loan does not necessarily improve the access to finance for the individual SME, but on a portfolio level the banks are able to expand their SME lending. As such, SMESec has a positive impact on the overall availability and conditions of loans to SMEs.

The revitalisation of the securitisation market per se and the segment of SMESec in particular can therefore be seen as a systemic solution to strengthen banks' capabilities to supply long-term funding to SMEs. Supporting the development of the SMESec is pivotal for the future of SME financing.

3. Differentiating SMESec from other asset classes

This paragraph looks at SMESec relative to other securitisation and/or fixed income markets. While it is not an exhaustive comparison, we believe that it is imperative to contrast SMESec with other related asset classes in order to determine the potential of SMESec in the current environment.

Perception

Securitisation per se is not good or bad - it is a toolbox, an instrument, a technique, and as such it is value-free - but the arbitrage-driven, opaque, and overly complex nature can create negative repercussions across financial market participants. In general, regulators (as market insider) are less negative vis-à-vis properly regulated securitisation than the public opinion and policy makers. They do recognise the importance of this part of the financial markets and are thinking about the revitalisation (e.g. Fender and Mitchell, 2009 or IMF, 2009). A "failure to restart the securitisation market may impair the supply of credit to some sectors of the economy, for instance small and medium-sized enterprises" (ECB, 2010b).

However, the perception of securitisation as a whole among many politicians, the media and the wider public remains somewhat negative, based on an oversimplified discussion which does not distinguish sufficiently between "traditional" balance sheet transactions and overly complex or arbitrage driven transactions.

Underlying assets

European securitisation markets are traditionally dominated by Residential Mortgage Backed Securities (RMBS). SME loans have often been more difficult to securitise than other asset classes. Less than 15% of the European securitisation volume over recent years was SMESec (see figures 3 and 4). The track record of this asset class in Europe is relatively short; the market started only towards the end of the 1990's – at the time, this segment was unknown to investors and rating agencies, and the technique of securitisation was also new to most of the originators. The related uncertainty was one of the reasons for conservative structures in the SMESec segment. And in the years running up to the crisis there were first signs also in Europe of a drift away from key principles and main success factors for SMESec – i.e. granular portfolios[8] and transparent structures – for example in the form of hybrid transactions (i.e. the so-called German Mezzanine CDOs) with non-granular portfolios, larger (mid-cap) borrowers and non-aligned incentive structures. The generally poor performance of these transactions provides lessons for the future of SMESec, which are referred to later in this paper.

SME loans are, in principle, less homogenous than residential mortgages (with regard to size, legal forms, collateral etc.) and the underwriting criteria are less standardised. Moreover there is often a lack of long-term historical data on loan performance (Ranné, 2005). On the other hand SME loans are typically thoroughly analysed by credit experts and systems (e.g. most banks apply detailed (quantitative) internal rating methodologies on top of more qualitative assessments). Moreover, banks normally have a relationship banking approach and know their customers very well, thus enabling them to manage the risk of the customer over the long term in contrast to the more automated lending decisions seen in the mortgage and credit card markets. This distinguishes SMESec from those other securitised asset classes.

Market volumes and growth potential

Most SME securitisation has traditionally been originated in a few countries, such as Spain, Germany, Italy (especially leasing), as well as Benelux, Portugal and United Kingdom. As far as SME securitisation is concerned, market sophistication in these countries is high: securitisation laws are robust and well tested, market stability is relatively strong and banks have a relatively long SME track record. In most cases, the importance of SMEs in the economy is high.

True sale transactions have been historically dominated by Spanish banks. Reasons for the large issuance are, among others, the importance of the SME economy in the country; the strong growth in GDP and SME lending during the past pre-crisis years; the specific support provided by the Kingdom of Spain to SME securitisation with its FTPYME guarantee programme.

Similar considerations can be made for Italy, with regard to small ticket lease securitisation, i.e. typical SME, granular portfolios of lease contracts used to provide medium-term financing for investment projects, as opposed to secured lending.

[8] Highly diversified in terms of obligor concentration, sector diversification and regional distribution.

Greece is a less developed and more challenging market. Although the backbone of the economy is represented by small businesses, the first SME securitisation transactions were launched only in 2006. More recently banks have securitised a substantial volume of SME loans, but only for ECB repo-financing. This ECB facility, however, is currently not available any longer for new transactions, since only AAA-rated ABS-notes can now be accepted for ECB refinancing.

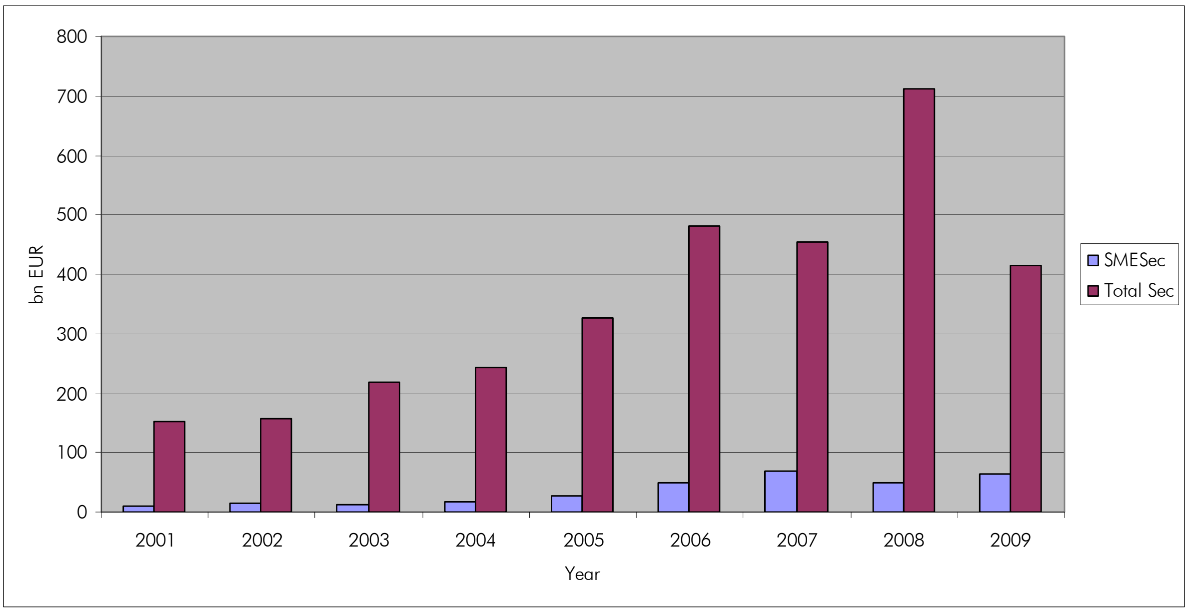
In CEE countries (e.g. Poland, Czech Republic, Bulgaria) SME securitisation has been sporadically used, although deal flow from these regions could potentially be much higher, if the uncertainty about the economy and the legal framework were reduced.

Securitisation has been used also in Turkey for several years with, among others, several future flows transactions, however no SME pools has been securitised so far.

In terms of volumes, total securitisation in Europe grew almost steadily from 2001 to 2008 (see figure 3). The overall increase over this time period was more than 460%. From 2008 to 2009 there was a – crisis-driven – sharp reduction, the market volume went down from approx. EUR 711bn to EUR 414bn (-42%), however - as already mentioned above - only a small portion of these volumes during the crisis were placed with investors.

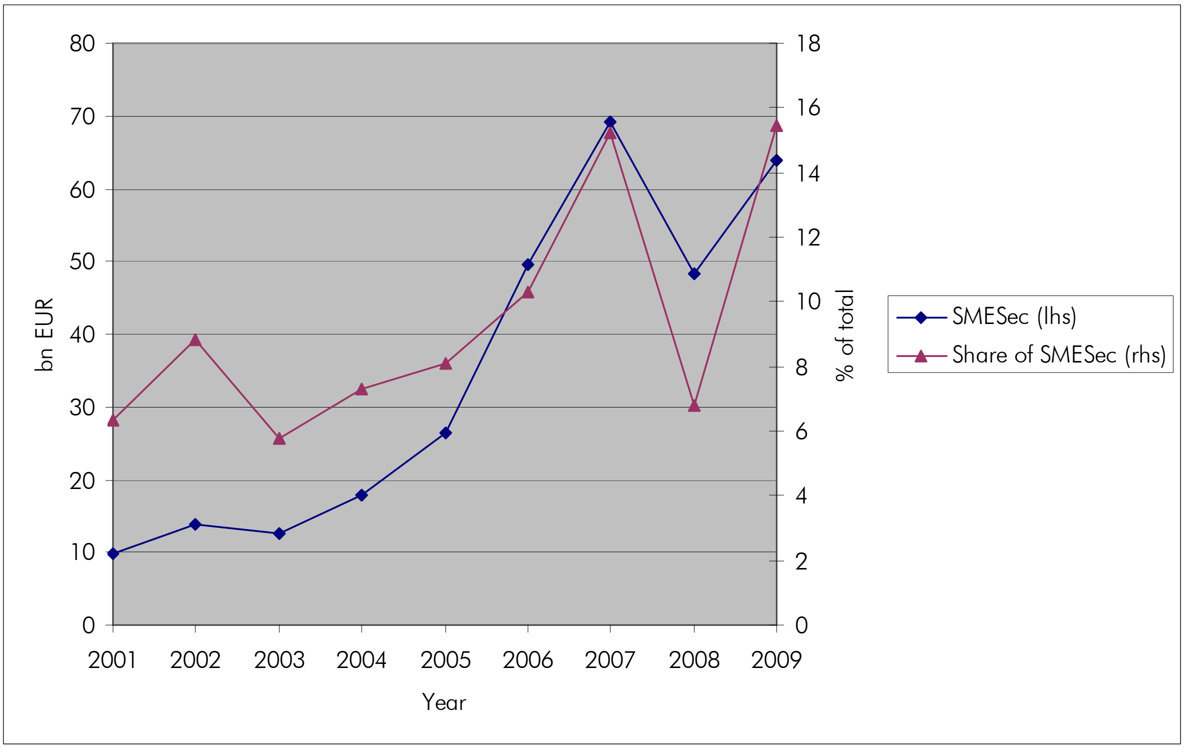
The market segment of SMESec grew even from 2008 to 2009 (see figures 3 and 4), but with no placement in the public market in 2009 (see figure 5). The total increase of SMESec volumes during the period 2003 to 2009 rose by a factor of five times to a total volume of around EUR 64bn. As shown in figure 4, the share of SMESec in total securitisation in Europe 2007 and 2009 was around 15%, historically a high share - but always in a generally weak environment. In the other years of the decade the share of SMESec in total securitisation was always approx. between 5% and 10%.

Figure 3: Development of securitisation in Europe (total and SMESec)



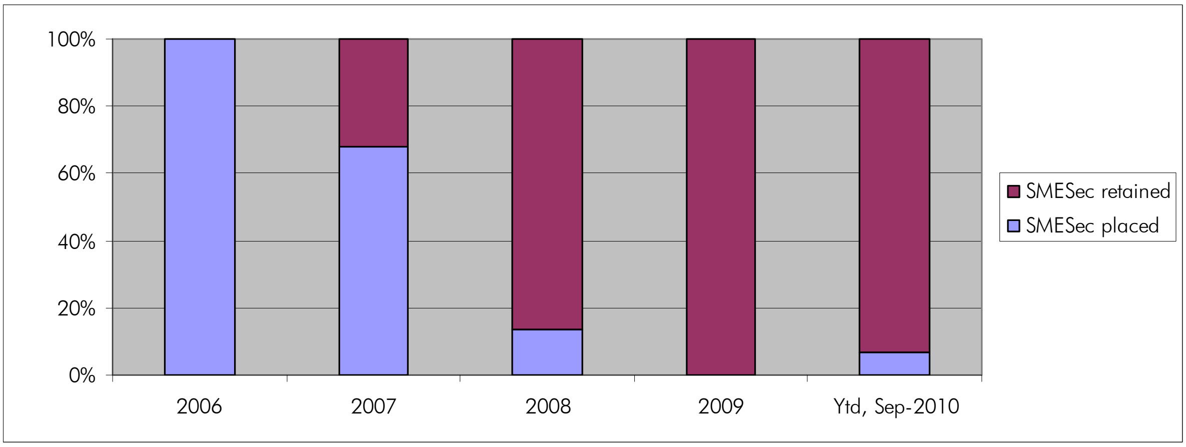
Source: Authors, based on data from KfW Bankengruppe, J.P. Morgan, Moody's, AFME/ESF

Figure 4: SMESec in Europe - total volume and share of SMESec in total securitisation



Source: Authors, based on data from KfW Bankengruppe, JP Morgan, Moody's

Figure 5: SMESec in Europe – retained versus place (estimates)



Source: Authors, based on estimates from KfW Bankengruppe

According to the rating agency Moody's, at the end of Q1/2010 there was an aggregate outstanding note balance of EUR 134bn[9], with Aaa-rated notes accounting for 51%. Spain is the largest single market with around 34% in aggregate outstanding volume, followed jointly by Germany and The Netherlands with 16% each (Moody's, 2010b).

[9] EMEA SME ABS (Europe, Middle East, and Africa, with most of the transactions being in Europe).

Given the financing needs of the more than 20m SMEs in the EU-27 on the one hand, and the increasing constraints for the banks' underwriting capacities (i.e. increasing regulatory requirements, funding issues) on the other hand a further growth of the SMESec market segment can be expected if, and to the extent that investor appetite returns and the required spreads normalise. While securitisation of prime residential mortgages (RMBS) together with Covered Bonds in this area will remain the mainstay for the European market, we see SMESec increasing on a relative basis, partly as a result of house prices remaining subdued for some time with non-conforming RMBS playing a diminished role.

Going forward, we expect SME securitisation (excluding pure ECB-related transactions) to mostly restart from the more sophisticated markets, i.e. in the "traditional" countries (Germany, Italy, Spain, Benelux, etc.), although the weight of Spanish issuance is likely to be lower than in the past, due to the ongoing concerns about its economic situation. Other countries, such as Portugal and Greece, will follow suit, always subject to restoration of investors' confidence, particularly with regard to Greece.

Poland and Turkey have significant potential as they both exhibit strong fundamentals (i.e. critical mass, important domestic/SME market, potential economic growth due to catching-up effect with the neighbouring countries, securitisation laws in place), which would make securitisation an efficient tool for banks to meet the growing domestic credit demand.

In terms of deal structuring, recent true sale transactions have been substantially simplified, mostly with a view to attracting senior investors and/or using the ECB repo facilities (often only two tranches: a large junior piece and one senior class of notes).

We expect this trend to continue, with senior notes from relatively large true sale transactions placed with investors (partly privately, partly publicly), while the rest of the capital structure will likely be retained by the originators. In terms of deal size, for larger originators the volume to be actually placed with market investors (i.e. the senior notes) may be expected to be in the EUR 500m - EUR 1bn range, and EUR 100m - EUR 500m for smaller banks.

Similarly, for risk transfer transactions, straightforward synthetic structures (e.g. with short replenishment periods and short weighted average life) aiming at attracting equity/mezzanine investors may be expected in the future. In terms of deal size, we expect originators to securitise portfolios of typically EUR 1.5bn – EUR 3bn, with the equity and/or mezzanine tranches to be placed representing approximately 5%-8% of the total amount.

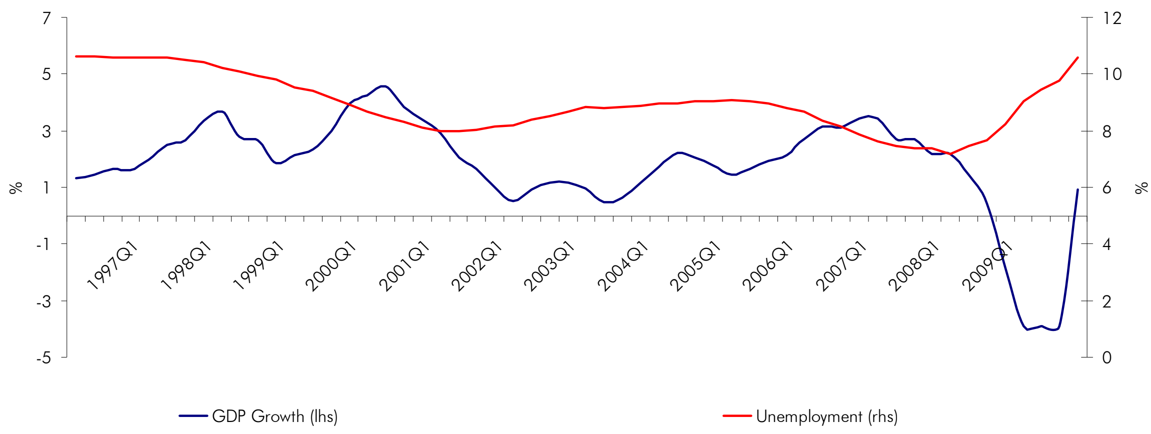
An increasing number of mid-sized banks that have been using securitisation for ECB short term refinancing are now considering SME securitisation transactions for term funding purposes. Therefore, we expect SME securitisation to increase in numbers and volumes in the years to come, also in view of the likely phasing out of the ECB repo facilities over the next 2 years.

More generally, funding spreads for banks are expected to remain at relatively high levels compared to the past years, while ABS spreads for senior notes have eased and will likely further tighten. Accordingly, several banks are considering tapping the ABS market again, mostly for funding purposes, in the expectation of further ABS spread tightening, especially for most senior notes.

Performance

Financial markets problems which started in mid-2007 were followed by a significant contraction in the world economy in 2008 and beyond. Figures 6 and 7 show that 2009 was exceptionally weak, with consensus estimates for GDP growth for the Eurozone at around -4%, increasing business insolvencies, and increasing unemployment.

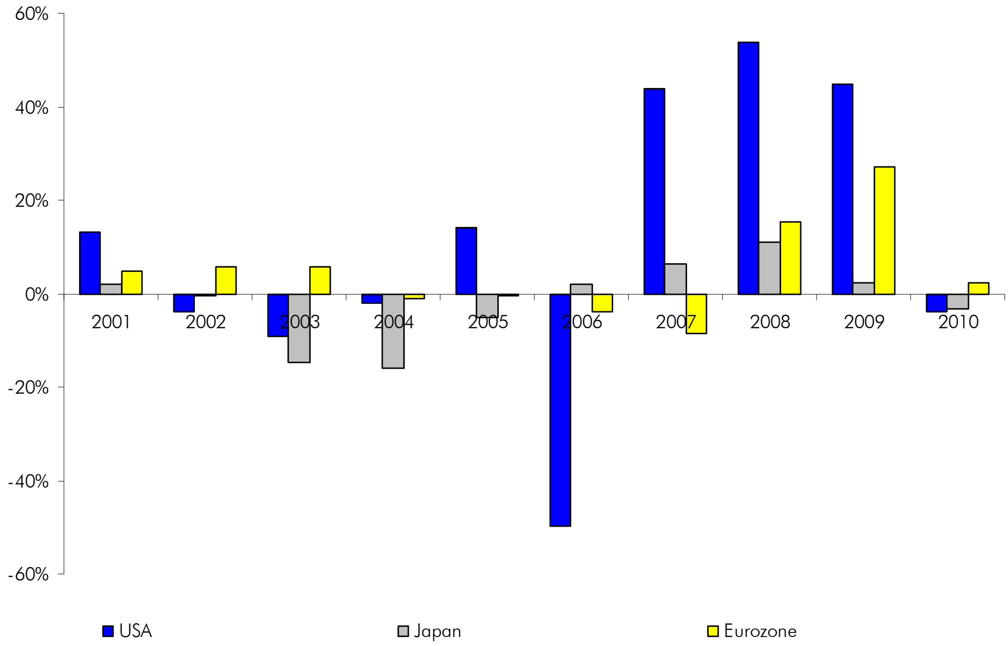
Figure 6: Eurozone - GDP growth and unemployment (%)



Source: Authors, based on data from European Central Bank and IMF

In 2009, SMEs all over Europe saw a significant decrease in sales and profits along with increased production costs, suggesting that they have been more affected than large corporates. Moreover, there are now tougher financing conditions, in particular for smaller businesses and fast growing, innovative SMEs. While there is some debate if there is or will be a "credit crunch" for SMEs, more difficult access to credit has certainly contributed to a more challenging market environment for SMEs, resulting in a sharp increase of bankruptcies in 2009 which is, according to Euler Hermes, expected to continue throughout 2010 (figure 7 below shows the growth of business insolvencies overall for selected regions).

Figure 7: Business Insolvencies, growth year on year 2000-2010[10]



Source: Authors, based on data from Euler Hermes

Against this backdrop, one could expect defaults in European securitisation transactions to go up dramatically. However, so far, European transactions in general have performed robustly and the performance is very different compared to the US Subprime-RMBS or CDO of CDOs/CDO of ABS. To date, the portfolio losses in most of the transactions are below 1% (for details see e.g. DZ Bank 2009 a and b). Also the rating agency Standard and Poor's (S&P) states that "over the three-year period since the beginning of the recent crisis, European Structured Finance proved generally resilient" (Standard & Poor's, 2010b). According to their recent reports (Standard & Poor's, 2010b) the cumulative default rate of ABS based on SMEs between mid 2007 and mid 2010 is only 0.2% (for comparison: CDO of ABS 10.15%; all European transactions 0.65%; all US transactions 6.19%).

However, of course, there have been signs of deterioration in Europe with downgrades in 2009 also for SMESec. The rating agency Moody's for example reports 50% of their ABS downgrades being linked to the "ABS of SME" sector (Moody's, 2010a). Performance deterioration happened notably in Spain, but also in Greece, Portugal, the UK and the Benelux countries. Performance for typical SME transactions is comparatively better in Germany (Moody's, 2010b).

[10] 2009 and 2010 are estimations respectively forecasts.

In addition to the general economic downturn, there were 3 main reasons for the wave of downgrades:

- Changes in the rating methodologies (without grandfathering; so far the rating agencies Moody's and Fitch have adjusted their methodologies; S&P might follow),[11]
- As already mentioned, Spain is historically a strong SME securitisation market and has gone into a severe recession, and
- Thirdly there are non-typical SMESec transactions (i.e. the already mentioned German Mezzanine CDOs) that have suffered significantly and have featured the most severe downgradings.

The relatively strong resilience of SMESec ratings is also shown by the pace of rating migration. According to Moody's (Moody's, 2010b) almost 85% of all Aaa-ratings in EMEA[12] were maintained, compared to 76% globally (over the 2-year period from 30.04.2008 to 30.04.2010). Figure 8 shows the rating transition matrix for the respective period.

Figure 8: Moody's Rating Transition Matrix: 30.04.2008 to 30.04.2010, EMEA ABS SME[13]

	Current rating %								
	Aaa	Aa	A	Baa	Ba	B	Caa	Ca/C	Total
Aaa	84.84	9.43	5.74	0.00	0.00	0.00	0.00	0.00	100
Aa	0.00	67.11	14.47	15.79	2.63	0.00	0.00	0.00	100
A	0.00	2.70	54.95	18.02	13.51	8.11	1.80	0.90	100
Baa	0.00	0.00	0.90	48.65	21.62	9.91	13.51	5.41	100
Ba	0.00	0.00	0.00	3.33	50.00	15.00	26.67	5.00	100
B	0.00	0.00	0.00	0.00	0.00	62.50	18.75	18.75	100
Caa	0.00	0.00	0.00	0.00	0.00	0.00	75.00	25.00	100
Ca/C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100	100

Source: Moody's (2010b)

[11] For example, on 17 March 2009, Moody's published an updated rating methodology for assessing the credit quality of portfolios of SME loans. This provides a refined approach in which Moody's first determines a country-specific base Probability of Default assumption for a pool of SMEs and then adjusts it for the securitised portfolio quality and macro-economic factors. Among 2009's total ABS downgrades by Moody's 30% were the result of the revised methodology for SME ABS (Moody's, 2010a). S&P's announced on 06.08.2010 that it is undertaking a review of the assumptions and methodologies that it uses to rate securitisations of loans to European SMEs (Standard & Poor's, 2010c).

[12] As mentioned before, the "EMEA region" includes Europe, Middle East, and Africa; with regard to Structured Finance most of the transactions in this region are in Europe.

[13] % of ratings migrating from a rating category to another over the period. This includes rating changes for notes that were redeemed, or for new transactions issued over this period.

With respect to the securitisation of non-standard portfolios, the performance of German Mezzanine CDOs, as already mentioned above, provides interesting lessons for the limits of SMESec: these transactions are based on non-granular portfolios (e.g. 30 to 150 obligors) with high obligor and sector concentrations and with – compared to standard transactions – complex structures, often with no collateral, in the form of subordinated loans or profit participation rights.

Between 2003 and 2007 around 450 companies have been financed via these transactions, the total volume was around EUR 4.4bn. This represents only around 3% of the total SMESec during this period, but in terms of financial and reputational losses the impact of this type of transaction is high. The transactions show by now high default rates, e.g. as of March 2010 the transactions "Preps 2007-1" and "Heat II" had losses of almost 20% of the original portfolio; for "CB Mezzcap" and "Heat I" the figures are even higher at around 23% (Finance, 2010 and Handelsblatt, 2010). Other transactions of this nature have not performed much better with very few performing roughly as expected.

While intended to be a good addition to the spectrum of SMESec with the macroeconomic benefit of providing a standardised mezzanine finance instrument to Midcaps (less so for small companies), in hindsight there were substantial shortfalls of the concept which has lead to the poor performance:

- significant competition between banks to attract clients to these programs as banks tried to ramp up portfolios on a parallel basis; no interaction between banks which led to overlaps between transactions (i.e. corporates received monies from more than one program),
- consequently magnifying the loss risk in the sector as corporate defaults occurred in more than one transaction simultaneously,
- relatively low margins on the assets (considering the risk) given the competition which required a relatively high leverage of the securitisation to be economically viable,
- limited diversification eroded excess spread very quickly given generally high leverage and low margins (i.e. transactions did not have strong enough cash flows to absorb lumpy defaults),
- subordinated nature and no collateral almost always leads to a 100% loss in case of a default,
- limited management opportunities for portfolio asset managers to interact with the corporate (i.e. limited covenants, no right to force the management of the borrower to act in a certain way); combined with an inability to sell the asset (no liquidity in the underlying asset),
- adverse selection issues given the originate-to-distribute model which could not be overcome by the due diligence process used in these programs.

While these points on an individual basis might have been manageable, the combination of factors was ultimately decisive for the poor performance. These important lessons give us a template of what we believe are key success factors in a SMESec.

Key success factors

As a result of the above discussion and based on the "lessons learnt", we can summarise some key features of successful SMESecs:

- Granular, diversified portfolios (i.e. with regard to single obligor exposure, sectors, regional distribution);
- Transparent and standardised structures (and no multiple securitisations like CDO of CDOs/CDO of ABS);
- Proper and transparent incentive structures in order to avoid moral hazard;
- Loans originated in line with relationship banking;
- Investors/guarantors should perform their own analysis/due diligence and should not be only "external rating driven".

Most transactions reflect these features, but in some they have been disregarded. If originators and arrangers follow these success factors, we believe that SMESec can be revived. Given the background of its importance for SME financing on the one hand, and an attractive risk-return profile for investors on the other hand, it could be re-established as a growth segment in the short to medium term.

4. The role of public sector support for SMESec

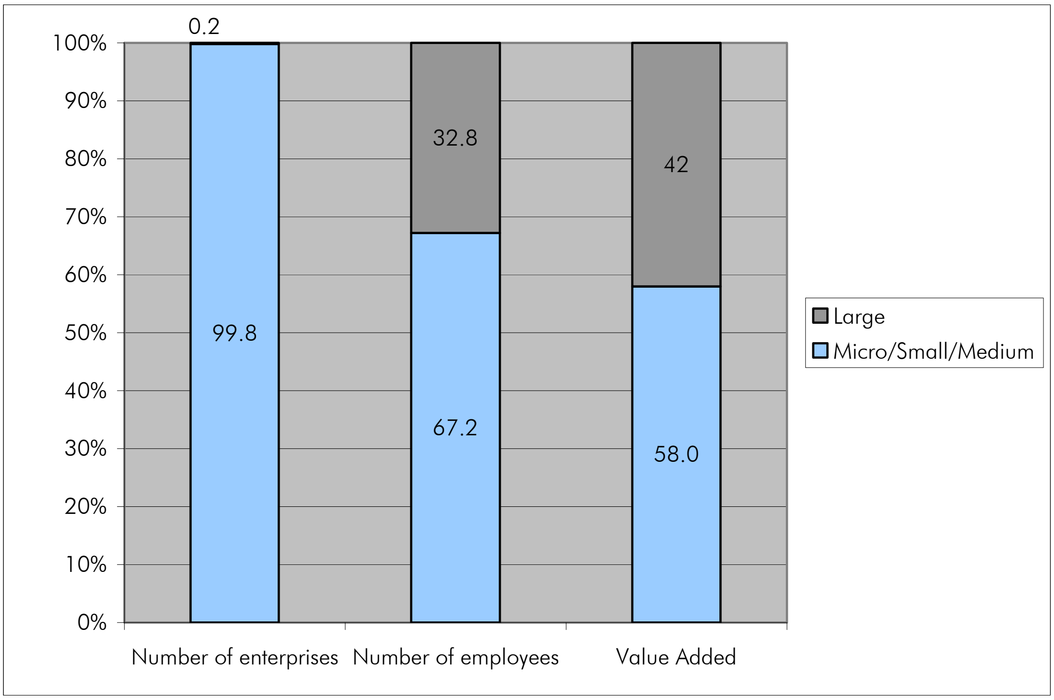
The importance of SMEs as backbone of the European economy has been explained in many publications. In the EU 27, SMEs represent 99.8% of the total number of enterprises (out of around 20.5m), more than 2/3 of employment, and almost 60% of Value Added[14] (data as of 2007, see figure 9).

In economic literature, going back many years, a potential market failure is traditionally assumed in the area of debt financing for SMEs during a deep recession. The reasons are characterized by insufficient supply of credit and inadequacies of the demand side. The market failure is mainly based on asymmetric information (information gap between lender and borrower), combined with uncertainty, causing agency problems that affect debt providers´ behaviour (see Akerlof, 1970; or for agency problems - hidden information/hidden action – Arrow, 1985).

As we have shown, SMESec is an effective instrument to improve SME financing, hence we see public support of SMESec in a non-market distorting way as a legitimate measure.

[14] Value added (at factor cost, Eurostat definition): can be calculated from turnover, plus capitalised production, plus other operating income, plus or minus the changes in stocks, minus the purchases of goods and services, minus other taxes on products which are linked to turnover but not deductible, minus the duties and taxes linked to production. Alternatively it can be calculated from gross operating surplus by adding personnel costs.

Figure 9: Importance of SMEs in terms of number of enterprises, employees, and Added Value



Source: Authors, based on data in EIM, 2009

In 2004, the European Commission initiated an impact analysis of SMESec (European Commission, 2004). The study confirmed that, given its flexibility as a gateway to capital markets, SMESec is an important aspect to the SME credit markets and most likely has a positive impact on the systemic availability of finance for SMEs, thereby deserving continued support from the public sector. The findings of the study furthermore support the view that SMESec is favourable for the SME sector and could over time lead to improved access to finance for SMEs. The study made the case that public sector activity in SMESec can be useful in advancing EU economic goals (European Commission, 2004).

The development of SMESec has been spurred by stimuli from national support schemes, such as KfW's Promise platform in Germany and Spain's FTPYME securitisation scheme. Moreover, supranational support through the EIF (as guarantor) has played a key role in the development of the European SMESec market.

Now, in the aftermaths of the financial crisis and as shown by the recent ECB surveys on SME's access to finance, credit conditions for companies have tightened significantly (see ECB, 2009 and ECB, 2010a). The annual growth rate of loans to non-financial corporations is currently negative (ECB, 2010c). This development is still broadly consistent with business cycle regularities, suggesting that in terms of growth rates real loans to non-financial corporations tend to lag economic activity behind by about one year (ECB, 2010c).

However, according to the ECB, while net demand for short-term loans to corporates remained in negative territory in the second quarter of 2010, net demand for long-term loans turned positive for the first time since the first quarter of 2008 (ECB, 2010c). It remains to be seen if the increasing demand is going to be accompanied by increasing supply. In case of difficult or worsening credit conditions, large firms are able to compensate by tapping bond markets. For SMEs, this is not possible and many experts still see the risk of a credit crunch for small businesses.

Currently this market remains difficult despite some promising first attempts to revive the asset class. Investors will only return in volume if they regain trust in the quality of the transactions and if there is satisfactory secondary market liquidity. Originators will return if transactions are economically feasible. For both, a stable and reliable regulatory framework is a key precondition as well.

Given the importance of SMESec going forward and the lack of a diversified investor base at the moment, public sector support of this market segment can help to accelerate positive developments and can be crucial for its revitalisation. From a policy standpoint, such support has to be conditional upon ensuring "additionality", i.e. extending new loans to SMEs – so that SMEs effectively benefit from the support given to the SMESec transaction. The public sector support needs to have sufficient size to foster the market. As already indicated above: other asset classes can be more easily securitised (e.g. in the case of RMBS) and may be used in e.g. Covered Bond issuances. Hence, in case there is no revitalisation of the SMESec market, SME loans have become in relative terms even more illiquid as compared to such other assets.

Integrated EU capital markets (and their need for transparency and standardisation) and the relative complexity of the securitisation techniques require considerable know-how and show the necessity for specialised institutions. As an established and respected player in the European market, EIF can play a role via market presence, reputation building, and signalling. It typically provides guarantees on mezzanine or junior AAA tranches, but can also act as guarantor for senior tranches of SMESecs for funding driven transactions.

The respective tranches are enhanced with the EIF's AAA/Aaa rating and investors in the guaranteed tranches can benefit from EIF's risk weighting of 0% (MDB status/AAA rating). EIF charges a risk premium for its guarantees which is generally in line with market rates (see Annex 1). In addition to the direct benefits of its guarantees, other factors of EIF's involvement can play an important role in facilitating the execution of a securitisation transaction:

- EIF's involvement can facilitate placement of tranches with investors. From the originator's point of view, EIF reduces uncertainty and supports the marketing of a deal through its "anchor" investor status.

- Guaranteeing e.g. a junior AAA tranche can also provide additional rating stability and shorter weighted average life to senior tranches, thus reducing their risk, which in turn should attract additional investors.

- Smaller banks profit from EIF's experience and knowledge of the SME securitisation process (support and spread of best market practise). Usually, EIF is involved very early in the transaction and can assist the originator.

— The EIF facilitates overall lower transaction costs.

— EIF acts in the “traditional” securitisation markets and with “traditional” key players, but expands the idea of SMESec into non-core market countries (e.g. Central and Eastern Europe), and to new originators.

— In general, EIF facilitates standardisation, improves transparency, and spreads of best securitisation market practise.

Moreover, EIF supports the introduction of quality standards with signalling effects. For example, the European Financial Services Roundtable (EFR) in cooperation with the European Securitisation Forum (AFME/ESF) have been coordinating the establishment of standards for Prime Collateralised Securities (PCS) with the involvement of the ECB and the EIB Group. The idea is to establish PCS as a brand such as key attributes like quality, simplicity, transparency and liquidity to establish a market standard. In Germany, the True Sale International (TSI) and the Association of German Banks (BdB) are coordinating the establishment of a German prime market for securitisation.

5. Final remarks

It is very likely that much lower levels of bank financing available for the overall economy will negatively impact the strength of the economic recovery. Typically, SMEs are not able to raise money directly in the capital markets and are therefore dependent on traditional bank financing, which is itself limited by constraints due to both bank’s refinancing capacity, their risk appetite and capital adequacy. In this environment SMESec can play an important role in contributing to the indirect access of SMEs to the capital markets.

The revitalization and further development of SMESec is pivotal for the future growth of SME financing, and this paper argues that public sector support can contribute to the revitalization of the market in a way that avoids moral hazard and assists in the provision of consistent reliable information on the SME loan asset class.

Properly applied SMESec can enhance access to finance for SMEs and it is a replicable tool for SME support that provides a multiplier effect; i.e. the investing in/guaranteeing of relatively small (mezzanine) tranches facilitates the securitisation of much higher volumes and is as such an efficient way of deploying public sector support. Moreover, in addition to complementing private sector money, the participation of an institution like the EIF in SMESec can “crowd-in” private resources via its positive signalling effect. This leverage and efficient use of public resources is especially important against the background of high public debt burden in many key countries and will serve to substitute for the expensive crisis-driven support measures, which have typically had lower leverage

A crisis also provides opportunities: in a more “healthy” environment of reduced moral hazard, reduced information asymmetries and cognisant risk taking, a reinvented SMESec can provide an important contribution to SME’s access to finance as well as providing an attractive asset class to long term investors.

Annex 1: Typical EIF involvement in SMESec

The general purpose of EIF's credit enhancement operations is to support new SME financing. EIF focuses mainly on deals backed by SME financing, although it does not exclude other asset classes.

Examples of SME financing securitised with the help of EIF:

- SME loans, SME loan guarantees
- Small ticket lease receivables
- SME trade receivables
- Venture financing (lease/loans)
- Micro loans

EIF guarantees senior and/or mezzanine tranches of risk, typically with a minimum rating equivalent to BB/Ba2.

EIF guarantees are provided in different forms, such as note guarantees, bilateral guarantees, credit default swaps, etc.

EIF guarantees facilitate the execution of securitisation transactions, allowing financial institutions to diversify their funding sources and/or to achieve economic and regulatory capital relief via credit risk transfer:

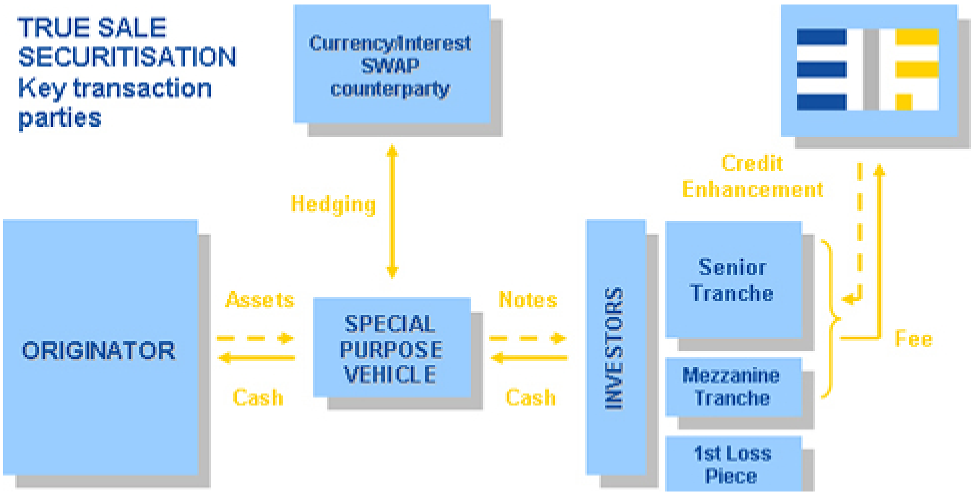
- Asset-backed securities guaranteed by EIF are assigned its AAA/Aaa/AAA rating.
- EIF can sell protection on the underlying portfolio itself, e.g. directly to the benefit of the originator in synthetic deals.
- Credit risk transfer and capital relief - through the placement of notes with cash investors or otherwise - are further facilitated by the zero risk-weighting assigned to assets guaranteed by EIF (Basel II), thanks to its Multilateral Development Bank status.
- EIF guarantees are offered at competitive prices, after a detailed analysis of the transaction and of the originator.

EIF may conduct its activities in the territory of the Member States of the European Union, in candidate and potential candidate countries to the European Union and in the European Free Trade Association (EFTA) countries.

Moreover, EIF has been mandated by the European Commission to participate in securitisations using EU funds from the CIP - Competitiveness and Innovation Framework Programme 2007-2013.

TRUE SALE TRANSACTIONS

EIF guarantees on ABS are provided in different forms, such as note guarantees or bilateral guarantees to the noteholders.



Examples of true sale securitisations from EIF's track record:

Name	Asset class	Country
Geldilux-TS-2010	SME loans	Germany
Sandown Gold 2010 plc	SME loans	UK
BEST SME 2008 B.V.	SME loans	Netherland
Zephyros Finance S.r.l.	Small ticket lease receivables	Italy
Geldilux-TS-2005 S.A.	SME loans	Germany
ProCredit Bulgaria	Micro loans	Bulgaria
ROOF Poland Sp z o.o.	Small ticket lease receivables	Poland

SYNTHETIC TRANSACTIONS

In synthetic transactions, EIF can either guarantee Credit Linked Notes to investors or sell protection on the reference portfolio directly to the originator.

Examples of synthetic transactions from EIF's track record:

Name	Asset class	Country
GATE SME CLO 2005-1	SME loans	Germany
BEL SME 2006	SME loans	Belgium
BEST SME 2007 B.V.	SME loans	Netherlands
CoSMO Finance 2007-1 and 2008-1	SME loans and guarantees	Germany
Goodwood Gold SME CLO	SME loans	United Kingdom
Gracechurch Corporate Loans Series 2007-1	SME loans	United Kingdom
ROOF CEE 2006-1	Small ticket lease receivables	Czech Rep. and Poland

Annex 2: Glossary

Basket Trade

A single order or trade in 15 or more securities, especially in large amounts.

Credit Default Swap

An agreement used in synthetic securitisations where the originator (protection buyer) sells the credit risk of an underlying portfolio to a counterparty (protection seller) without transferring the ownership of the assets.

Credit Enhancement

Refers to one or more measures taken in a securitisation structure to enhance the security, the credit quality or the rating of the securitised instrument, e.g. by providing a third party guarantee (such as the EIF guarantee). The credit enhancement could be provided in the form of:

(i) Structural credit enhancement (tranching of the transaction in senior, mezzanine and junior tranches);

(ii) Originator credit enhancement (cash collateral, profit retention mechanism, interest sub-participation mechanism);

(iii) Third party credit enhancement (EIF or monoline insurers).

Credit Linked Notes (CLN)

A security issued by an SPV (or directly from the balance-sheet of the originator) credit-linked to the default risk of an underlying portfolio of assets. Usually used in synthetic securitisations for the mezzanine tranches of a transaction.

First Loss Piece

Part of a securitisation transaction which is usually kept by the originator (as an "equity piece") and which covers the risk of first loss in the portfolio. Its size is a function of the historical losses, so as to protect the investors against the economic risk (estimated loss) of the transaction.

Issuer

Refers to the SPV which issues the securities to the investors.

Mezzanine Risk

Risk or tranche which is subordinated to Senior risk, but ranks senior to the First Loss Piece.

Originator

The entity assigning receivables in a securitisation transaction (funded transaction) or seeking credit risk protection on the assets (unfunded transaction).

Primary market

The market in which securities are issued.

Secondary market

The market where issued securities are traded.

Senior

The class of securities with the highest claim against the underlying assets in a securitisation transaction. Often they are secured or collateralised, or have a prior claim against the assets. In true sale structures they rank senior in the cash flow allocation of the issuer's available funds.

Servicer

Refers to the entity that continues to collect the receivables, enforcement of receivables, etc. Generally, the originator is also the servicer.

Special Purpose Vehicle (SPV)

Issuing entity holding the legal rights over the assets transferred by the originator. An SPV has generally a limited purpose and/or life.

Subordinated

The classes of securities with lower priority or claim against the underlying assets in a securitisation transaction. Typically, these are unsecured obligations. They are also called Junior (or Mezzanine) notes and bonds.

Synthetic securitisation

A transaction where the assets are not sold to an SPV but remain on balance sheet; and where only the credit risk of the assets is transferred to the market through credit default swaps or credit linked notes.

Tranche

A piece, a portion or slice within a structured transaction.

True sale

It refers to the separation of the portfolio risk from the risk of the originator, i.e. there is a non-recourse assignment of assets from the originator to the issuer (special purpose vehicle). To be contrasted with synthetic securitisations where only the underlying credit risk is transferred.

Annex 3: List of Acronyms

- ABCP: Asset Backed Commercial Paper
- ABS: Asset Backed Securities
- AFME/ESF: Association for financial markets in Europe/European Securitisation Forum
- CDO: Collateralized Debt Obligation
- CEE: Central and Eastern Europe
- CLN: Credit Linked Note
- CRD: Capital Requirements Directive
- EAD: Exposure at default
- EBRD: European Bank for Reconstruction and Development
- EC: European Commission
- ECB: European Central Bank
- EFR: European Financial Services Roundtable
- EFTA: European Free Trade Association
- EIB: European Investment Bank
- EIF: European Investment Fund
- EMEA: Europe, Middle East, and Africa
- EU: European Union
- IFI: International Financial Institution
- IMF: International Monetary Fund
- LGD: Loss given default
- MDB: Multilateral Development Bank
- OECD: Organisation for Economic Co-Operation and Development
- PD: Probability of default
- PCS: Prime Collateralised Securities
- RMBS: Residential Mortgage Backed Securities
- SMEs: Small and medium sized enterprises
- SMESec: SME Loan Securitisation
- SIV: Structured Investment Vehicle
- SPV: Special Purpose Vehicle
- TSI: True Sale International

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