

## VakifBank opens the market for Turkey

Source: Asset Securitisation Report [www.absnet.net](http://www.absnet.net), 08 March 2002

Monday March 11, 2002

In a year when investors have a seemingly zealous appetite for Turkish deals, VakifBank has tapped the market with a \$200 million diversified payment rights transaction led by West LB, marking the second of its kind from the bank in just seven months.

Fitch Ratings has provided a triple-B rating to the deal, piercing the single-B sovereign ceiling. "The reason we were able to rate this triple-B even though the sovereign is currently rated at single-B level was because these flows were trapped offshore and because of our perception of the underlying strength of the bank and its importance to the financial system," said an analyst at Fitch Ratings.

The transaction was the second issuance from its program and managed to price at relatively tight levels of 350 basis points above three month U.S. dollar Libor for a three-year final maturity, a two-year average life and a one-year interest-only period.

However, one source noted, "You can't really consider that a market price because West LB has taken that debt completely and is reselling it into the paying market over a long period of time," said a market source.

Nevertheless, the transaction is deemed quite positive for various reasons. "The VakifBank deal opened up the market again for us this year and it gave people on the securitization side an idea of where pricing lies," said a banker close to the deal. "It has allowed Vakifbank, while it is in the process of being privatized, to show people who are looking at Vakifbank and people who are looking at Turkey anyway, where Turkey and pricing stands for medium and long-term funding on a securitized basis."

There are seven different types of cash flows involved in the transaction, including letters of credit, cash against goods, worker remittances, cash against documents, MT100s, checks and advanced payments. The cash flows, from ten various countries, including Europe and the United States, are sold to an offshore special purpose vehicle located in Jersey. Deutsche Bank International Offshore [sic Deutsche International Trust Corporation (CI) Limited] is the offshore SPV service provider who manages all of West LBs offshore SPVs in Jersey. Additionally, 32 different correspondent banks sign a notice of sale and acknowledgement.

### Non-U.S. investor base

These deals have become somewhat of a standard transaction in Turkey and West LB was the first bank to complete a loan-funded securitization in the country. "You put exactly the same structure in place as you would for any kind of 144A capital markets securitization but instead of issuing bonds you fund the SPV offshore with the loan agreement," the banker said.

"We sell some of our deals in the U.S. and we have a couple of U.S. investors in our loan-funded deals," the banker said. "Primarily our transactions are syndicated into the bank markets throughout Europe and the Middle East. The big advantage with that is that in a time when Turkey is otherwise in trouble or where spreads on a five-year maturity bond in the U.S. would be unpalatable for most Turkish banks, it allows deals to be done and be placed with investors who are much closer to Turkey. They understand the country a lot better because they have

various banking product relationships with Turkish banks — and therefore do not have as high expectations on pricings. It's easier to get them educated on the underlying name than is the case when you do large capital market deals in the U.S."

This year has proven to be a strong one for the market, as many transactions have surfaced during a three-month span of time.

#### Investor appetite

"Unlike in other years, we have had incredibly strong investor appetite this year," the banker said. While West LB was launching the VakifBank transaction, it was also launching another deal for KoçBank, with the same type of structure. "That deal is way oversubscribed, we have to cut everyone back."

Investors have become increasingly interested in the Turkish market primarily as a result of a growing track record for this product. "People who bought deals two years ago have seen how they have performed over the last year and have gained confidence that these structures really do work through difficult periods," the banker said. Additionally, the \$16 billion package from the International Monetary Fund, which was provided to the country at the end of last year, is forcing the government to restructure and recapitalize the banking system in Turkey.

The Koçbank transaction, which features the same structure as the VakifBank deal, actually closed at the end of 2000. It was a \$150 million issuance from its \$300 million program capacity. However, contrary to the Vakifbank deal, West LB, also the arranger in this transaction, kept the \$150 million on its books for the past year and began syndicating it simultaneous to the launch of the VakifBank transaction.

#### Monolines make a return

Market sources agree that the year ahead looks quite full for the Turkish market. And, after some time in the shadows, monoline transactions have crept back into the market. Akbank, the largest bank in Turkey and a relatively frequent issuer in the country, has been working with West LB over the last three years on a \$700 million program in which two of the tranches feature a wrap from MBIA. The monoline insurer also provided a wrap on Akbank's \$100 million future-flow credit card- receivables deal led by Bank of America last spring. (see ASR 4/2/01).

"[Monolines] have been creeping back in, but it's really a phenomenon of last year that's continuing into this year," the banker said. "In the last couple of years they have been coming back and really in our view have become a lot more mature."

However, as monolines slowly edge onto the scene it also appears that the Turkish securitization market might favor conduit deals as opposed to term deals, as a result of better pricing, the market source said. "Being able to wrap transactions make it eligible for a conduit," he added. "Plus the pricing in that market has started looking more favorable than the term market." — Colleen Corrigan/NC