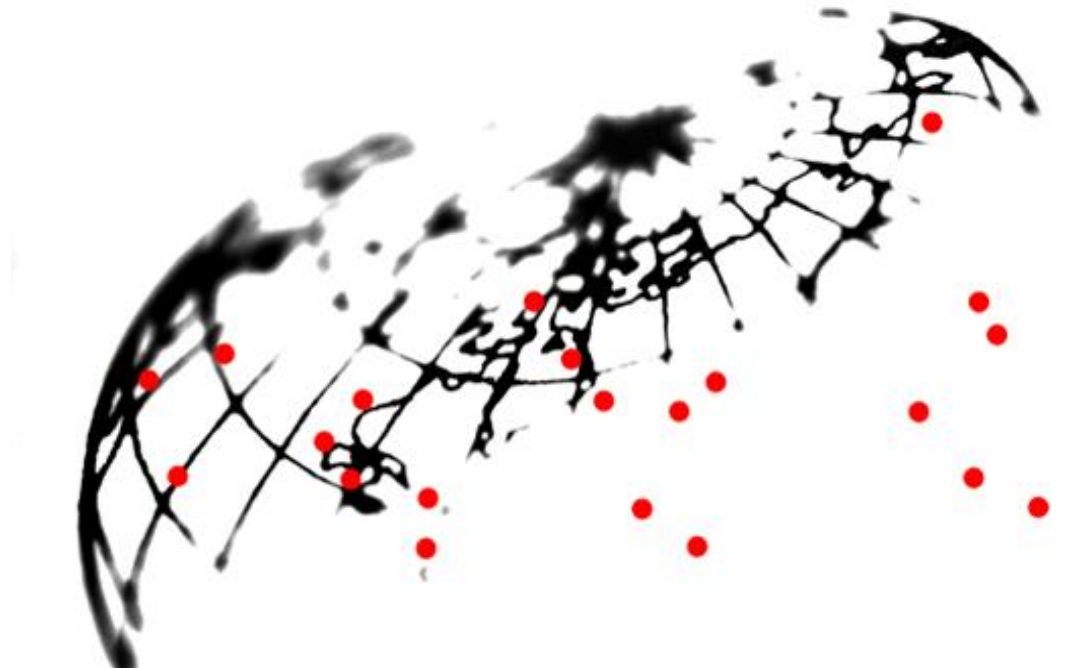


# Sharia compliant securitisations

## Islamic Finance and Real Estate Forum

4 November 2008

Farmida Bi



# Sukuk

- Growth in sukuk has been the biggest change in capital markets in the last 4 years
- Over US\$100bn sukuk are outstanding
- Most sukuk are asset-based rather than asset-backed
- Sukuk are certificates representing ownership of an underlying pool of assets
- Insolvency/default – recourse is usually to the purchase undertaking (unsecured claim) and not the assets
- Rating reflects the credit of the provider of the purchase undertaking

## Securitisation

- Asset backed – not asset-based
- Islamic finance is particularly suited to securitisation since many structures are based on underlying assets
- Assets have to be sharia compliant
- Investors participate in profits and losses generated by the assets placed in the securitisation pool
- Investors are usually conventional institutions
- Issuers have been based in the Gulf/Malaysia
- Comparatively few deals

## Caravan I

- First Islamic securitisation deal – launched in March 2004
- \$27m sukuk, securitising a Saudi Arabian car fleet inventory
- SPV in Saudi Arabia funded the acquisition of a pool of vehicles and vehicle leasing arrangements from Hanco Rent-a-Car in Saudi via a Jersey-registered SPV
- Dual SPV structure for Saudi law reasons
- No rating
- Single class of notes

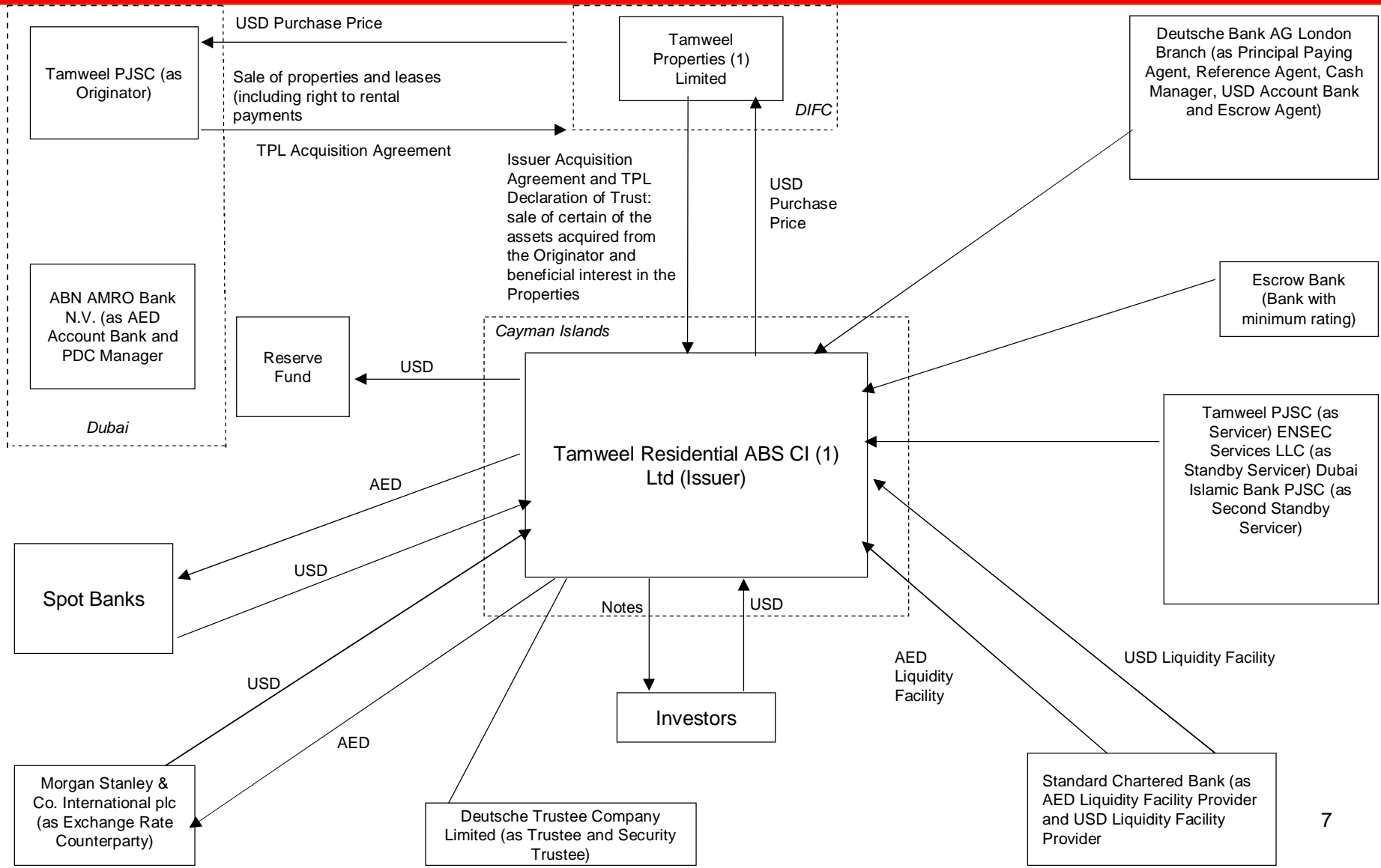
## Kingdom Installment Company RMBS

- US\$18 million securitisation of sharia compliant mortgages provided by KIC, a Saudi home finance provider
- Sukuk matures in 2020 but there is a purchase undertaking in place from KIC at month 36
- Credit enhancement including from IFC
- Placed 15% with Asian investors and 85% with European investors
- Rated A- by Capital Intelligence Ltd
- Harbinger of future deals to come

## Ensec

- Emirates National Securitisation Corporation established in Dubai to be a Fannie Mae
- Issued a rated securitisation of Islamic domestic mortgages originated by Tamweel in May 2005
- US\$350m issue rated AAA by S&P and Moody's
- 104% cash collateralised
- Rule 144A

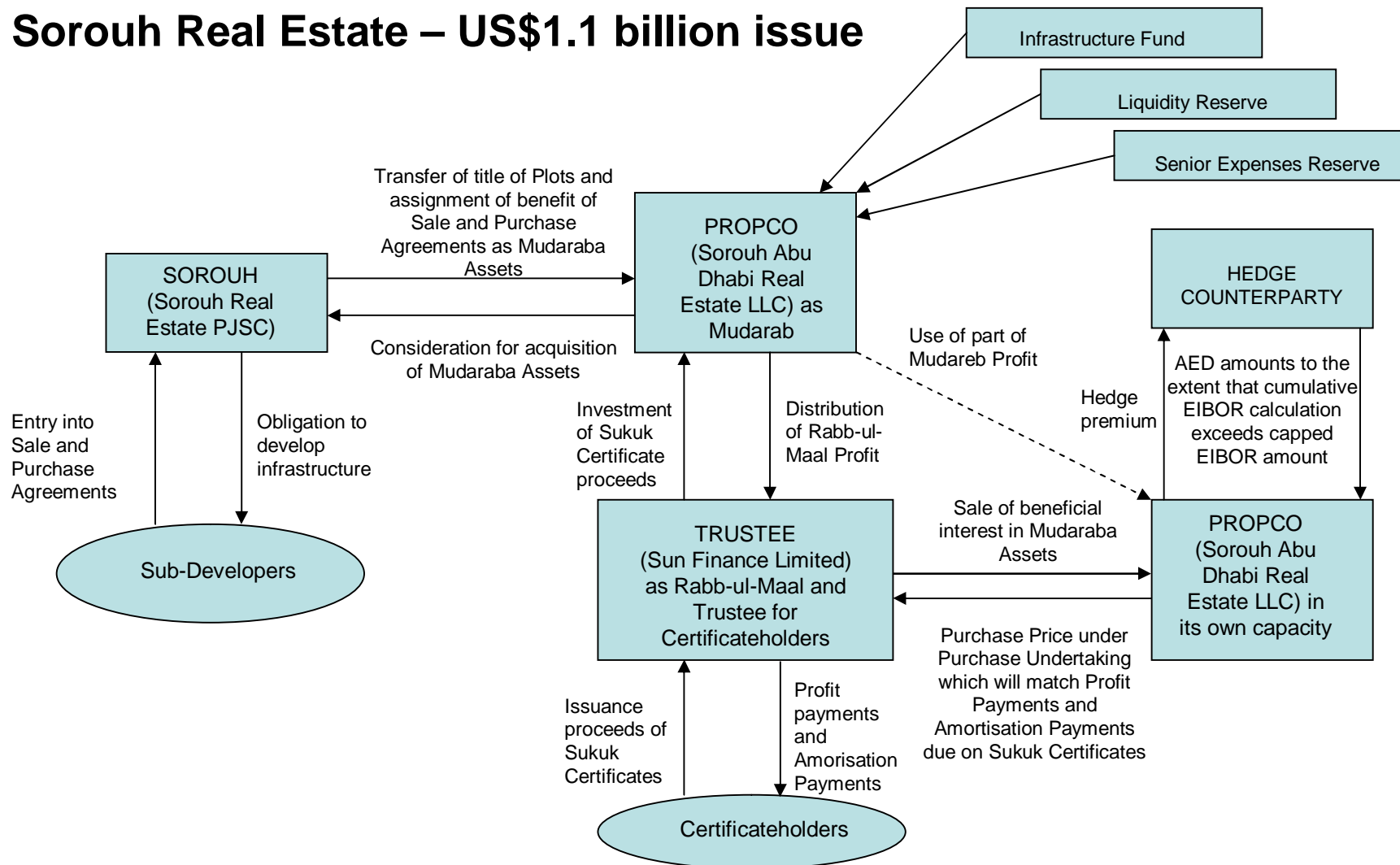
# Tamweel – Sharia compliant true sale securitisation



## Issues

- Tranching
- Interest/penalties
- All aspects of transaction need to be sharia compliant – liquidity facility, authorised investments, swap, etc.
- Dual SPV structure
- Rating
- Security Trustee
- Underlying portfolio comprised 829 Islamic mortgages on apartments and villas in Dubai's free zones

## Sorouh Real Estate – US\$1.1 billion issue



## Sorouh Real Estate – US\$1.1 billion issue

- Closed August 2008
- Affected by the credit crunch
- Abu Dhabi properties
- Mudarabah structure
- Tranching using a musawamah
- Dual SPV structure

## Effect of the credit crunch

- Demand – little liquidity
- Valuation of assets
- Pricing
- Petrodollars (sovereign wealth funds)

## Effect of the AAOIFI Statement

- Taqi Usmani's statement – Nov 2007
- AAOIFI statement – Feb 2008
- Market response
- Impact on structures

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## The future of Islamic securitisation

- Tied to the conventional market
- Unlikely to be securitisation issues in the near future
- Potential issuers are warehousing their assets
- High potential demand, especially in Saudi, for RMBS and CMBS
- Others e.g. future flow deals
- The effect of property crash in the region on investor morale is uncertain
- Capital requirements e.g. Amlak/Tamweel expected to acquire banking licence
- 144A issues
- Ratings



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- Farmida has acted for the lead managers on many of the leading Islamic capital markets issues including the Tamweel securitisation and the acquisition of P&O by Dubai Ports.
- Farmida qualified as a solicitor in 1992 and as a New York attorney in 1999. She was a partner at Denton Wilde Sapte in London from 2002 to June 2008 and joined Norton Rose LLP as a partner on 1 July 2008
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