

Islamic Securitisation

Khalid Howladar
Vice President / Senior Officer
Middle Eastern and Islamic Structured Finance



IREF London
November 6th 2007

Moody's Investors Service

Agenda

- ***Islamic Securitisation: Asset 'Backed' vs Asset 'Based'?***
- ***Focus on Residential Mortgage (Ijara) Backed Sukuk (RMBS)***
- ***RMBS Challenges In New Markets***





Islamic Securitisation

*Asset 'Backed' vs
Asset 'Based'*



Moody's Investors Service

Is Sukuk Risk Different?

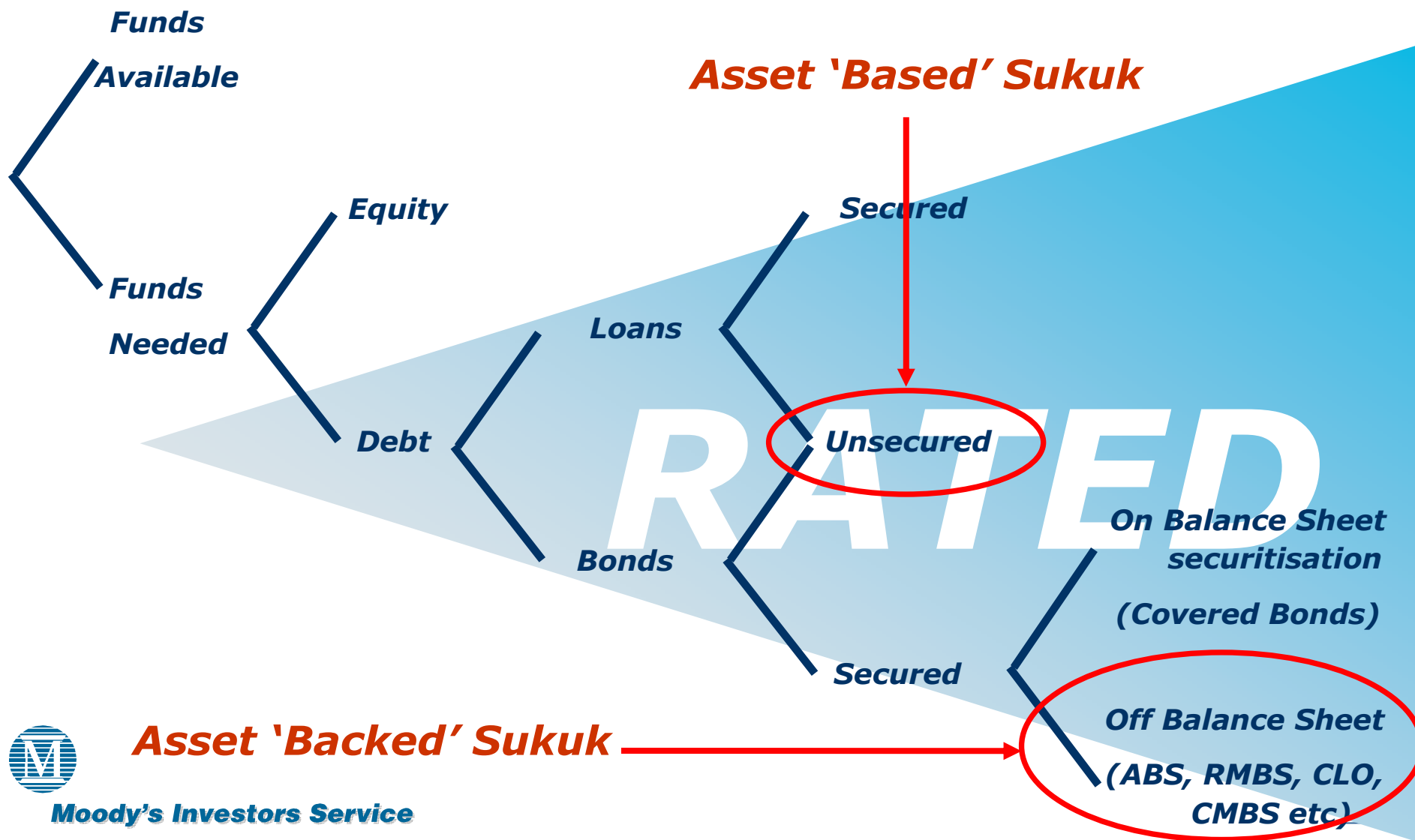
“Risk has no religion” - GCC Central Banker

- Conventional methods of credit analysis can be applied – cashflow, return and risk are universal
- The core credit risk is the same as conventional bonds, but majority of [new] Sukuk financing structures have not been ‘tested’ in a stress or default scenario
- If not implemented correctly then Shari’ah may introduce a new risks for investors

Main Sukuk & Conventional analysis is the same



CFO Toolbox: Where is Securitisation?



MENA Securitisation Ratings in 2007

- Securitisation ratings are focussed on specific assets - not the borrower, although they are still important to 'service' or 'manage' the assets.
- This asset focus allows even young and smaller companies to achieve the highest ratings if they have good strong assets.
- Such ratings are usually higher than the borrower and can even be higher than the government
- Rapid growth in underlying markets will favour securitisation as an efficient financing tool - although excess liquidity is an impediment



Sukuk Assets – Who owns them?

‘BACKED’: If Sukuk investors:

- legally own the beneficial/actual title to assets and associated cashflows
- are [borrower] bankruptcy remote
- Have no recourse to borrower...

...then asset drives Sukuk performance

‘BASED’: Although assets are ‘involved,’ Majority of Sukuk today are driven by borrower performance not specific assets – rating is Borrower driven.





Tamweel Sukuk

Residential Ijara Backed Sukuk



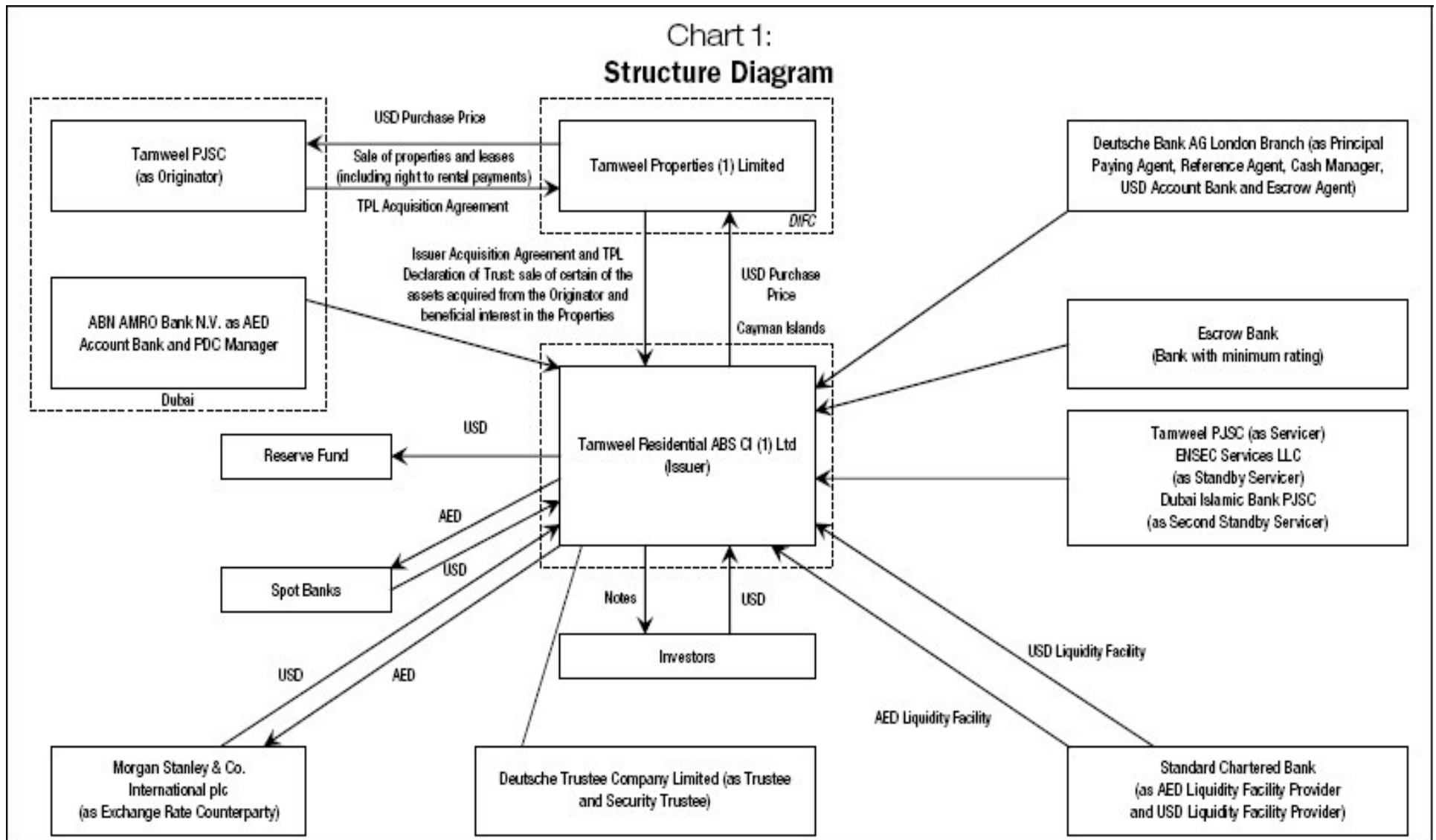
UAE mortgage market

- **Rapid growth of the home financing market since 2002**
 - Residential mortgage market in Dubai reached AED 11.5 billion*
 - In 2006 UAE Mortgage market grew by 58% to AED 27.7 billion**
- **Mortgage lending driven by :**
 - Rapid population growth (5% annual growth expected till 2012)*
 - New housing stock (600,000 units under construction in Dubai)
 - Relatively low mortgage penetration (about 2% of GDP)*
 - New Property Laws and freehold ownership rights to foreigners
- **Regulatory developments essential to enable RMBS**
 - Law Number 7 specifies the functions and responsibilities of the Department of Land and Property, allowed title registration



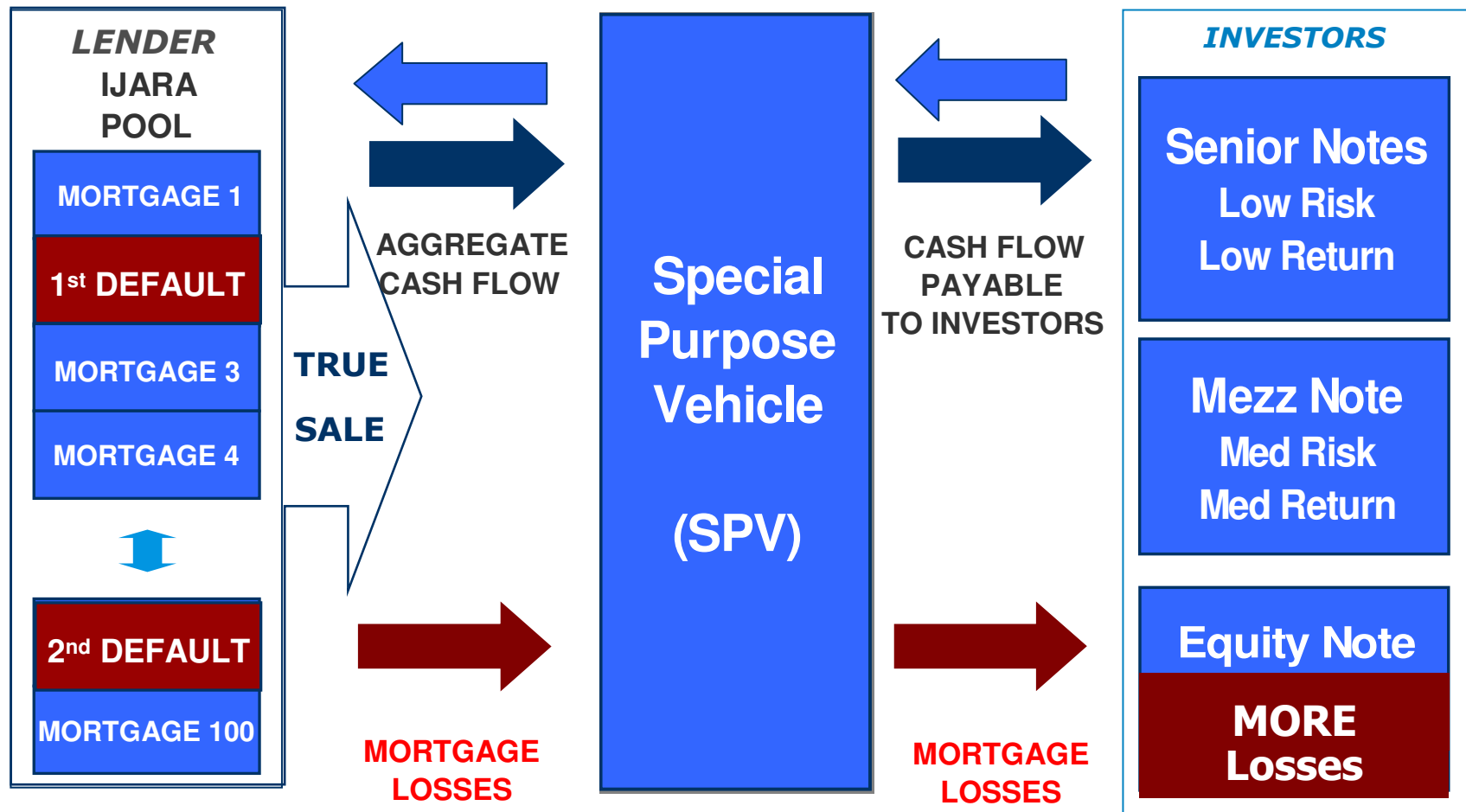
Tamweel Residential ABS CI (1) Ltd

Chart 1:
Structure Diagram



Residential Ijara Backed Sukuk

Financing via sale of Ijara Leases / Mortgages



Primary RMBS Parties

- **Mortgage Lender / Originator / Sponsor** – originates and initially provides the underlying [Islamic] assets
- **Servicer** - collects and recovers payments on the assets
- **Issuer** - issues the securities (normally an SPV)
- **Trustee/Security Agent** - representative of investors
- **Rating agencies** – credit risk opinion,
- **Investment bankers**- structuring and underwriting
- **Monoline insurance** (FSA, MBIA, AMBAC)
- **Other** - Swap counterparties, Account banks, Custodians, Paying agents, Liquidity facility providers, Shari'ah boards, Lawyers, etc..





Tamweel Sukuk

Challenges In New Markets



Data and Modelling Considerations

- **Booming Credit Environment**
 - Lack of borrower default history. No past property crash. What will happen in a market correction?
- **Recovery Values on Properties**
 - How long does enforcement take? What is the time and cost of foreclosure?
- **Relatively Young Originators / Servicers**
 - When unrated we have weak-link issues which can cap the maximum rating achievable...
 - But can use rated back-up



Local Legal Environment

- **Uncertain Legal Framework**
 - **New laws : interpretation by the Local Courts untested**
 - **New Jurisdictions: e.g. no precedents by DIFC Courts**
- **Islamic Mortgage Types: Ijarah (Lease-To-Buy)**
 - **Security: legal ownership of the property**
 - **Lessor obligations : property management**
- **Registration of Title**
 - **Uncertainty on procedures : Dubai Land Register recently opened for residential properties**



Local Market Issues

- **Central Credit Bureau relatively new:**
 - Positive step but need more borrower history
- **Property Valuations / Property Prices**
 - Immature market makes comparable less reliable
 - Sustainability of current price levels
- **Payment Methods**
 - Post dated cheques in the name of the Originator



Local Pool Characteristics

- **Borrower Types : Expatriates**

- Less incentive to service the loan in case of a recession
- More difficult to pursue personal assets if located abroad

- **Property Type : Flat/Villas**

- Villa demand is higher, less likely to be investment property

- **Regional Concentration : City States**

- No regional / economic diversification
- Less pool granularity : more default correlation between loans

- **Event Risk**

Consideration of economic and political stability via country ratings



© Copyright 2007, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

www.moodys.com

Contact: Khalid.Howladar@moodys.com



Moody's Investors Service