Future Flow Securitization
Presentation for the
MIF Remittance Forum

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Agenda

I. Introduction

II. Future Flow Securitization

III. Securitization of Remittance Receivables

Introduction

Introduction

- In 2003, Wachovia formed the International Structured Finance ("ISF") group, whose mandate is to originate, structure and administer future flow transactions for banks and government entities internationally.
  - ISF is a joint venture between Wachovia's Fixed Income group and the International Division.
  - Formerly with Banc of America Securities, the team brings over 25 years of combined structuring experience, having closed in excess of $2 billion in securitization transactions.
- **Wachovia's ISF group is a leading innovator in structuring future flow securitizations.**
  - The team members comprising ISF developed the Diversified Payment Rights asset class for financial institutions and closed the first such transactions in Turkey and Latin America.
  - The ISF team members successfully arranged the first "AAA" rated future flow securitizations for a corporate and financial institution in Brazil (CVRD in 2000 and Banco Itaú in 2002).
- **ISF maintains strong working relationships with all parties to a securitization.**
  - Legal counsel – Wachovia preferred counsel has vast experience with future flow transactions globally.
  - Rating Agencies – Wachovia works with all three major rating agencies on a regular basis and understands their requirements for achieving the necessary ratings.
  - Enhancement Providers – Wachovia knows and has experience working with the primary monoline and multiline insurers and multilateral agencies.
  - Investors - The team has strong relationships with a broad base of both U.S. and European investors, ranging from large U.S. institutional investors to regional financial institutions.

Future Flow Securitization

Future Flow Securitization

What is Future Flow Securitization?

- A structured debt financing available to strong credit quality banks and corporates domiciled in emerging market countries. The purpose is to provide longer term financing than otherwise traditionally available. Future flow securitizations are structured to mitigate sovereign risk and as a result, the rating on the transaction is higher than the corresponding sovereign rating.

- Involves the sale of future receivables or rights to cash flows that are generated in the future. The cash flows are typically denominated in US$ and often arise from payments of exports or from remittances processed by a financial institution in an OECD country.

- The financing is structured such that an advance is made in exchange for the right to future cash flows from the receivables. The advance is repaid, together with interest, according to a specified amortization schedule, as and when the future cash flows are realized. To mitigate sovereign risk, cash flows are captured in offshore, trustee-controlled concentration accounts (usually in the U.S.) where interest and principal payments are deducted, after which the excess flows are remitted back to the borrower.

Future Flow Securitization

Target Market (Borrower/Originator)

- Operationally / financially strong
  - Financially strong to the point of being considered "too important to fail" or whose local currency rating is at or near investment grade
  - Is a top-tier institution (generally top three or excellent market share in its business)
  - Has access to hard currency cash flows through checks, electronic, or family remittances (e.g., MT103s, Visa / MasterCard vouchers, or other rights to future hard currency)
  - Has a stable / increasing market share in the business and good technology
  - The remittance business is important to the bank and carries a low risk of obsolescence

Future Flow Securitization

Benefits to Borrower/Originator

- Access to longer maturities than otherwise available in traditional debt financing
- Competitive cost for the tenor
- Access to a new investor base / incremental funding
- Ongoing access to funding
- For financial institutions, it provides an ability to match fund the loan book and decrease the funding gap
- A more efficient use of assets that are being generated through normal business operations

Future Flow Securitization

Investor Motivations

- Proven Structures
  - First transaction completed in 1987
  - To date, no losses from rated future flow transactions
    - Over 180 “rated” transactions
  - Survived various economic and political events
    - Tequila crisis, Asian crisis, Brazilian devaluation, Brazilian election, Argentine crisis, Turkish events
  - Structure mitigates sovereign risk
    - Allows investors to invest in emerging market debt issuances without assuming direct sovereign risk
  - Investors receive a price premium over similarly rated domestic ABS transactions

Who Are the Investors?

- Monolines: e.g., MBIA, Ambac, XLCA, CDC Ixis and others
  - Understand the market and structure
  - Underwrite all risk in the transaction
  - Timely payment of principal and interest
  - Drive price for the Originator
  - Limited capacity at times (presently for Turkish and Central American Originators)
- Money Funds / ABS Investors / Banks / Conduits / European Investors
  - LIBOR based pricing preferable
  - Desire liquidity
  - Like AAA wrap
- Traditional Private Placement Investors/Pension Funds
  - Understand the structure
  - Prefer to do the credit analysis
  - Want BBB (unwrapped) paper
  - Buy and hold
  - Fixed rate pricing preferable

Securitization of Financial Receivables

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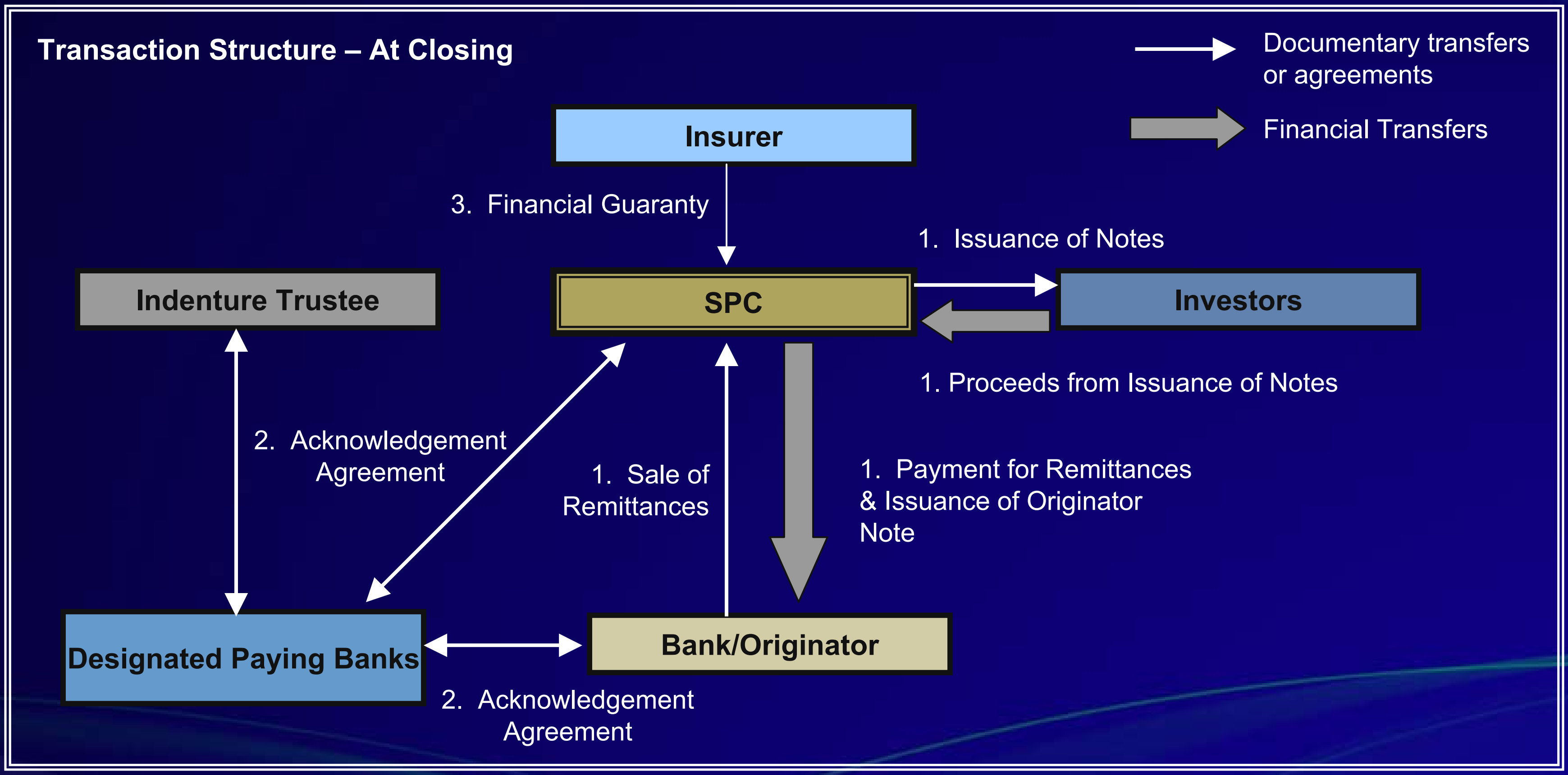
Securitization of Financial Receivables

Main asset types for financial institutions

- Diversified Payment Rights
  - Securitization of a bank's rights to receive funds into its correspondent bank accounts. The electronic remittance may arise from:
    - Bank to bank payments under export transactions, including:
      - Letters of credit
      - Cash against documents
      - Cash against goods
    - Direct payments for exported goods or services (e.g. tourism, MT 103 Series), including:
      - Wire transfers
      - Drafts
    - Other electronic remittances (e.g., family remittances)
- Check Remittances
  - Hard currency-denominated checks processed by banks for payments made by foreign companies and individuals for goods and services purchased from the emerging market.
- Credit Card Vouchers
  - Visa / MasterCard / AmEx credit card vouchers processed by banks for payments made by foreign companies and individuals for goods and services purchased within the emerging market or for ATM withdrawals made by individuals.

Structural Diagram – Remittance Securitization



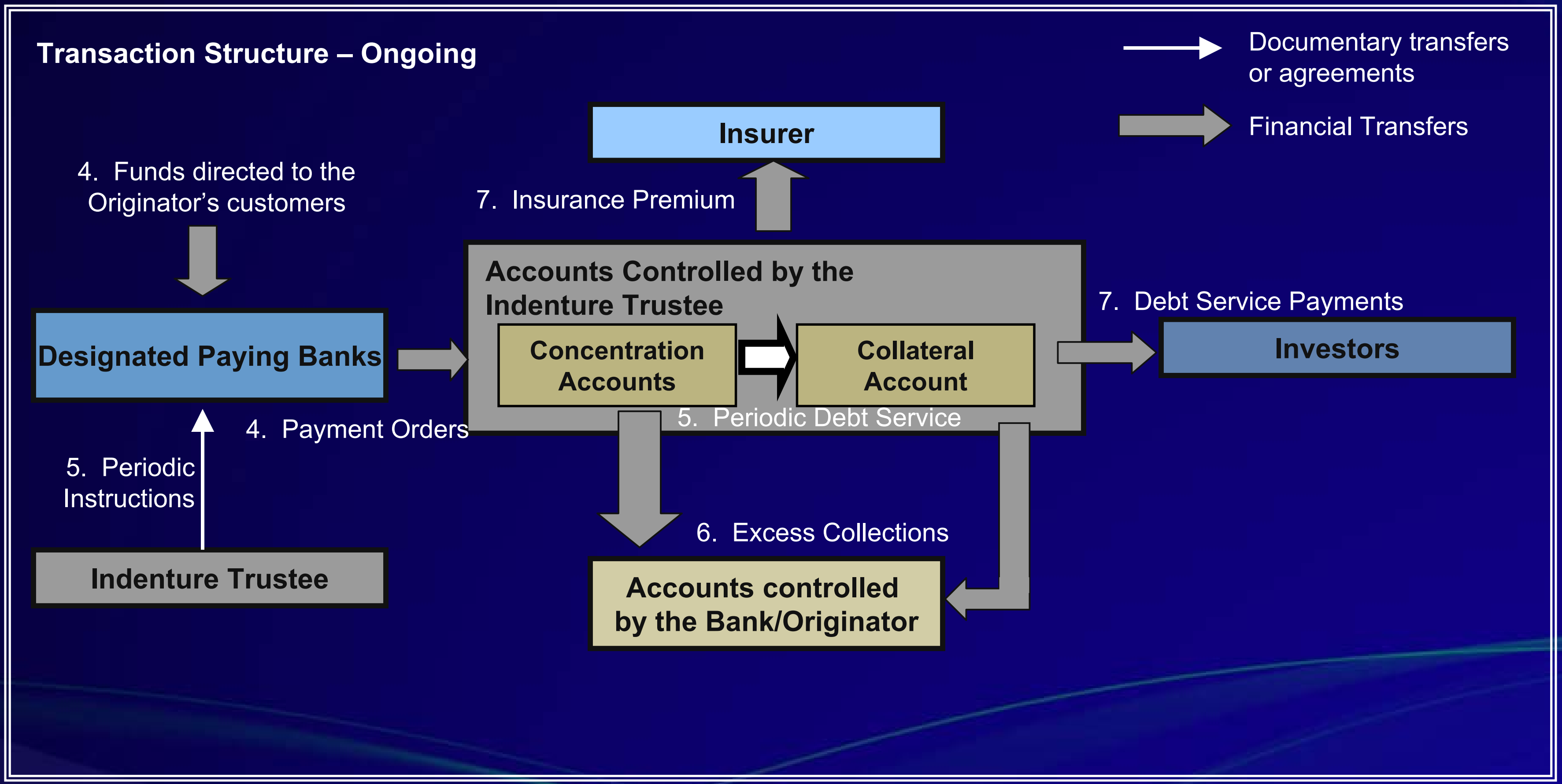
Structural Diagram – Remittance Securitization

- Pursuant to a local law-governed Bill of Sale, the Bank (also called the Originator) sells all existing and future Remittances to a newly formed Special Purpose Company (the "Issuer" or "SPC"), which issues Notes to investors, collateralized by the Remittances. Proceeds from the issuance of Notes are used to pay the Originator for the Remittances.

- By signing an Acknowledgement Agreement, each Designated Paying Bank acknowledges the transaction, converts the Originator's existing nostro accounts to a Concentration Account (controlled by the Indenture Trustee), and agrees to deposit all Remittance-related flows into the Concentration Account.

- (If wrapped), an AAA-rated monoline insurer (the "Insurer") will provide to investors a financial guaranty of timely payment of principal and interest on the Notes, pursuant to an Enhancement Agreement.

Structural Diagram – Remittance Securitization



Structural Diagram – Remittance Securitization

- Designated Paying Banks send/receive payment orders directed to the Originator for further payment to third party beneficiaries. Pursuant to Acknowledgement Agreements, collections are deposited into the Concentration Accounts.

- Funds from the Concentration Accounts will be swept daily into the Collateral Account at the beginning of each Interest Period to meet the required amount of debt service for the period (principal + interest + premium (if any)).

- Once the required amount of debt service is deposited in the Collateral Account, all excess collections are returned to the Originator for the remainder of the Interest Period.

- On the Payment Date, the Trustee applies funds from the Collateral Account to pay debt service.

Typical Structural Enhancements

- True sale from Bank / Originator to SPC
  - Helps to assure the separation of the receivables from the bankruptcy estate of the Bank / Originator.

- Acknowledgement Agreements
  - Prior to closing, the Designated Paying Banks acknowledge the transaction and consent to comply with irrevocable payment instructions from the Bank / Originator, directing payments to accounts controlled by a trustee. Normally New York law agreements.

- Offshore collections
  - Designated Paying Banks agree to direct payments to offshore accounts controlled by the trustee as instructed by the Bank / Originator.

- Overcollateralization in the form of a debt service coverage ratio (“DSCR”)
  - Incoming cash flow volumes must exceed maximum periodic debt service by a predetermined multiple to provide an adequate cushion to offset potential volatility caused by the loss of customers/designated paying banks, decline in cash flows, a decline in economic activity or other adverse occurrences.

Typical Structural Enhancements

- Covenants, representations and warranties and triggers
  - These include a minimum debt service coverage ratio, force majeure events, insolvency, etc. If breached, the trustee will use collections to pay down principal on an accelerated basis.

- Recourse to Bank / Originator
  - Future flow securitizations normally include some form of limited and contingent recourse to the Bank / Originator as investors continue to be exposed to originator performance risk.

- Cash reserve or Standby L/C
  - Cash set aside as a reserve equal to at least one period's interest payment to cover any potential disruptions in cash flows. The cash reserve may be increased if certain covenants are breached. Alternatively, a AA- or higher rated bank can make available an L/C for the cash reserve amount.

Information Requirements

- Breakdown of 3-5 years of historical flows by:
  - Type of flow (commercial or personal)
  - Customer
  - Industry
  - Correspondent bank
  - Country of origin
  - Destination in local country
  - Transaction size
  - Origin: Export-related, tourism, personal, other
  - Top 20 beneficiaries
- Seasonality of flows / factors affecting flows
- Any negative pledge agreements
- Material legal issues
- Business Information
  - Profitability and other incentives to remain in business
    - Fees charged, other related income
    - Associated costs
  - Number of years in remittance business
  - Processing procedures and technology
  - Identification of originator's competitors and originator's competitive position
  - Strategic importance of business
  - Business forecast and strategies for growth