

SPECIAL REPORT

Argentine Securitization Market: 2011 Mid-Year Review & Outlook

Higher Issuance Volumes and Market Stability

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Analyst Contacts

Martín Fernández Romero
Vice President - Senior Analyst
 54.11.3752. 2021
 Martin.Fernandez-Romero@moodys.com

Rodrigo Conde
Associate Analyst
 54.11.3752 .2030
 Rodrigo.Conde@moodys.com

ADDITIONAL CONTACTS:

www.moodys.com.ar
 www.moodys.com

Overview

- » Currently we do not anticipate higher delinquencies and losses in personal and consumer loans. However, a persistent inflationary environment could negatively affect the credit performance of Argentine borrowers and result in higher delinquencies if wages do not increase in line with inflation.
- » Moody's expects Argentina's domestic securitization activity to continue growing during the second half of 2011, dominated by infrastructure deals and consumer loan-backed transactions.
- » During the first six months of 2011, structured finance issuance totaled the equivalent of USD 2,436 million, which represents an increase of 20% relative to the same period of last year without including infrastructure transactions.
- » During 2011, ANSES, the Argentine Social Security Agency, continued to be the largest investor in the domestic market after the nationalization of the private pension funds.

Outlook

As a result of the continued growth of the local economy, we anticipate stable performance in personal and consumer loans in the short term. However, a persistent inflationary environment could negatively affect the credit performance of Argentine borrowers and result in higher delinquencies if wages do not increase in line with inflation.

When evaluating Argentine structured finance transactions, Moody's incorporates a macroeconomic scenario. This scenario is intended to aid Moody's analysts in the formulation of the outlooks for their specific markets using a consistent set of assumptions.

Currently the Argentine economy has little dependence on external capital inflows. Argentina is a commodity exporter with a strong trade relationship with Brazil; as a result Moody's is predicting a 6.3% GDP growth for the Argentine economy for 2011 and 4.3% for 2012.

Nevertheless, Argentina's volatile political environment affects confidence and therefore growth.

Inflation has been rising; it is estimated to be at 29% annually in 2011 and is likely to continue at a similar pace.

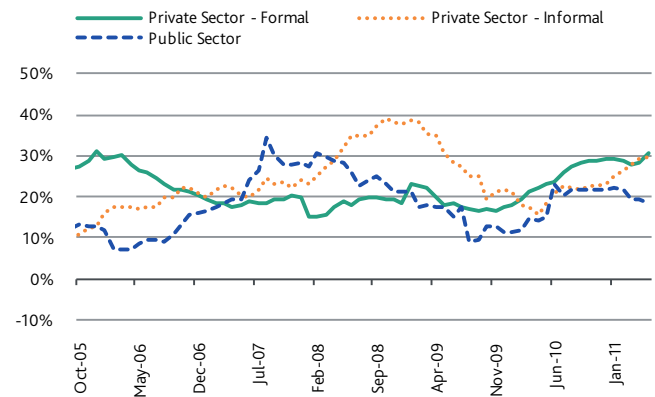
High Inflation to Have Moderately Negative Impact on Delinquency Levels

The impact of the high-inflation on real salaries has so far been moderate because of the annual salary increases granted by the private and public sectors. Labor unions have actively negotiated annual salaries increases that have compensated, or more than compensated for inflation. As a result, high inflation has not had much of an impact on the performance of the banks' loan portfolios so far.

We anticipate higher delinquencies and losses for the banks' portfolios in general and the securitized pools, in particular, if further salary increases are insufficient to compensate for inflation. The positive effect of continuous increase in salaries (in nominal terms) may slowdown in the future, if the Government decides to take the economy through a soft landing period, by moderating nominal salaries increases. Therefore, inflation may affect negatively real salaries, and could contribute to weaker credit performance in the future.

FIGURE 1

Annual Variation of Salaries Y/Y



Source: Instituto Nacional de Estadísticas y Censos

Performance Trends

Delinquency higher than 90 days in the Argentine financial system decreased moderately during 2010 and 2011, and they were at 1.92% as of March-2011. Some of the factors driving this decline in delinquency levels are:

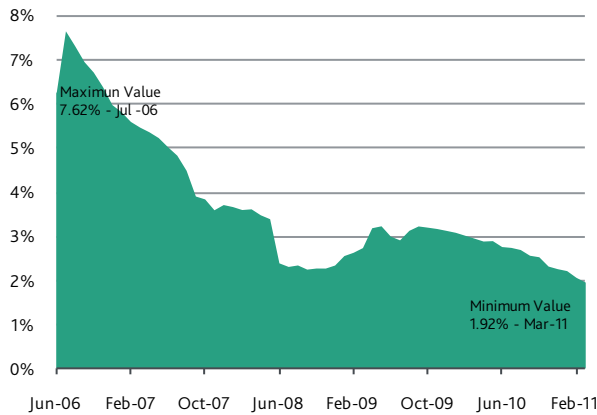
- » A decline in market interest rates (which has translated into increased loan refinancing). Since the overshooting of interest rates in October 2008 there has been a decrease in interest rates.
- » A stronger labor market and economic activity; the unemployment rate has been decreasing since the third quarter of 2009. Moreover, economic activity increased at 9.63% during the first quarter of 2011.
- » Both the continuous increases in borrowers' nominal salaries to match inflation levels (between 20% and 30%), together with the fixed interest rate loans have been reducing the monthly debt to income ratio for borrowers.

Figure 2 shows over 90 day delinquencies for the entire financial system calculated over current portfolio balance. After a strong recovery from post-crisis levels of 2002, delinquencies reached a minimum value of 1.92% in March 2011 (last available information).

FIGURE 2

Delinquencies Argentine Financial System

+90 Days Delinquencies over Current Portfolio Balance (Financial System)



Source: Moody's and BCRA

Strong Structural Features for Consumer Loan Deals

We continue to observe that Argentine transactions benefit from strong credit enhancement levels and excess spread.

Most securitizations in Argentina benefit from high credit enhancement levels. Senior tranches -generally rated Aaa.ar (or Ba2-Ba1 in the Global Scale)-have an initial subordination of 15%-20%. This subordination level will increase over time due to a turbo sequential payment structure that captures 100% of the excess spread available in the transaction.

These transactions also benefit from robust excess spread levels. Excess spread is the difference between the interest rate yield on the securitized assets and the coupon paid on the different securities, minus trust expenses and taxes.

This spread will typically be in the 25% to 45% range, on an annual basis, depending on the characteristics of the assets. Usually, loans originated by banks regulated by the Argentine Central Bank will bear lower interest rates than those originated by financial companies. Also, loans from banks will generally have lower delinquency levels and losses than loans from the financial companies, since the banks have stronger origination standards and target middle- and high-income level borrowers.

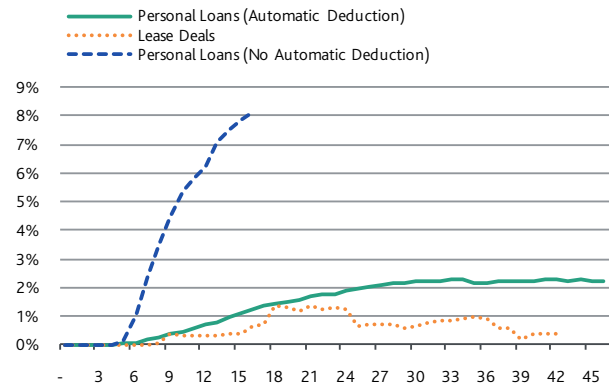
In terms of securitizations rated by Moody's, we continued to observe very strong performance of securitizations of personal loans with automatic deduction (each installment is automatically deducted from the borrower bank account) when compared to other deals that do not benefit from these features (See Figure 3).

Finally, as shown in Figure 3, lease backed securitizations had the strongest performance due to the secured nature of the type of loan.

FIGURE 3

Delinquencies in Certain Moody's-rated Securitizations

+180 Days Delinquencies over Total Pool / # Month Since Closing - Average



Source: Moody's and BCBA

Servicing Risk, Still an Issue for Some Asset Classes

We believe that recent regulations proposed by the CNV address some of the concerns about servicing risk; however, these regulations may not be sufficient to mitigate the risks that arise when borrowers make in-store payments to financially weak seller-servicers. Therefore, we continue to incorporate the intrinsic risk of the servicer in transactions with such in-store payments.

Both the Comisión Nacional de Valores (CNV) and the Buenos Aires Stock Exchange approved several new regulations to mitigate servicing risk in Argentine securitizations after servicer Fideicomisos Bonesi defaulted in 2009. Among the new requirements established were: daily reporting of collections by the servicer; a timeline for transfer of collections to the trust; trustee's tracking of servicer's receipt of collections and trustee's affirmative statements regarding the servicer's ability to perform its role; collateral custodial arrangements; and the appointment of a back-up servicer at the onset of the transaction. Also, the Buenos Aires Stock Exchange expanded the information requirements that trustees are to submit in local securitizations. The trustees with best practices in the market keep an updated database of all borrowers' contact information.

Our ratings of structured finance transactions reflect not only the structural features of the transaction (e.g. credit enhancement, subordination, excess spread), but also the operational abilities and credit quality of the servicer, upon which the transaction will rely.

In situations where borrowers make cash payments at the stores/branches of the seller/servicer, we believe that there is an increased likelihood that delinquencies will increase if, during a servicing transfer, those borrowers are directed to make payments at other locations. This possibility, along with the servicer handling cash collections, increases the probability of a disruption during a servicer transition and also heightens commingling risk.

Stamp Tax Interpretation in Misiones

Based on discussions with several legal advisors in the market, we believe that the likelihood that Misiones' recent interpretation of the stamp tax will survive legal challenge is low. The Province of Misiones recently issued an interpretation of the stamp tax that introduces uncertainty about the stability of the tax framework for publically offered securitizations in Argentina. Although the impact of this tax interpretation alone, even if it survives legal challenge, is too small to affect the credit quality of existing securitizations, if it is successfully adopted by other provinces, it could have a more significant impact on the securitization market in Argentina.

Moody's subscribers can find additional information about the Tax interpretation Misiones in the special comment published on www.moodys.com.

Issuance Outlook for 2H2011

We expect Argentina's domestic securitization activity to continue growing during the second half of 2011, dominated by personal and consumer loans, and to a lesser degree, by auto loans and guaranteed SMEs loans. The presidential elections that will take place during the second half of the year are not likely to have a disruptive effect on new market issuance.

Additionally, we anticipate more government-related issuances as financial trust vehicles have proven to be a suitable instrument to channel government resources to the real economy.

Increased Issuance Amount: Inflation and the Government as Key Factors

During 2011, ANSES, the Argentine Social Security Agency, consolidated its position as the larger investor in the domestic market after the nationalization of the private pension funds.

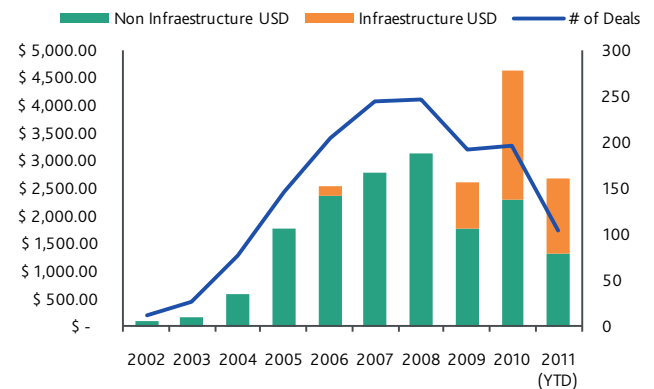
As shown in Figure 4, securitization issuance totaled the equivalent of USD 2,677 million in the first six months of 2011, which represents an increase of 20% relative to the same period of last year without including the infrastructure deals.

In terms of the number of issuances, 103 transactions were issued in the market as of June 2011, compared to 90 in the same period of 2010.

FIGURE 4

Amounts Issued and Number of Deals

Total Amounts Issued (USD) / Number of Deals (#)



Source: Moody's and BCBA

During the first half of 2011 six large infrastructure-related transactions were placed in the market. These deals are usually sponsored or structured by the Argentine Government and purchased mainly by ANSES and government-owned banks. The amounts issued under this category totaled the equivalent of USD 1,363 million as of June 2011, compared to USD 1,750 million (three transactions) during the same period of 2010.

TABLE 1

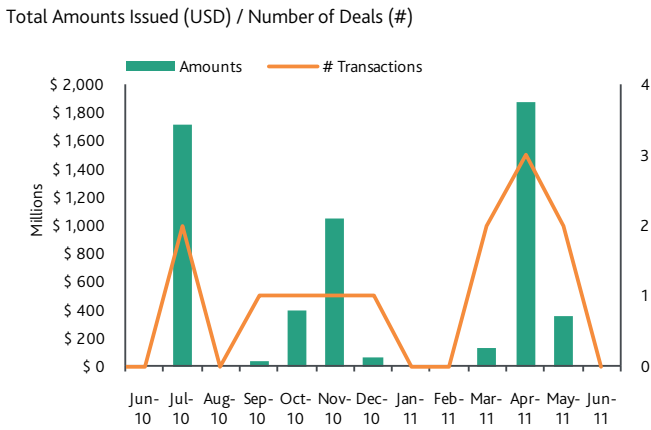
Infrastructure Deals Issued During 2011

Programa Federal Plurianual de Construcción de Viviendas en la Provincia de Río Negro
Plan Federal Plurianual de Construcción de Viviendas - Provincia de Chaco - Serie II
Programa Federal Plurianual de Construcción de Viviendas Provincia de Mendoza
Enarsa - Barragán
Enarsa - Brigadier López
Infraestructura Hídrica - Decreto 1381/01 - Serie III
Programa Federal Plurianual de Construcción de Viviendas en la Provincia de Buenos Aires
Programa Federal Plurianual de Construcción de Viviendas de la Provincia de Entre Ríos
Programa Federal Plurianual de Construcción de Viviendas en Salta

Three of these deals were related with housing programs for different provinces. We expect more provinces to issue similar

transactions during the second half of 2011. The rest of the deals were infrastructure or energy projects.

FIGURE 5
Infrastructure Transactions: Amounts Issued and Number of Deals



Source: Moody's and BCBA

The Securitized Assets

Recovering Lending Activity

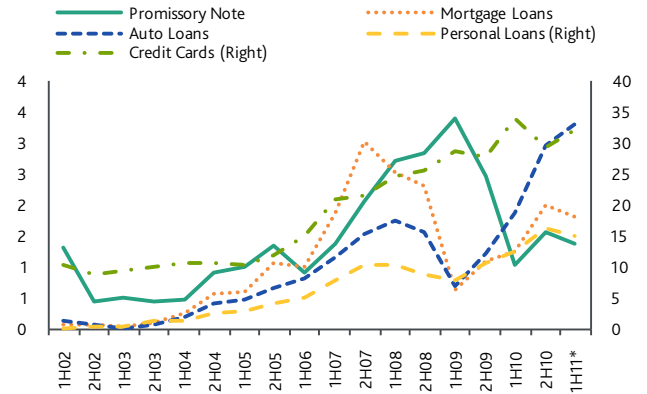
Starting in late 2009, new loan originations began to exhibit a positive trend as a result of improved market conditions. During the second half of 2011, personal loan originations reached ARS15 million (please refer to Figure 6) and credit cards originations reached ARS 32 million. Moreover, auto loan credit has shown an increase in the growth rate since the first half of 2009. Both promissory notes and mortgage loans have not recovered yet from the financial crisis of 2008. The increase in amounts lend is mainly driven by the economic recovery, abundant liquidity and by increasing inflation rates (estimated at 29% annually).

In terms of mortgage and auto loans, the increase was higher, as the year-over-year average growth was 85.84% and 152.39% respectively. We expect a slowdown in the growth rate for the rest of 2011 and 2012, since these loans type were not widely offer during 2009, therefore we can see a high year over year increase.

Interest rates continue to be stable during the first half of 2011. During the 2008 crisis interest rates suffered an increase, and then stabilized in late 2009. (Figure 7).

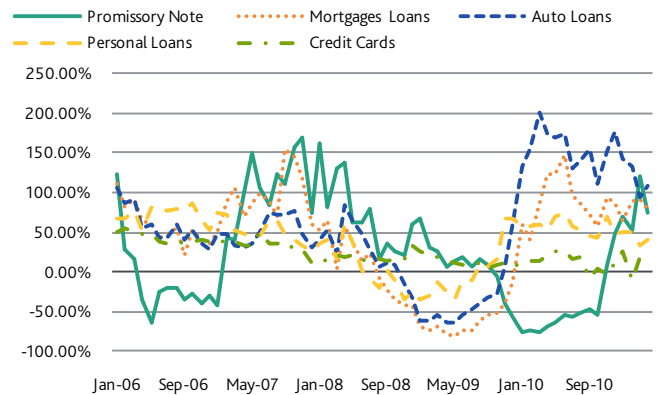
Auto loan and mortgages interest rates ranged between 14% and 17%, while the interest rates for credit cards and personal loans were close to 30 %.

FIGURE 6
Private Banks - Loan Originations
New Loan Originations (In ARS Millions)



*Data until May 2011
Source: Moody's and BCBA

FIGURE 7
Interest Rate (in %)
In % annual nominal



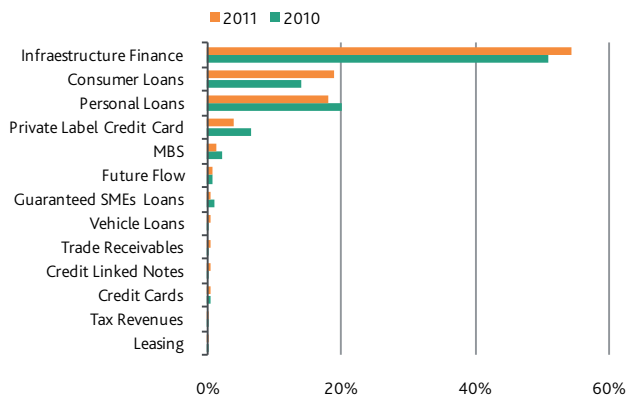
Source: Moody's and BCBA

New Mix of Securitized Assets

The mix of securitized assets has remained stable when compared to 2010. Personal loans, consumer loans and large-infrastructure transactions represent 90% of the total amounts issued. Moreover, 53% of total issuances correspond to large-infrastructure transactions, which were purchased primarily by ANSES (Figure 5).

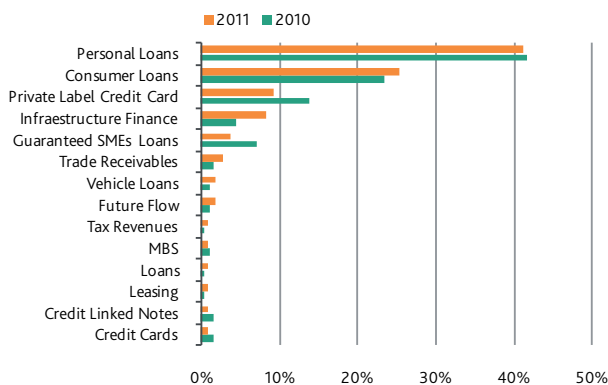
Personal loans and consumer loans represent approximately 36% of the market, followed by credit cards and mortgage back securities.

FIGURE 8

Securitized Assets (Amounts Issued as % Total Year)

Source: Moody's and BCBA

FIGURE 9

Securitized Assets (# Deals As % Total Year)

Source: Moody's and BCBA

Another asset that plays an important part in the market is Guaranteed SMEs Loans and private label credit cards.

Moody's finds it difficult to estimate the issuance of government-related transactions financed mainly through ANSES, because of the high volatility of the issuance of these type of asset. However, Moody's expect a market dominated by this asset type in terms of amounts. We also expect securitizations of personal loans with automatic deduction features to remain a strong asset type, and also to increase the amounts and frequency of issuances.

Securitization Yield Trends

Securitization products became a sought-after asset among local investors. Strong primary placement activity has consolidated a benchmark yield curve for the short term. Also, medium and long term transactions slowly reemerged as the Argentine government's fostered certain infrastructure deals.

Short Term Yield Curve

Most of the short term debt securities issued in 2011 bore fixed interest rates ranging from 12.50% and 13.50%. Some of this super senior tranches were purchased by money market funds.

Securitization continued to be attractive for investors –from a yield perspective— compared to similar investments such as the Argentine Central Bank (BCRA) floating and fixed notes, short term treasury note and post-dated guaranteed checks.

Yields were less volatile and had a stable trend since January 2010. Yields for senior tranches are ranging between 12% and 15%. (See Figure 10 below).

FIGURE 10

Senior Tranches – Issuance Rates

Issuance in ARS -30 days Moving Average



Source: Moody's and BCBA

Medium and Long Term Yield Curve

The issuance of medium and long term securitizations increased in 2010 and in the first half of 2011. With little external capital inflows, structured transactions were the preferred vehicles to finance large infrastructure projects. Other transactions with durations longer than five years involved mortgage backed securities and future flows. The main investor of these transactions is the ANSES or a government-owned bank.

Coupon rates for local currency-denominated transactions were linked to Private BADLAR (which is a reference rate of public banks' deposits). In foreign currency-denominated deals, the prevalent coupon rate was fixed.

Originators: The Argentine National Government as a Key Player

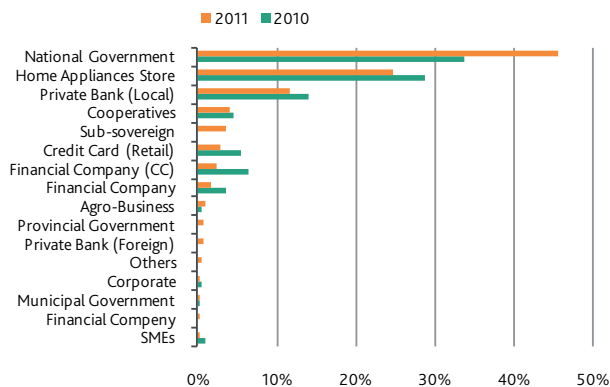
During the first half of 2011, the Argentine National Government was the most significant originator/seller, representing 47.92% of total amounts issued or USD 1,254 million (decreasing from 37.57% in 2010).

Home appliances stores and private local banks were also very active originators of securitizations, with 24.83% and 10.23% of the total amounts issued as of the end of June 2011, respectively.

ANSES suggested a cap in the interest rates for personal loans granted by cooperatives, which was accepted only by the major players of the market. Small financial companies are still originating without using the suggested restrictions. This suggestions will cap the excess spread available for future transactions.

FIGURE 11

Type of Originator: % Amounts Issued



Source: Moody's and BCBA

For the rest of 2011, we anticipate more activity on the home appliances store sector. However, 2011 should not be as good as 2010 for the sector as 2010's sales were boosted by last year's soccer World Cup.

Trustee Quality Ratings

Trustee Quality ratings (TQ) provide the market with an additional tool to help evaluate how well the trustee can perform its duties in those structured transactions it participates in. This ability becomes a key factor when transactions are under stress, and it is particularly important in securitizations where the seller/servicer is not financially strong, because there is a higher probability for the deal to

face a stress situation and therefore to intentionally or inadvertently misapply cash in a transaction.

Since 2006 Moody's has assigned TQ ratings to many trustees in Argentina. Moody's opinions regarding each key categories of assessment have helped to improve certain aspects of the trustee's operations and organizational structures.

TABLE 2

Current Trustee Quality Rating

	Banco De Valores S.A.	Deutsche Bank S.A.	Banco Galicia S.A.	Rosario Fiduciaria	Fiduciaria Del Norte
Rating	TQ1	TQ1	TQ1-	TQ3+	TQ3

Moody's Related Research

For a more detailed explanation of Moody's approach to this type of ratings please refer to the following reports:

Rating Methodologies:

- » [Introducing Moody's Trustee Quality Ratings for Latin America, published originally April 18, 2006 \(SF73089\).](#)
- » [Methodology Update: Trustee Quality Rating Methodology, published August 6, 2009 \(SF175519\).](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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