

So Far, Global Events Haven't Put The Squeeze On Emerging Market Financial Future Flow Securitizations

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Standard & Poor's Ratings Services has reviewed performance data through third-quarter 2007 for financial future flow securitizations in emerging markets. We've found that, despite the events that are currently affecting the global credit markets, these transactions continue to exhibit solid performance.

Future flow programs include securitizations of diversified payment rights (DPRs) and credit card merchant voucher securitizations. We assign ratings and perform surveillance on programs that financial institutions in Brazil, Central America, Mexico, Peru, Turkey, Russia, and Kazakhstan originate.

A key performance indicator for financial future flows is the debt service coverage ratio (DSCR). This ratio measures the amount of securitized cash flow that the transaction receives relative to the aggregate maximum debt service amount due in a given period (semiannually, quarterly, or monthly), generally during the transaction's life. When calculating the DSCR, many programs stress-test the cash flows (for example, by excluding certain types of cash flows) or the maximum debt service payment due over the transaction's life (for example, by assuming a higher interest rate than the current rate). Charts 1-3 show the DSCRs for DPR and credit card merchant voucher programs in Latin America and Eastern Europe, the Middle East, and Africa (EEMEA). We calculated the DSCRs according to the programs' governing documents. (Please note that a Kazakh DPR program, BTA DPR Finance Co., originated by JSC Bank TuranAlem, issued its first series on Oct. 4, 2007. We didn't include this in the charts because sufficient data is not yet available.)

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Chart 1

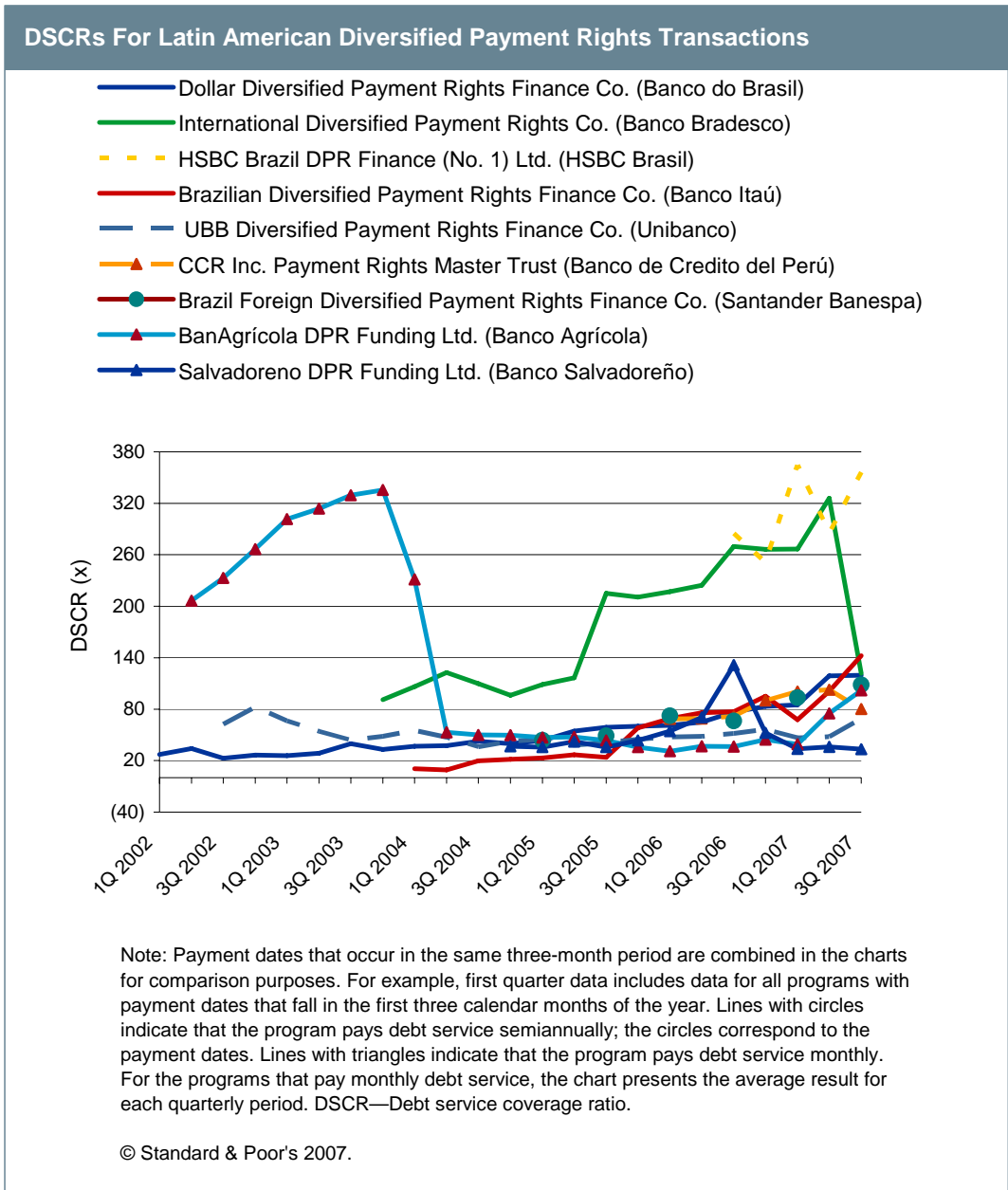


Chart 2

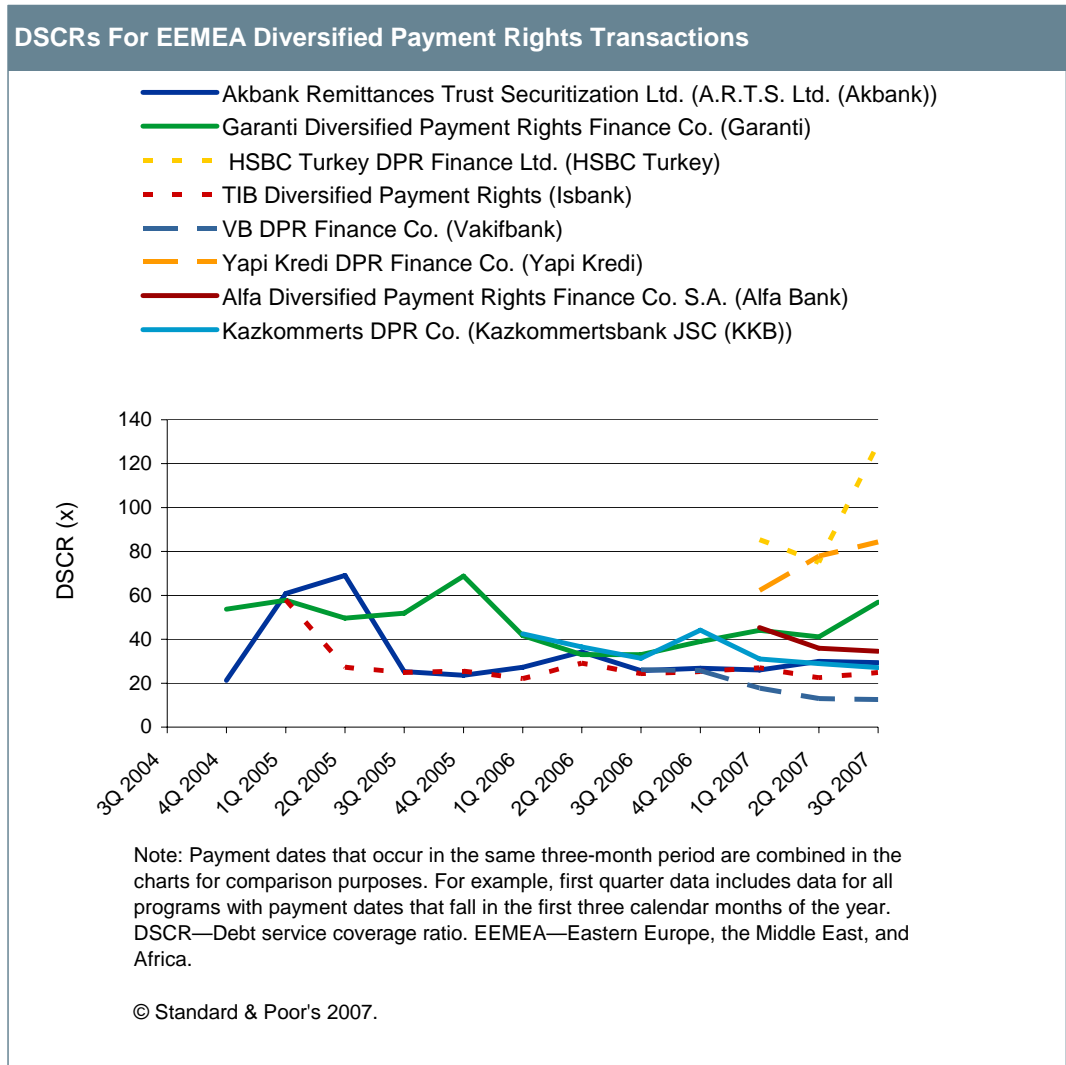
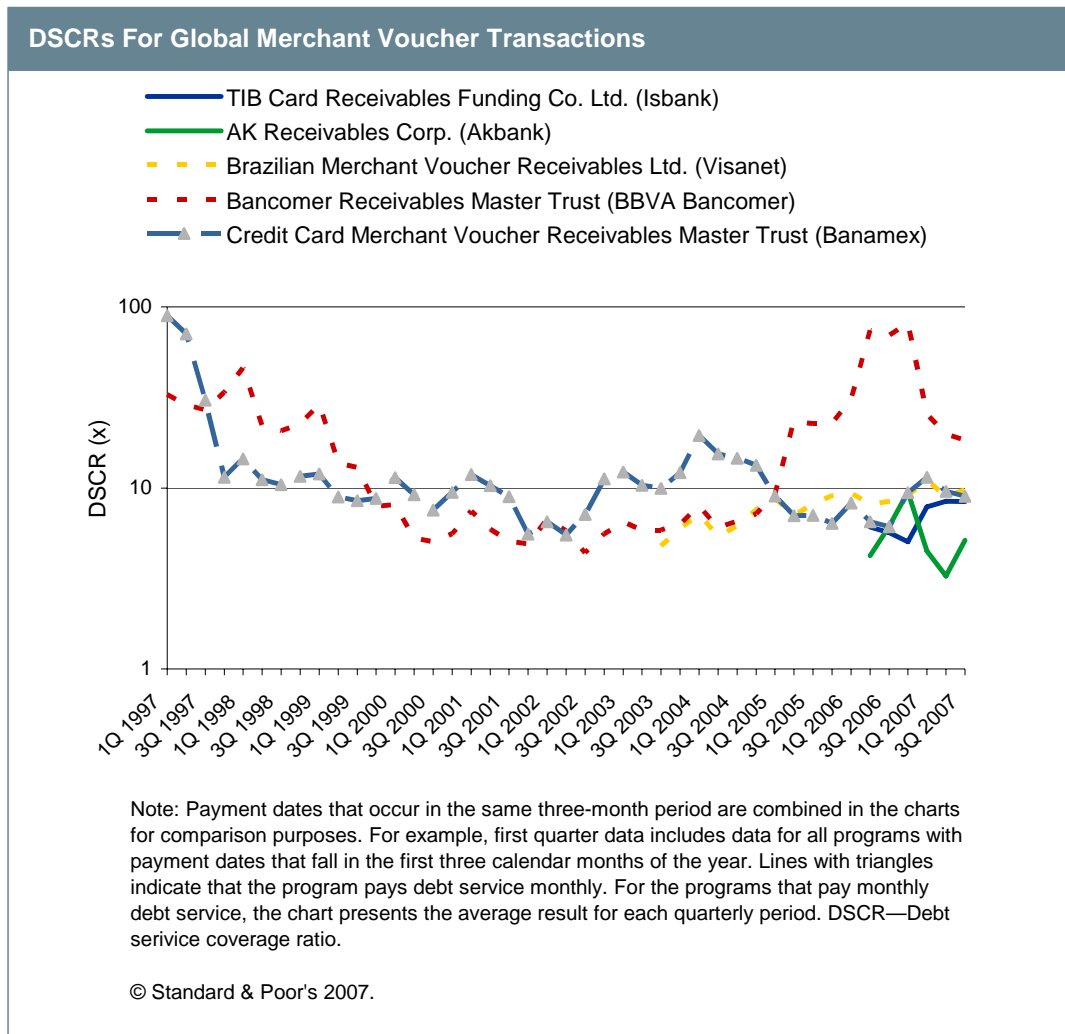


Chart 3



Cash Still Flowed In Emerging Markets Despite The Liquidity Squeeze In The Global Financial Markets

In most cases, financial future flow programs' DSCRs remained at or exceeded historical levels in the third quarter of 2007. The global credit market events in the second half of the year, including reduced liquidity, don't appear to have affected these programs. These results reflect the continued buoyancy of the business activities that generate the programs' cash flows, including tourism and business travel for credit card merchant vouchers and export-related financing, foreign direct investment, portfolio investment, and worker remittances for DPRs. Certain activities, such as foreign direct investment, have historically declined during global market downturns or during periods of reduced liquidity, and this could still reduce the cash flows to certain DPR transactions. Nevertheless, other business activities, such as trade finance (which is supported by commodity-based demand), remain sufficiently strong to support the programs' DSCRs.

Generally, the debt service coverage for Latin American DPR programs is higher than that for the EEMEA DPR programs. A major reason for this is the Turkish and Kazakh banks' heavier reliance on

DPR securitization as an external funding source in recent years. Meanwhile, Latin American banks, particularly those in Brazil, have been able to tap more alternative funding sources, such as unsecured debt, on relatively favorable terms.

A few DPR programs, such as International Diversified Payments Rights Co. (originated by Brazil's Banco Bradesco), CCR Inc. Payment Rights Master Trust (originated by Banco de Credito del Peru), and VB DPR Finance Co. (originated by Turkey's Vakifbank), registered lower DSCRs in the second half of 2007. In the cases of Bradesco and Banco de Credito del Peru, their lower reported DSCRs mainly were due to their new debt issuances, which increased the leverage on the programs. Nevertheless, the DSCRs for both of these programs remain strong. Vakifbank's program had a sharp decline in its DSCR after the bank lost a major corporate account that represented a major portion of its flows, but debt service coverage remains adequate to support the ratings.

What Factors Could Affect Our Ratings?

It's still possible that the global market conditions could reach financial future flow transactions. A sustained change in cash flow generation could strain the DSCRs for these transactions and lead to rating actions. If there's a downturn or economic crisis in an originator's home market, or if the global downturn becomes more severe, the business activities associated with these securitizations could diminish.

Cash flow generation and its effect on a program's DSCR, however, is not the only factor we consider when performing surveillance on these transactions. We also monitor any events or trends that could affect our survivability assessment of the originator, such as changes in its financial performance or competitive position in the business lines underlying its securitization program. We also consider factors that could alter the likelihood of the sovereign interfering in a transaction, such as changes in the political or economic environment where the financial institution operates.

We monitor structured finance transactions until their redemption. For more information on the performance of these transactions, see our surveillance reports, which we publish periodically on RatingsDirect at www.ratingsdirect.com.

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