

Structured Finance

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The growth of the structured finance market over the past few years has demonstrated the flexibility of the capital markets in meeting both the needs of originators as well as the demands of investors. From the simple repackaged product that allows investors to take advantage of double taxation treaties to the complex credit derivative structures which allow financial institutions to hedge their exposure across all their lending, the market has found a way to respond to these needs.

Law Debenture acts as a trustee for the whole spectrum of asset-backed deals, whether the assets are real (such as bonds) or synthetic (such as credit default swaps). For example, Law Debenture is the trustee for a substantial number of secured limited recourse asset backed programmes. Under these programmes the trustee holds the security on behalf of the beneficiaries who often include the swap counterparty as well as the actual note investors.

Law Debenture has also been involved with the securitisation market in Europe since its inception and has extensive experience of both off and on balance sheet transactions and of the asset transfer and secured loan methods of taking security. Law Debenture acts as trustee for a wide range of securitised assets, from 'traditional' assets (such as mortgage loans/consumer loans) to portfolios of bonds/loans, and for assets situated in one or more jurisdictions or in more than one country. Although a securitisation shares many characteristics with a repackaging, it is usually the nature of the underlying assets that distinguishes them.

As the structured finance markets develop away from physical assets to derivative collateral, Law Debenture

retains a central role, acting as trustee for CDO structures whether collateralised by cash flow or synthetic obligations. The CDO market continues to grow exponentially not least because of the movement away from a 'static' pool of assets to an actively managed pool to enable risk mitigation. New structures (such as hybrid deals that mix cash and synthetic obligations) are appearing all the time and Law Debenture assists arrangers/originators by bringing extensive experience to the deal. In addition the CDO market affords originators many opportunities which the securitisation market cannot, since any actual movement of security over the underlying assets is often not required as it is the credit risk relating to the asset which is being isolated and not the cash flow.

Whilst similar to CDOs in many respects, structured investment vehicles are different, not least in that the issuing vehicle (and not the issue) is rated. These bond arbitrage vehicles (which are nearly all triple A rated) allow financial institutions to use their expertise and enhance earnings through the funding differential which such vehicles provide. Law Debenture has acted as trustee for issuers of this nature for over fifteen years and continues to be the preferred supplier of trustee services to this type of structured finance vehicle.

One of the aspects of the market which has recently gained a higher profile is that of the credit enhancer. Often these deals are PFI/PPP projects where the triple A rating provided by the inclusion of a monoline insurance guarantee is essential to allow these long dated bonds to appeal to investors. The inclusion of a monoline enables issuers that might otherwise not normally tap the capital markets, to access those markets since investors are essentially taking monoline risk rather than the risk of the underlying issuer/project. Law Debenture acted as trustee for the first UK PFI monoline wrapped deal and has acted as trustee for wrapped deals with diverse

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underlying projects including roads, hospitals, offices and university accommodation.

Law Debenture has also acted in connection with other structures (such as conduit funding) where its expertise and independence have been considered vital. This brief description of Law Debenture's role only touches on its involvement in this market.

A Law Debenture group company can also supply corporate services, such as corporate directors, company secretary and registered office to special purpose vehicles (a separate insert is available).

Selection of issuers by category

Repackagings

Programmes for BNPParibas, Deutsche Bank, JP Morgan, Merrill Lynch, Mizuho, Royal Bank of Canada, UBS Warburg

Securitisations

Amethyst Finance, Annington Finance, CMO Denmark, Cofinimmo Lease Finance, Granite Mortgages, Highbury Finance, SRM Investments, UK Care

CDO's

Cathedral, Cygnus, Euroliberté, Joconde Investments, Riveria, Segesta 2 Finance

SIV's

Altitude Funding, Dorada Corporation, Five Finance, White Pine Corporation

Monoline wrapped

Anne's Gate (Government offices), Baglan Moor Healthcare (Hospital) Ellenbrook Developments (University accommodation), Road Management Services (A13), Tyseley Waste Disposal