



# ASSET-BACKED SECURITIES

## WHAT IS SECURITISATION?

Securitisation is a fund raising technique where bonds or notes that are backed by an underlying pool of assets are issued to investors. It is normally issued by an SPV whose sole function is to buy such assets in order to securitise them. The SPV will normally create a trust to hold the underlying assets as security for the investors. The asset - backed securities (ABS) are redeemed based on the primary strength of the assets in the pool, but may be supported by "credit enhancements" provided by the originator or organised through external parties.

## MAIN FEATURES OF SECURITISATION

### • Special-Purpose Vehicle

The use of an SPV is critical in securitisation, because the SPV stands between the originator of the underlying loans and the trust of the securities. The SPV's role is to take possession and ownership of the assets being used as security from the originator. This is to ensure that the securitisation will not be affected even if the originator bankrupts. The ABS-issuing trust's ability to pay interest and principal should remain intact even if the originator were to fail.

### • Rating

Bankruptcy remoteness, along with certain other aspects of the SPV's and trust's structures and the extra support provided by credit enhancement, enable the ABS to receive their own credit rating, independent of that of the originator. This is important for investors, because the originators may have a lower credit rating than that carried by the SPV.

### • Subordination

A popular type of internal credit enhancement is the senior/subordinated structure. This is technically a form of "overcollateralisation." It is characterised by a senior class of securities and one or more subordinated classes that function as the protective layers for the senior tranche. If a loan in the pool defaults, any loss thus incurred is absorbed by the subordinated securities. The senior tranche is unaffected unless losses exceed the amount of the subordinated tranches. The senior securities are the portion of the ABS issue that is typically rated triple-A or of investment grade, while the lower-quality (but presumably higher-yielding) subordinated classes receive a lower rating or are unrated.

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#### TYPES OF ABS

Theoretically, any asset that has a revenue stream can be securitised. In practical terms, the vast majority of securitisation are collateralised by loans and other financial assets. The main asset types securitised are mortgage loans, credit cards, and auto loans, which together constitute the largest segment of the ABS market.

Collateralised Bond Obligations or Collateralised Loan Obligations generally refer to a debt obligation whose underlying collateral and source of payment consist of corporate bonds and existing bank loans respectively. Collateralised Debt Obligations on the other hand, refers to a securitisation of debt obligations which may include both bonds and loans obligations.

Later innovation has extended application of securitisation to cover non-financial assets such as aircraft, buildings, and various types of risks, such as insurance risk, weather risk, etc. Innovation is constantly extending securitisation applications.

#### WHY ABS?

Danaharta picked ABS as a method of divesting its restructured loans for several reasons:

- It was an efficient means of divestment compared to selling the loans individually, particularly when it came to the smaller loans.
- It provided an opportunity to address a wider investor base.
- Placing out debt securities was easier than auctioning a large number of loans, which would have required multiple investors having access to confidential loan data.
- Securitisation avoided the risk of "cherry picking" under the direct sale method.
- Danaharta's retention of the subordinated tranche of the securities allowed it to enjoy the residual upside in the recovery, and would also provide an incentive for Danaharta to maximise recovery.
- The initiative assisted the Government in promoting securitisation as well as introduced new products to the financial market.

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## THE TRANSACTION

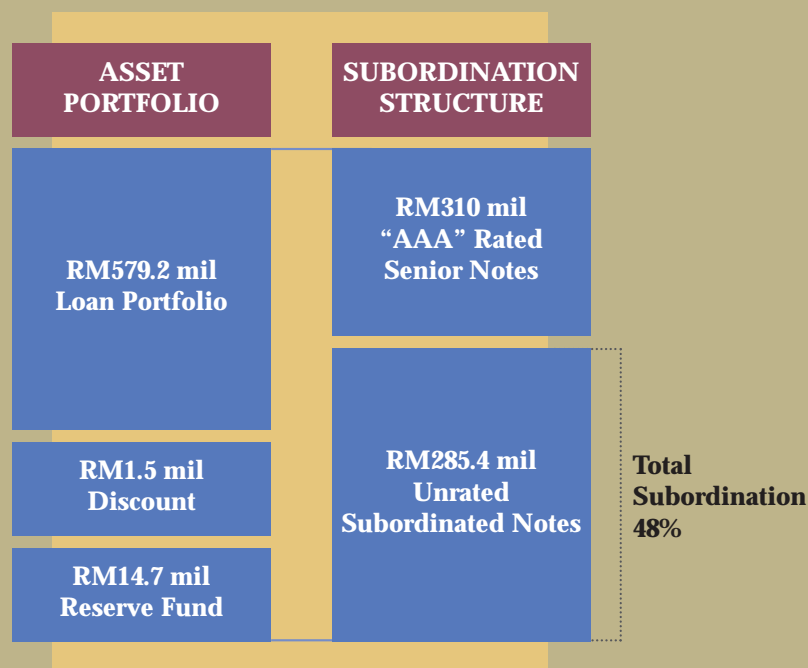
Danaharta's ABS essentially transferred a portfolio of performing loans and cash, with a total value of RM595 million from the Danaharta group to an SPV, Securita ABS One Berhad. In return, Danaharta received cash and Subordinated Notes issued by Securita ABS One.

On 20 December 2001, Danaharta completed the issuance of RM310 million AAA-rated Senior Notes by Securita ABS One to the investing public. The notes had a coupon rate of 3.75% and matured in December 2005.

Following the book-building process by the joint-lead managers on the ABS, the senior notes were issued at 99.54% of par value, which provided investors with an effective yield of 4%. The response to the issue was overwhelming, with orders over RM1 billion received, and a subscription rate of 3.5 times for the Senior Notes.

One major attraction to investors was that the ABS featured a RM285.4 million unrated tranche of Subordinated Notes which were taken up by Danaharta. This essentially promised that Danaharta would absorb any shortfall payments to the RM595 million of loan obligations up to the level of RM285.4 million, or 48% of the issue.

Any payment forthcoming would go entirely to Senior Note holders until they were fully paid, before Danaharta would be entitled to any payment.

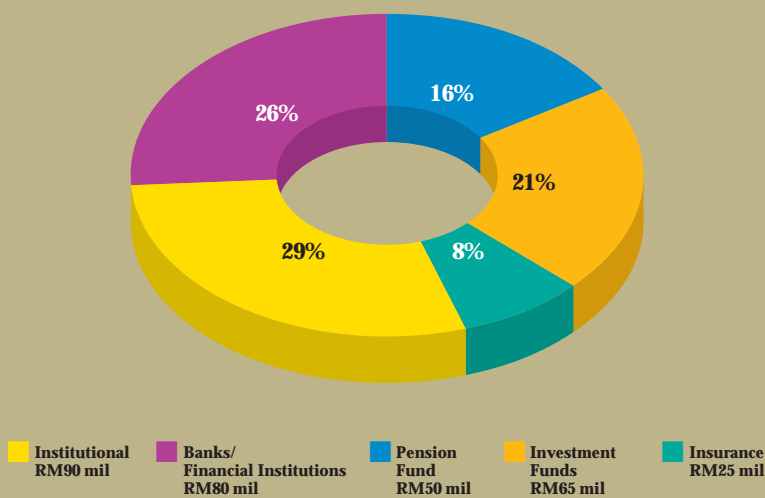


**Note:** The amount in the Reserve Fund was to cover any shortfall in coupon payment on the Senior Notes and for expenses.

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Danaharta raised total proceeds of RM308.57 million from the issue, which was placed out to a diversified range of investors.

Final Allocation of the Senior Notes



EARLY REDEMPTION

As it turned out, Securita ABS One began redeeming the Senior Notes in stages from May 2003 to June 2004 and completed the redemption, including interest costs of RM18.4 million, eighteen months ahead of schedule. This was made possible because of the quality of the loans that were part of the ABS. Most of the borrowers paid ahead of time enabling Securita ABS One to fully redeem the Senior Notes earlier, thus saving on interest costs.

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