SECURITIZATION OF ASSETS

UNDER THE DRAFT LAW OF UKRAINE "ON SECURITIZATION"

УНІА
УКРАЇНСЬКА НАЦІОНАЛЬНА ІПОТЕЧНА АСОЦІАЦІЯ

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Market effect of the introduction of securitization

- It helps to attract financing from the capital market to the real economy.
- Increases market competition by involving a wider range of creditors in asset creation.
- Minimizes investment and credit risks associated with the person attracting funding (originator). Lays the foundation for the development of the pension savings and life insurance system.
- Contributes to the resolution of problematic NPLs (write-offs from balance sheets);
- Provides an opportunity to influence the structure of bank assets in favor of priority sectors of the economy by applying benefits and preferences to investors.

Historical experience with securitization and collateralized mortgage bonds in Ukraine

- 2004 - the Law "On Mortgage" was developed and adopted with WB funding
- 2005 - the concept of mortgage securitization was developed and approved with the WB funding
- 2005 - the Law "On Mortgage Bonds" was drafted and adopted with WB funding, which defines the procedure for mortgage securitization (Mortgage Backed Security & Covered bonds).
- 2006 - the State Mortgage Institution (liquidity facility) is established with the WB funding
- 2007 - first issue of mortgage bonds by Ukrgasbank for the amount of UAH 50 million.
- 2008 - issue of mortgage bonds by Khreshchatyk Bank for the amount of UAH 70 million.
- 2008 - issue of mortgage bonds by the State Mortgage Institution for the amount of UAH 200 million.
- 2008 - global financial crisis
- 2012 - two issues of mortgage bonds of the State Mortgage Institution for the total amount of UAH 500 million.
- 2014 - financial crisis as a result of Russian aggression
- 2015 - an attempt to extend securitization to other (non-mortgage) financial assets (draft law No. 2784 of 06.05.2015 "On bonds secured by separate assets").
- 2020 - development of the draft law "On Securitization" by UNIA and UCMA experts, taking into account Regulation (EU) No. 2017/2402 of December 12, 2017 establishing a common framework for securitization and creating special requirements for simple, transparent and standardized securitization

Market effect of the introduction of securitization

Asset securitization
means raising funds by issuing asset-backed structured bonds under which cash flows, remuneration, and losses are distributed among bondholders.

Structured bonds
are bonds issued for securitization of financial assets and income assets (future cash claims), which have been validly sold by the originator to a special purpose vehicle. A structured bond certifies the right of its holder to receive a certain portion of the cash proceeds from the assets of the underlying pool, in accordance with the procedure and priority established by the issuance decision.

The purpose is to free up capital and earn commission income.

Key conditions for the introduction of securitization

- **Ensuring the integrity of the underlying pool and securing the cash flow**

  it generates for the benefit of structured finance holders.

  Formation of the underlying pool from assets that meet the established requirements.

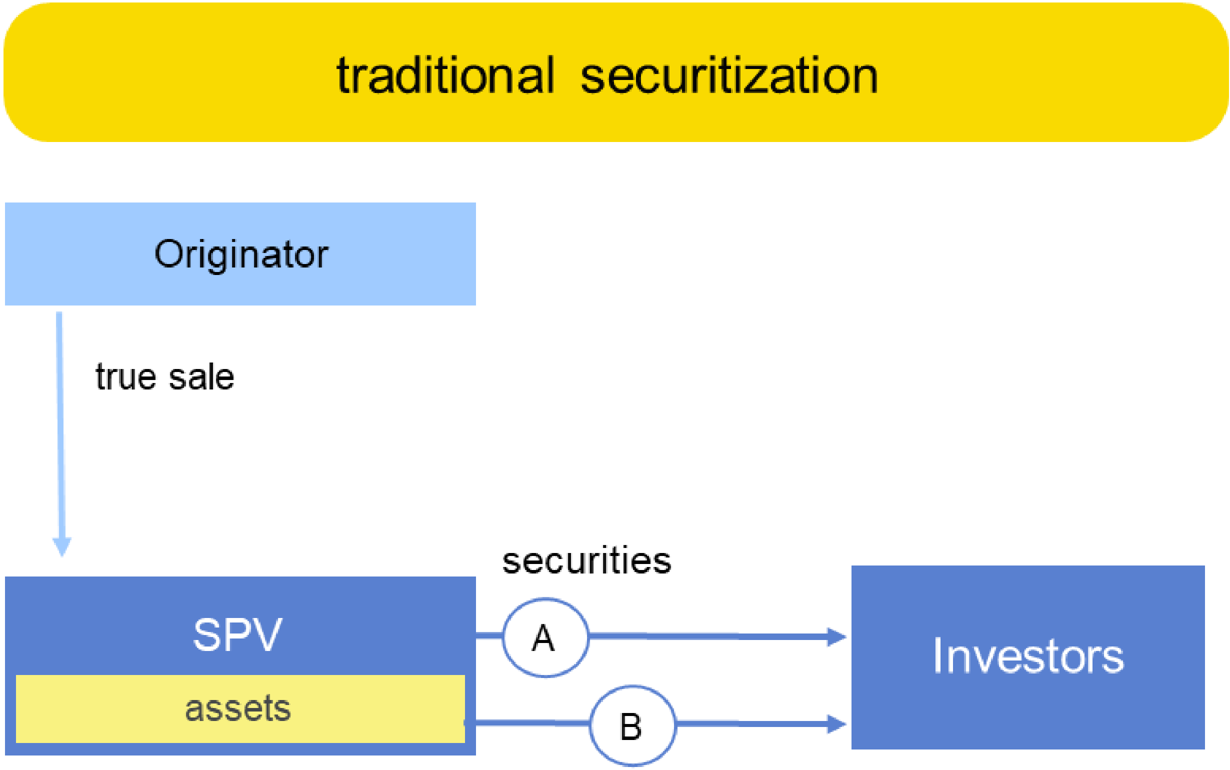
- **Limitation of legal capacity and tax neutrality of the issuer - a special purpose vehicle (SPV). Its remoteness from bankruptcy.**

- **Separation of powers and responsibilities**

  of unrelated professional securitization participants, service institutions

  that will accept payments and service assets.

Structure of securitization according to the draft law "On Securitization"



- True sale of assets to an SPV
- Write-off of assets from the originator's balance sheet

Subjects	Securitization
Issuer	SPV - a non-entrepreneurial (non-profit) special purpose vehicle
Supervision of the issuer	Lack of supervisory framework for SPVs Supervisory framework and requirements for professional participants (trustee, servicer)
Assets	Homogeneous financial assets, NPLs, agricultural receipts, mortgage liens and future cash requirements (rent, consumer receivables, etc.).
Recourse on assets	Static pool
Originator's capital regime	Capital is released, assets are written off the balance sheet (true sale)
Source of repayment	The cash flow of which will be generated by the asset pool
Vulnerability to the originator's insolvency	Not vulnerable

Subjects	Securitization
Originator	Sells the assets of an SPV (Special Purpose Vehicle)
Special purpose Vehicle	Owns assets and acts as an issuer
Trustee manager	Acquires assets on behalf of the issuer, organizes the issuance of bonds, maintains the register and repository, and reports on the issuer
Servicer (originator)	Maintains assets
Payment bank (originator)	Accepts payments to an escrow account
Rating agency	Ratings of separate tranches of certificates
Persons who provide additional security	Risk hedging
Representative of the owners	X
Auditor	Audit of pool reduction due to loss of asset value

Securitization

SPV

Transfer of assets

Creating provisioning

Tools management risks

Issue of bonds

- A tax-neutral, non-entrepreneurial, non-profit institution for special purposes.
- It has no capital requirements. It is not regulated.
- It is not part of the originator's or trustee's group and is not a related party.
- The insolvency of the originator does not apply to the SPV and is not consolidated.
- Certificate holders have no legal claims against the SPV beyond the scope of their rights to the underlying assets.
- The SPV is supported by regulated financial institutions.
- The SPV is protected from insolvency and bankruptcy. It is liquidated upon redemption.

SPV

Transfer of assets

Creating provisioning

Tools management risks

Issue of bonds

Securitization

- The ownership of the sold assets is finally transferred to the SPV, along with the economic interests, risks and rights.
- The terms of the asset agreements do not prohibit the transfer of debt to another creditor.
- The originator's creditors cannot challenge the sale of assets.
- Full tax neutrality.
- Notification of the debtor, guarantors, pledgers and guarantors.
- Protection of personal data of debtors.

Securitization

- SPV
- Transfer of assets
- Creating provisioning
- Tools management risks
- Issue of bonds

- Claims against an SPV are secured by all of its assets and only to the extent of those assets.
- Legalization of the pledge is not required. Information on the encumbrance of collateral is entered into the State Register of Encumbrances on Movable Property.
- Assets are not included in the liquidation estate and tax lien. They cannot be subject to foreclosure or seizure.
- Gains and losses on assets are distributed among investors in accordance with the priority assigned to each individual tranche.
- The residual value of the pool is reduced by the audited loss of asset value, and the debt on the lower tranche is reduced accordingly
- Holders of different tranches have different rights. Holders of the same tranche have the same rights.
- The trustee maintains a register of assets and a repository.

SPV

Transfer of assets

Creating provisioning

Tools management risks

Issue of bonds

Securitization

- Subordination.
- Maintaining a minimum balance on the escrow account and maintaining its current liquidity.
- Hedging interest rate and currency risks.
- Deferral of payments for assignments (until the bonds are sold).
- Ratings for each individual tranche except for the junior tranche.
- The originator-servicer retains the risk exposure (the junior tranche).

- **SPV**
- Transfer of assets
- Creating provisioning
- Tools management risks
- Issue of bonds

Securitization

- Normal legal regulation of the securities market applies
- The interests of the owners are protected by the involvement of a sponsor, servicer, payment bank, auditor and persons providing additional collateral.
- The SPV is established for one issue, after which it is liquidated

Securitization NPL

- The underlying pool is formed exclusively from claims on non-performing loans, which may be heterogeneous.

- The structured notes are sold to the originator(s) at the time of placement without a public offering.

- If the underlying pool includes non-performing loans of several originators, the placement of structured tranches of a single bond issue between them is based on the results of the asset valuation and the forecasted calculation of cash flows from the repayment of assets, sale or exploitation of collateral, which is carried out by the appraiser.

- The decision on the issue may provide for the servicer to be authorized to enter into an agreement with the debtor on the distribution of income received through the transfer of the debtor's tangible assets for lease and other methods of managing the debtor's property and business activities

- The transfer of the debtor's liabilities into equity may be carried out only if the special purpose institution, as a result of such transfer, has a decisive influence on the management of the debtor's activities

Thank you
for your attention!

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