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Structured Finance

Latin America
Special Report

2010 Latin American Structured Finance Review and Outlook

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Related Research

- *Mexican RMBS Performance Update, Sept. 18, 2009*
- *Argentine Consumer Loan Securitizations: Alive and Kicking, Dec. 9, 2009*

Summary

As expected, in 2009 the depth and extension of the global financial crisis directly impacted Latin America, although the degree of negative impact varied from country to country. Mexico revealed itself to be inextricably linked to the United States, while Brazil was more cushioned. A year ago, Mexico was projecting a mild decline in GDP for 2009, but it ended the year with a greater than 7% decrease. Brazil, on the other hand, experienced a much milder decline in GDP of approximately 1.2% for the same period. Within the region, only the economies of Peru and Panama reported growth in GDP for 2009. Fitch's Outlook for 2010 is that ratings on the majority of asset classes throughout the region will remain stable. However, Mexico will continue to show signs of deterioration during the first half of 2010, but should stabilize towards the end of the year.

At the start of 2009, Fitch cautioned on the challenging environment facing asset performance for the region. No sector was completely immune to the year's turmoil, but some performed worse than others. Among the most troubled were securitizations related to the Mexican housing sector. Sofol-backed construction bridge loan securitizations, in particular, were burdened by a lack of corporate liquidity and flattened demand for new construction as a result of higher unemployment and general macro economic stress. By contrast, future flow securitizations and auto loans remained relatively resilient to the global crisis. Several of these issues will be explored in this report.

The challenging environment translated to an increased degree of negative ratings actions across several asset classes. As of Jan. 1, 2010, Fitch maintained ratings on 881 structured finance tranches. Through the course of 2009, Fitch affirmed 771, downgraded 96, and upgraded 14 tranches. The majority of downgrades occurred in Mexican Sofol-related RMBS and bridge loan securitizations. Economic uncertainty across Latin America is expected to continue throughout 2010. However, Fitch expects the ratio of negative to positive ratings actions to diminish as compared to 2009.

This report comments on the past year's developments in the region's most significant structured finance markets and discusses Fitch's outlook for 2010. In addition, the report details transaction performance and provides several rating-transition matrices for the largest structured finance markets in Latin America. These transition matrices show all current outstanding ratings that originated from 2005–2009. They do not include transactions that matured prior to January 2009. While performance varies by country and asset class, the matrices provide a general understanding of transaction performance over the past five years.

Tranches by Asset Class

	Downgrades	Upgrades	Affirmations	Total
ABS	52	14	550	616
CMBS	4	0	26	30
CDOs	6	0	6	12
RMBS	34	0	189	223
TOTAL	**96**	**14**	**771**	**881**

Source: Fitch Ratings.

Evolving Markets

Reflecting a difficult credit environment, 2009 issuance levels across the region were down compared to those of 2008 and significantly lower than the recent peak achieved in 2007. Latin America's 2009 cross-border and local issuance totaled approximately $15.5 billion, a 14% decrease over 2008's issuance total of $17.9 and a 20% fall from the $19.4 billion issued in 2007. Nonetheless, from 2003 through the downward credit cycle of 2008 and 2009, the Latin American structured finance market grew considerably, exhibiting an annual rate of 10%. The market shows increasing signs of maturity and depth of asset classes as well. What started as mostly a cross-border future-flow securitization market has evolved to structure sophisticated asset-backed securitizations such as mortgages and auto loans. However, Fitch continues to caution that the growth is not without blemishes. As detailed to some extent in this report, Fitch has viewed a wide spectrum of credit quality in the structures emerging from Latin America.

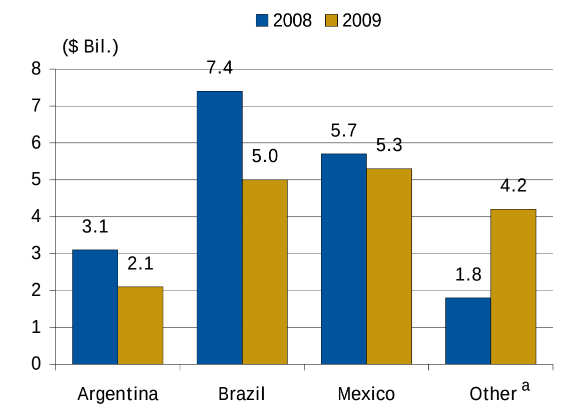
A large contributing factor to regional issuance decline was the disappearance of the cross-border market. Typically averaging between $2 billion and $4 billion per year, cross-border placement in 2009 was at its lowest point of the past decade and totaled less than $500 million.

Brazil's local market also showed significant decline year over year. Issuance in 2008 of approximately $7.4 billion was much larger in comparison to 2009's level of only $5.0 billion. Generally absent from the market in 2009 were the middle market banks that in the past had accessed the market to fund platforms such a payroll deductable loans and used autos. Fitch has not included in its Brazil numbers a $1.5 billion CDO that was registered in 2009 but not yet placed into the market.

In Mexico, RMBS issuance levels remained somewhat stable, although the profile of the issuers changed significantly away from SOFOLEs to new entrants like Fovisste. New asset classes, such as trade receivables, and repeat consumer loan issuance from Infonocot helped support overall 2009 structured finance issuance of approximately $5.3 billion in Mexico.

Similar in spirit to the TALF programs of the U.S., regional government entities provided liquidity to key market sectors by investing in ABS. Fitch estimates that more than $1 billion in housing-related securities was government backed in Mexico and Brazil. These numbers are not included in the above regional issuance totals.

Latin America Structured Finance Issuance



[a]Regional total.
Source: Fitch Ratings.

Mexico

Fitch expects 2009 Mexican GDP numbers to close at a 7.2% decrease relative to the previous year. The strong correlation of the Mexican economy to that of the U.S. and the outbreak of H1N1 influenza caused a general decrease in consumption and investment, especially in border states and tourist regions. As a result, the region's second largest economy was the most affected by the global financial crisis. Also contributing to the sovereign's fiscal weakness was falling oil production, a major revenue base for the sovereign's budget. The deterioration of the sovereign's fiscal condition, among other issues, led Fitch to downgrade Mexico's foreign currency IDR to 'BBB' from 'BBB+' and it's local currency IDR to 'BBB+' from 'A–' in November 2009. The weakness in the real economy was particularly observed in housing-related credit markets and unsecured consumer lending, two of the fastest growing asset classes during the economic boom that ended with Lehman Brothers' demise.

Mexican Housing Markets

From December 2008 to December 2009, the number of formal workers affiliated with the Instituto Mexicano del Seguro Social (IMSS) decreased by 1.2%, with permanent workers being the most affected with a decrease of 2%. While employment information related to the informal employment sector is difficult to track, given that these workers are typically not contractually affiliated with an employer or registered with any fiscal authorities, Fitch believes this sector was impacted even more significantly than the formal sector. This can be seen in the rising delinquency levels within certain RMBS transactions originated by nonbank financial institutions (SOFOLES/SOFOMES) that provide financing to those employed by the informal sector.

Fitch attributes the increase in 90+ day delinquencies during 2009 mostly to rising unemployment and decreasing available income resulting from under employment within the informal sector. In addition, it is apparent that weaker underwriting standards were employed in many of the UDI-denominated RMBS transactions originated by Sofoles. Unlike in other markets such as the U.S., declining home prices are not a large contributing factor to the increase in delinquency levels, as home prices have not declined significantly within these segments in Mexico. Fitch expects a continued increase in delinquencies throughout 2010 within most of the UDI-denominated transactions originated by Sofoles. A rebound in the economy and unemployment, an increase in collections efforts, and a successful restructuring program on selected loans would allow for the potential for stabilization during the second half of 2010. Peso-denominated loans and certain bank-originated transactions will continue to outperform UDI-denominated loans, as these loans were originated with higher underwriting standards and were directed mostly to higher-income individuals with stronger job stability.

During 2009, Fitch's Mexican RMBS portfolio experienced 27 negative rating actions on 23 different tranches. All of these tranches were related to transactions backed by mortgages originated by SOFOLES/SOFOMES. RMBS rating affirmations included four Bonhito-related tranches. As of year-end 2009, 17 SOFOLE/SOFOME RMBS tranches remained on Rating Watch Negative (RWN). Additionally, Fitch currently maintains ratings on 14 bank RMBS tranches, four of which were assigned Negative Rating Outlooks.

Servicers faced financial and operational challenges in 2009 due to the effects of the global crisis in the Mexican capital and debt markets. The contraction of the credit markets, deterioration of assets, and a lack of support from Sociedad Hipotecaria Federal (SHF) caused Metrofinanciera and Crédito y Casa to default on their unsecured obligations. While Crédito y Casa's servicing platform has been recently acquired by ABC Capital, Metrofinanciera is still in the process of restructuring its obligations with creditors. Consequently, during 2009, Crédito y Casa's ABS/RMBS transactions experienced delinquencies above market average, while Metrofinanciera's mortgage pools at least doubled their 90+ day delinquencies during the past 12 months.

Infonavit-related RMBS (Cedivis) delinquencies remain in line with Fitch's expectations. Due to the 12-month automatic loan extension inherent to Infonavit loans following borrower unemployment, these transactions require a different approach in terms of analyzing delinquencies/losses. Extensions have increased substantially since the second half of 2008, and while they showed a slight decrease in August 2009, they started to increase again during the last four months of the year. Fitch expects extensions to begin a downward trend in coming months, as the 12-month grace period ends for employees that lost their jobs in the beginning of 2009. However, this could also cause an uptick in delinquencies during 2010. All Cedevis (Infonavit sponsored) RMBS tranches rated by Fitch were affirmed and assigned a Stable Rating Outlook during 2009.

Construction bridge loans and related structures also had a difficult year in 2009. In total, 12 tranches suffered a combined 30 negative rating actions throughout the year. A severe drop in market liquidity and mortgage origination, particularly in the middle-and high-income segments, increased sales cycle times for projects. As bridge loans matured, extensions and delinquencies increased significantly. During 2009, the markets witnessed the default of three mezzanine tranches backed by Metrofinanciera and Su Casita construction bridge loans. Metrofinanciera's Metrocb03-2 and Metrocb03-3 defaulted as a consequence of collections that were not transferred to the trusts by the servicer during 2007 and 2008, while Su Casita's mezzanine tranche HSCCB 04-2 was not paid in full at maturity due to delinquencies and extensions related to an increased sales cycle. These tranches were consequently restructured during 2009, and as Metrofinanciera's bankruptcy progresses, additional transactions related to construction bridge loans are expected to be restructured during the first months of 2010. Fitch expects the negative trend in construction bridge loans to remain present throughout 2010, particularly in transactions backed by projects directed to middle- and high-income homebuyers.

Fitch is cautious about asset performance expectations throughout 2010. Deterioration is expected to continue, particularly as delinquencies make their transition across delinquency buckets and are recognized as losses. However, Fitch expects a shallower slope in delinquency curves for 2010. Loan modification programs may help contain the migration to higher delinquency buckets, but the programs' success will ultimately depend on employment recovery. Some macroeconomic recovery is evident from recent high-frequency data, and Fitch expects Mexico's real GDP to slowly recover and grow by 3.0% in 2010. However, recent legislation increasing value-added and income taxes, along with increases in fuel prices, could outweigh 2010's minimum wage increase of 4.85% and hinder investment and employment, thereby increasing pressure in income and consumption throughout the year.

Mexico Transition Matrix

(2005–2010)

	Current Rating									
Original Rating	**AAA**	**AA (+/-)**	**A (+/-)**	**BBB (+/-)**	**BB (+/-)**	**B (+/-)**	**CCC and below**	**PIF**	**WD**	**Total**
AAA	73	17	2	1	—	—	1	2	—	96
AA	—	5	2	—	—	—	—	—	3	10
A	—	—	18	2	4	1	3	—	—	28
BBB	—	—	—	—	—	—	1	—	—	1
BB	—	—	—	—	—	—	—	—	—	0
B	—	—	—	—	—	—	—	—	—	0
CCC and below	—	—	—	—	—	—	—	—	—	0

PIF – Paid in full. WD – Withdrawn.
Source: Fitch Ratings.

Mexican ABS Markets

In the Mexican ABS market, Fitch observed an increase in delinquencies in most of its consumer-related portfolios during the first three quarters of 2009. In consumer loans, Fitch witnessed delinquencies rise in the range of 12.0%–17.0% over 2008 levels. For auto loans, the direction was similar, although the magnitude less pronounced, with a range of 3.5%–4.0%%. These increases are attributed mainly to a slowdown in economic activity and the increase in unemployment in México.

Despite the increase in delinquencies during 2008, Fitch believes that these transactions are well structured to weather the current conditions. A combination of structural features including cash traps, reserve accounts, and priority of payment waterfalls along with general support from issuers have helped these transactions remain more resilient. During the course of 2009, 11 tranches related to consumer loans and auto loans were affirmed and none were downgraded.

The remaining portion of Fitch's rated portfolio is comprised of other asset types including CMBS, trade receivables, shipping-related assets, and future flow transactions. These assets performed to various degrees, with 10 affirmations and seven downgrades related to ship receivables and future flow transactions of from auto sale profits.

The year saw new participants as well as repeat issuers in the ABS market. Two noteworthy new entrants included Leasing Operations de México and Holcim Apasco, both placing 'AAA(mex)' transactions. Leasing Operations de Mexico was a securitization of various types of rental streams. Binding leases, strong obligors, and diversification, coupled with credit enhancement levels able to withstand significant defaults, helped solidify an exceptional credit profile. Similarly, Holcim Apasco's trade receivable securitization combined a strong business profile with a strict and well-designed structure that enables investors a high degree of control over short-term trade receivables. Both of these transactions are well positioned to maintain stable performance during the unpredictable economic times ahead.

As a repeat issuer, INFONACOT came to market with one public transaction during 2009. In Fitch's opinion, the structure of the most recent transaction, improved over previous INFONACOT issuances, solidified what was already a strong issuer profile. Increased transparency in how collateral was defined helped "ring fence" the true economic value of the assets. For 2010, Fitch expects to see transactions from the following asset classes: unsecured consumer loans, trade receivables, and CMBS.

Brazil

While the beginning of 2009 looked to be bleak for all emerging markets, Brazil didn't suffer the consequences of the global crisis to the same degree as other Latin American countries. Fitch expects that the Brazilian GDP contracted only 0.4% in 2009 and will expand 5.3% in 2010. The unemployment rate fell to 6.6% in December 2009 after peaking at 9.0% in March 2009. The Brazilian government was very successful in implementing countercyclical measures to fight recession, such as reductions in compulsory requirements, liquidity facilities to midsized banks, and funding for real estate and infrastructure projects.

The sovereign's most active arm in implementing a variety of these stimulus plans has been Caixa Economica Federal (Caixa). Caixa has played an important role in providing funding to residential real estate construction companies and infrastructure projects. The funding is from the fundo de garantia por temp de serviço (FGTS), which is a mandatory retirement fund program for all public- and private-sector employees, managed by Caixa. These investments are part of the federal government's larger development program, *Programa de Aceleração do Crescimento (PAC.).* Inside PAC, the government created the program *Minha Casa, Minha Vida*, which consists of subsidizing the acquisition of houses by low-income individuals. The program has already disbursed BRL14.1 billion. Because of this program, many construction companies redirected their focus to this segment during 2009, from a historical interest in the higher-income new-home buyer. Thus far, the government has made available BRL6.0 billion for Caixa to finance residential projects.

During 2009, the Brazilian market experienced a modest return of securitization, albeit with simpler structures such as credit tenant leases and trade-receivables-backed transactions. There have been a rising number of issuances backed by shopping center rent receivables and property collateral. Fitch expects to see even more of these transactions in 2010, along with a variety of future flow transactions

Compared to previous years, consumer ABS issuance by middle-market banks was practically nonexistent, as lending by these institutions had declined substantially in the fourth quarter of 2008 with gradual, partial recovery over the year. Furthermore, these banks took advantage of government-backed issuance programs to fund their business, which was one of the measures taken by the Brazilian Central Bank to aid banks in the face of the global financial crisis.

Credit Performance and Trends

Some performance deterioration was observed in transactions backed by consumer loans during the first half of 2009. Fitch believes this was mostly due to looser underwriting criteria by middle-market banks during the boom that preceded the credit crunch. Origination standards have since returned to more conservative parameters, and delinquency levels have stabilized somewhat across the sector. Fitch downgraded two tranches of an auto loan securitization and also placed them on RWN. Outside of one particular issuance, which Fitch placed on RWN due to weaker-than-expected performance, Fitch affirmed the remaining 12 ratings. More recent delinquency and default trends in consumer ABS have shown signs of stabilization as compared to the levels of 2008 and early 2009. Hence, Fitch does not expect further downgrades in 2010.

On the RMBS side, outside of one particular issuance, which Fitch placed on RWN due to weaker-than-expected performance, Fitch affirmed the remaining 12 ratings. Two other ratings, related to credit tenant leases, were downgraded and placed on RWN. No upgrades occurred in 2009. Overall, Fitch expects credit rating trends within its rated portfolio to remain stable in 2010 with no significant deterioration.

Fitch expects 2010 to be a robust year for securitization issuances within Brazil. The more active asset classes will be auto loans of used and debuting new vehicle lenders, future flow receivables in the oil and gas and public service sectors (e.g. water utilities and power), CMBS of single-tenant lease-backed, and shopping center rental flows backed transactions. Also, residential construction companies will continue to access FGTS funding managed by Caixa. Consumer ABS and trade receivables issuances should have a greater presence in 2010.

Regulatory Initiatives on the Horizon

Positively, the Comissão de Valores Mobiliários (CVM) capital markets regulator has taken steps to increase transparency regarding seller-implicit support in structured finance transactions. As common practice, many sellers to securitizations are permitted to repurchase prepaid, delinquent, or defaulted loans that have already been securitized, with limited or no disclosure to investors. In 2009, the CVM requested market comment on new regulation to increase transparency. This regulation should be finalized and implemented in 2010. More details regarding implicit seller support in consumer ABS in Brazil can be found in Fitch Research on “Consumer ABS — Fact or Fiction?” dated April 15, 2009, available on Fitch’s Web site at www.fitchratings.com.

Brazil Transition Matrix

(2005–2010)

	Current Rating									
Original Rating	**AAA**	**AA (+/-)**	**A (+/-)**	**BBB (+/-)**	**BB (+/-)**	**B (+/-)**	**CCC and below**	**PIF**	**WD**	**Total**
AAA	10		—	—	—	—	—	—	—	10
AA	2	19	—	—	—	—	—	5	—	26
A	1	—	18	—	—	—	—	1	—	20
BBB	—	—	—	4	—	—	—	1	—	5
BB	—	—	—	—	1	—	—	—	—	1
B	—	—	—	2	—	—	—	—	—	2
CCC and below	—	—	—	—	—	—	1	1	—	2

PIF – Paid in full. WD – Withdrawn.
Source: Fitch Ratings.

Furthermore, the Brazilian Central Bank has once again postponed implementation of consolidation rules for sales (and hence securitization) of loan portfolios. The new regulation (e.g. Resolution 3.533) has been postponed to become effective January 2011. Nonetheless, banks are required to continue to implement international accounting standards over the course of 2010. For those middle-market banks that seek true off-balance-sheet funding, these regulatory initiatives will ultimately alter how consumer ABS transactions are currently structured.

Argentina

While 2009 was among the most turbulent years since 2001 and 2002 within the Argentine structured finance market, many of the challenges faced were successfully met by the various market players. Overall issuance levels reached close to ARS8 billion in 2009, which was down almost 20% from that of the prior year. The securitization of consumer loans and credit cards continue to be the key drivers of the market, accounting for more than the 60% of total issuance.

During the last quarter of 2008 and into 2009, several events impacted the structured finance market and altered the demand for securitizations, changing the way trusts were structured. In addition, the economic downturn affected asset pools not only through higher losses but also through an increase in seller/servicer operational risk.

Of the events and new regulations affecting local securitizations, the nationalization of private pension funds had by far the most significant effect on the market. Prior to the nationalization of the pension funds by the public social security system (ANSeS), the private pension funds absorbed about 30% of the total amount issued in the local structured finance market. With ANSeS investments in consumer loan securitizations being close to zero, a funding vacuum emerged. Originators were forced to alter practices, tighten origination policies, and reduce the term and the size of underlying loans and their respective securitizations due to a scarcity of demand. On the arranger/underwriter side, the capital structure was modified, reducing the average life of securities so they could be an eligible investment for money market funds and lowering the size of the issues to facilitate their distribution.

As a result of the economic downturn, overall delinquency levels increased. However, the magnitude and speed of the deterioration varied significantly among originators, depending on their specific market circumstances as well as individual origination and collection policies. In many cases, to compensate for higher delinquency levels, issuances increased overcollateralization levels.

The increase in the operational risk of the seller/servicer can be viewed through the increased number of servicers that filed for a creditors' reorganization process within the judicial system (concurso preventivo de acreedores — similar to Chapter 11). Although several servicers in financial distress filed for this process, most of them continued to fully service the trust's portfolio of credits or were replaced in their role of servicer and collection agent. The most noteworthy case is Bonesi, a retail store that entered financial distress and illegally withheld the collections of the trusts issued. While the courts made positive resolutions pertaining to investor rights, there are effects within the trusts that are still unfolding.

The situation with Bonesi has led investors to show a strong preference for short-term securities. In addition, investors have become more selective, taking a closer look at the originator's/servicer's track record and financial profile before investing in a particular instrument.

Argentina Transition Matrix

(2005–2010)

	Current Rating									
Original Rating	AAA	AA (+/-)	A (+/-)	BBB (+/-)	BB (+/-)	B (+/-)	CCC and below	PIF	WD	Total
AAA	73	—	1	—	—	—	—	102	1	177
AA	—	27	—	4	—	—	—	55	2	88
A	—	1	46	—	—	—	—	37	—	84
BBB	—	—	—	36	6	—	—	5	—	47
BB	—	—	—	—	6	—	—	1	1	8
B	—	—	—	—	—	25	1	8	2	36
CCC and below	—	—	—	—	—	—	130	19	3	152

PIF – Paid in full. WD – Withdrawn.
Source: Fitch Ratings.

Signs of recovery became apparent during the last quarter of 2009. The more optimistic outlook related to global economic conditions coupled with the stabilization of delinquency levels increased the availability of funding within the market. This increase in funding will have an obvious impact on consumption levels during 2010.

Within the consumer loan industry, Fitch expects that the delinquency level will stabilize at about 15%. However, the ultimate figure will largely depend on how the economic environment (i.e. inflation, unemployment, and consumer debt levels) will affect borrowers' payment ability going forward. The fact that delinquency levels vary among originators shows that the performance of credits largely depends on individual origination and collection policies, particularly under a stress scenario.

For 2010, Fitch estimates that the securitization of consumer loans will continue to be the driver of the local structured finance market. The total amount of issuance should rebound to 2008 levels, as the government has indicated the importance of increased consumption as it relates to expanding GDP. Fitch expects certain subnational and corporate entities will tap the structured market to meet their capital needs, as certain investors will show a preference for additional security for many of these entities.

Colombia

Economic Environment

As expected, in 2009 the global financial crisis directly impacted Colombia. A year ago, a GDP growth of approximately 4% was expected for 2009, but as the year went by forecasts became less optimistic, aiming at a GDP decrease of 0.5%. It is anticipated that 2009 ended relatively flat compared to the 2008 level, with a mild recovery of 2.5% growth in 2010.

Notwithstanding these declines, local capital markets went through a period of historically high liquidity and low interest rates during 2009. Approximately USD7.5 billion was placed during the year, but demand was significantly higher. Issuance levels almost doubled from those of 2008, with spreads declining significantly. Spreads for 'AA(col)' declined from 240 basis points (bps) in 2008 to well below 200 bps at the end of 2009.

Fitch expects continued liquidity during 2010 as pension funds (total assets: USD32 billion) continue to receive large inflows of cash each month (between COP5 trillion and COP7 trillion) These large inflows include monthly contributions as well as significant levels of principal and interest due on sovereign debt as the government continues to reduce its overall debt.

In addition to spread compression, 2009 saw an increase in tenors for local placements. Fitch believes that the capital markets are dominated by large institutional investors with long-term horizons; therefore, companies can find long-term access even during the current economic downturn. For example, 2009 saw the first 20-year bond issued in the market, with the majority of other debt placed having a maturity of seven to 15 years.

Within the local securitization market, structured finance issuance during 2009 of USD1.9 billion was nearly double that of 2008 placements, which totaled USD800 million. This increase in placements came primarily from the reactivation of the ABS market, which saw its volume increase during the year.

RMBS Market

As of November 2009 the outstanding balance of RMBS deals in the market was USD2.3 billion, representing 30% of the outstanding balance of mortgage loans in Colombia. During 2009, Titularizadora Colombiana placed four pesos issuances, amounting to USD791 million, becoming once again the main issuer of private debt in the Colombian market with approximately 13% of all 2009 placements.

During 2009, Fitch affirmed 70 of the 75 rated RMBS tranches and upgraded the remaining five. Improvements in their respective credit profiles were mainly observed through increases in OC, decreases in LTVs, and stable delinquency levels. Fitch saw a mild increase in mortgage delinquencies greater than 30 days during 2009, growing to 4.51% in 2009 from 4.27% in 2008. Fitch expects stable delinquencies in 2010 due to an improvement in economic conditions and the selection process that Titularizadora performs when originating securitized portfolios.

ABS Market

In a divergence from previous years, the securitization of other asset classes amounted to 59% of total structured finance placements. Fitch assigned ratings to seven new deals in this sector during 2009. This rise was due to increasing interest by investors in different products as well as the national government's interest in backing certain infrastructure deals. Many of these infrastructure transactions are securitized by future government allocations. One related issuer, Transmilenio, became the second largest issuer of private debt, with placements totaling USD472 million.

During 2010, Fitch expects to see transactions backed by auto loans after Titularizadora Colombiana received approval for issuing auto loan securitizations. Additionally, more government-backed securities are expected during the year as the government continues to offer support to infrastructure projects. As for CDOs, if the increasing trend of credit loan placements, which has been evident during the first weeks of the year, continues, financial institutions' need for financing will increase, making this type of transaction a funding option.

Chile

The local securitization market was more accessible to Chilean issuers in 2009. The market registered a six-fold increase in issuance, from USD117 million in 2008 to USD679 million in 2009. Contributing to this was the stability of the local economy and the beginning of a more global economic recovery. Among the most commonly placed asset classes were consumer loans (30.9%), retail credit cards (60.1%), and RMBS (9.0%).

Similar to previous years, most consumer loan and retail credit card related transactions were placed through revolving-type structures. While these structures mitigate certain market-related risks, such as re-investment risk, through the establishment of amortization schedules, the downside is more exposure to liquidity and other credit-related risks. Contrary to static transactions, investors are more exposed to originator/seller risks, such as deterioration in the credit quality of the loan portfolio during the revolving period if loan underwriting standards become more aggressive.

During 2009, Fitch assigned 16 new rating tranches, affirmed 65 rating tranches, and assigned six rating upgrades and 26 downgrades. Improvements in overall credit profiles were mainly observed in ABS transactions, through excess spread accumulating to hard credit enhancement. Fitch expects performance to be stable for these transactions throughout 2010.

Chile Transition Matrix

(2005–2010)

	Current Rating									
Original Rating	**AAA**	**AA (+/-)**	**A (+/-)**	**BBB (+/-)**	**BB (+/-)**	**B (+/-)**	**CCC and below**	**PIF**	**WD**	**Total**
AAA	2				—	—	—	—	2	4
AA	2	11			—	—	—	6	7	26
A	—	—	1	1	—	—	—	—	2	4
BBB	—	—	—	2	—	1	—	—	2	5
BB	—	—	—	—	—	1	—	—	—	1
B	—	—	—	—	—	—	—	—	—	0
CCC and below	—	2	—	—	—	—	18	6	7	33

PIF – Paid in full. WD – Withdrawn.
Source: Fitch Ratings.

Meanwhile, individual RMBS structures faced significant increases in delinquency levels. Some RMBS-specific downgrades were attributed to originator risks explained above. Specific revolving transactions related to Transa continued to see significantly higher delinquency levels than did the overall market due to the addition of loans of considerably worse credit quality as well as those with maturities beyond the legal final maturity of the transaction. The deteriorating performance over the past several years led to significant downgrades of all Transa-related transactions, and at the end of 2009, Fitch downgraded and later removed its ratings related to all Transa-sponsored transactions.

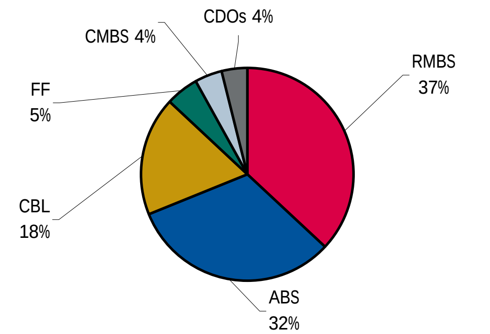
Fitch expects the securitization market will become more attractive to issuers during 2010 in comparison to the past two years, as the economy stabilizes. With the exception of specific RMBS transactions, most asset classes have proven to be resilient under stresses faced during 2008 and 2009. An increase in issuances related to credit cards and unsecured consumer loans, in particular, is expected for 2010. Simpler financial structures, such as repackaged bonds, should also remain active throughout the year. In the medium term, Fitch expects that the approval of measures such as the securitization of credits for the small- to medium-sized companies segment and the changes in the tax structure for the securitization of future flows could introduce new asset classes to the market and test local investor appetite.

Having weathered the worst part of the storm, Fitch expects delinquencies and losses in portfolios of rated transactions to stabilize somewhat during 2010. The economic scenario has improved and should benefit asset and transaction performance. However, RMBS transactions may continue to lag in recovery relative to other asset classes, since the nature of the assets imply longer adjustment periods.

Central America

Panama and El Salvador continue to be the more active markets out of the six Central American countries and are focused in auto loans, consumer loans (covered bonds), and RMBS transactions.

Latin American Structured Finance 2009 Downgrades by Asset Class

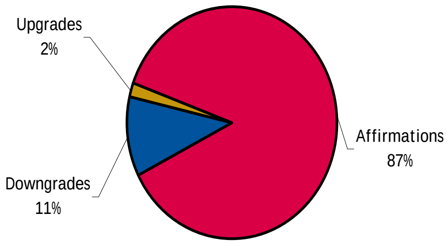


FF – Future flow. Note: Numbers may not add to 100% due to rounding.
Source: Fitch Ratings.

Although the Central American market remains in an early-development stage, Fitch believes the potential exists for an increase in the use of securitization in the future, particularly in the aforementioned asset classes.

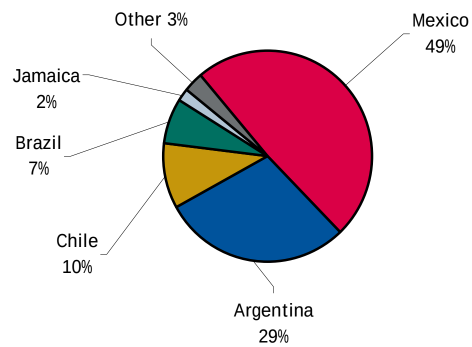
It is likely that the Panamanian and Salvadoran markets will grow further in 2010 as a result of better conditions in the local capital markets and operating environments. Furthermore, a deepening of financial sophistication by market participants and a better understanding of the diverse benefits of securitization should also work to improve the markets going forward. From an investor perspective, issuances based on structures will provide a wider investment universe, especially benefiting those interested in long-term investments.

Latin American Structured Finance 2009 Rating Actions



Note: Numbers may not add to 100% due to rounding.
Source: Fitch Ratings.

Latin American Structured Finance 2009 Downgrades by Country



Note: Numbers may not add to 100% due to rounding.
Source: Fitch Ratings.