Latin America
Special Report

# 2011 Latin American Structured Finance Review and Outlook


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### Related Research

- *Global Structured Finance Rating Criteria, Aug. 16, 2010*

## Summary


Throughout 2010, much of Latin America experienced stronger economic recovery than other parts of the world, having been less impacted by the global recession than Europe and the U.S. After contracting 2.4% in 2009, Latin American GDP growth is expected to come in at approximately 5.6% for 2010, with continued growth of approximately 4.0% anticipated for 2011. Latin America's recovery was relatively quick following the contraction of 2009, with positive growth rates expected for all but two countries, Venezuela and Jamaica, for 2010. Brazil, Chile, Colombia, Peru, and Panama are expected to have continued dynamic growth for the upcoming year. Although Mexico's close U.S. ties will continue to affect its economy, this is expected to diminish.

The economic recovery within the region was most apparent in structured finance issuance, which came in at $24.2 billion, easily topping the previous peak of $19.0 billion experienced in 2007. From a ratings perspective, Fitch expects 2011 to be relatively stable for the majority of asset classes, but certain segments in Mexico will continue to face pressure.

Through the course of 2010, Fitch affirmed 1,305 ratings, downgraded 64 ratings, and upgraded 31 ratings. As with 2009, the majority of downgrades continued to occur in Mexican Sofol-related RMBS and bridge loan securitizations. As recovery continues across Latin America during 2011, Fitch expects the ratio of negative to positive ratings actions to once again diminish as compared to 2010. The 2:1 downgrade to upgrade ratio in 2010 compares favorably to 2009, which was close to 7:1, and slightly above the ratio of 1.3x recorded in 2008.

This report comments on the past year's developments in the region's largest structured finance markets in Latin America and discusses Fitch's outlook in each of the main countries for 2011. In addition, the report details transaction performance and provides several rating transition matrices. These transition matrices show all current outstanding ratings that originated from 2005–2010. While performance varies by country and asset class, the matrices provide a general understanding of transaction performance over the past six years.


## Primary Market Activity

Reflecting a recovering economy, 2010 total cross border and local issuance levels 0f $24.2 billion grew by 42% as compared to those of 2009 and surpassed the recent peak of $19.4 billion achieved in 2007 as well. The market shows increasing signs of maturity and depth of asset classes. What started as mostly a cross-border future-flow securitization market has evolved to structure sophisticated asset-backed securitizations such as new and used auto loans, consumer loans, equipment leases, as well as residential and commercial mortgage backed securities. Nonetheless, Fitch continues to caution that such growth is not without blemishes. As detailed to

### Tranches by Asset Class

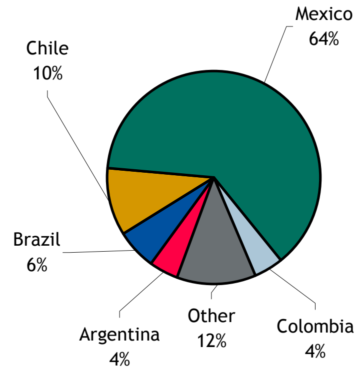
| | Downgrades | Upgrades | Affirmations | Total |
|---|---|---|---|---|
| ABS | 17 | 16 | 1,082 | **1,115** |
| CMBS | 0 | 1 | 30 | **31** |
| CDOs | 2 | 0 | 5 | **7** |
| RMBS | 45 | 14 | 188 | **247** |
| **Total** | **64** | **31** | **1,305** | |

some extent in this report, Fitch has viewed a wide spectrum of credit quality in the structures emerging from Latin America.

While affirmations dominated rating actions across the portfolio for the year, at 93% of all rating actions, the struggles of the Mexican RMBS transactions are evident in the downgrades as illustrated in the chart at right.

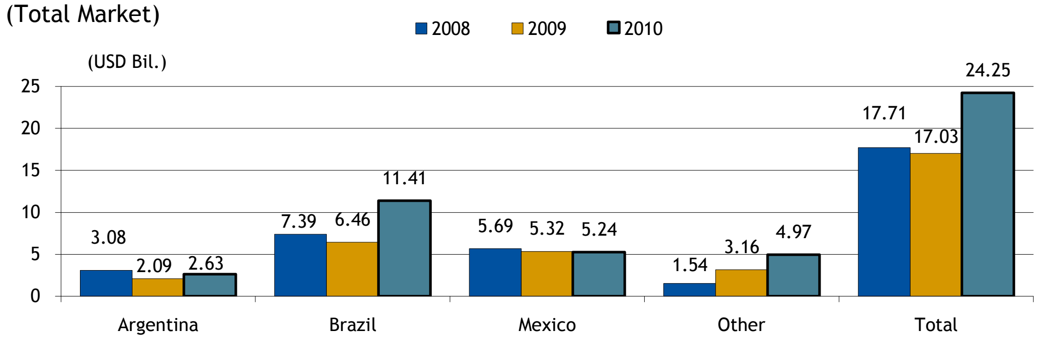
The cross border market saw a resurgence in 2010 as well. While 2009 saw this sector experience its lowest issuance levels in a decade, the market went back to historical levels in 2010, reaching an issuance volume of $2.7 billion in the year.

**Downgrades by Country**
(As of December 2010)




Note: Numbers may not add due to rounding.

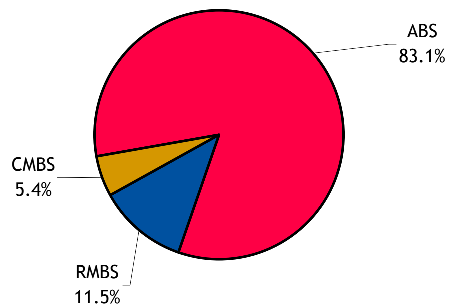
**Latin America Structured Finance Issuance**
(Total Market)




Brazil's local market also experienced a significant increase in issuance during 2010, rounding out the year with local issuance levels of $9.7 billion, almost twice the $5.0 billion issued in 2009 and also surpassing 2008's level of $7.4 billion.

In Mexico, total issuance levels remained somewhat stable to those of 2009 at just over $5.0 billion. CEDEVIS and TFOVIS programs, sponsored by Infonavit and Fovissste, respectively, continue to access the market and are responsible for approximately 60% of 2010's issuance volume. Equipment lease transactions, auto loans, dealer floorplan, and payroll deductible loans were also part of the 2010 activity.

**Fitch Latin America New Ratings**
(As of December 2010)




Notes: Out of 130 new deals. Numbers may not add to 100% due to rounding.

## Cross Border Market

As previously noted, 2010 proved to be a year of recovery for most markets including the Latin American cross-border issuance market. Ratings on the majority of bond classes remained stable, partly due to the fact that much of Fitch's cross-border portfolio comprises future flow securitizations, which continue to be strong performers. During the year, Fitch affirmed 16 cross-border ratings, downgraded two ratings, and upgraded two ratings across the portfolio.

Total cross-border issuance in 2010 returned to levels more in line with historical levels at $2.7 billion. The increase can be attributed to two main drivers: strong retail banks using their diversified payment rights (DPR) platforms through future flow securitizations totaling $750 million and the Lancer Finance Company (SPV) Limited and Odebrecht Drilling Norbe VIII/IX Ltd. transactions, which together accounted for 66% of the total international issuance in 2010 and introduced the first drillship lease ABS transactions to the market.

While drillship lease transactions have traditionally been financed through international bank loan syndication, capital market structures have played a part as a refinancing alternative. These assets have gained considerable interest following the most recent initiatives taken by the Brazilian government to develop/verticalize the local oil and gas industry. The investment plans announced by Petroleo Brasileiro S.A. (Petrobras), on the order of $220 billion to develop an infrastructure for the exploration and production of oil and natural gas in the untapped presalt oil wells has increased the demand for these drillship assets. Petrobras service providers continue to invest in new drilling-related projects and the capital markets should continue to support their funding needs as an alternative to the traditional loan syndicate market throughout 2011.

The transition matrix below illustrates the performance of cross-border transactions over the past 10 years.

### Cross-Border Transition Matrix

(2000–2010)

| Initial Rating | Final Rating | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | AAA | AA (+/–) | A (+/–) | BBB (+/–) | BB (+/–) | B (+/–) | CCC and Below | D | |
| AAA | 3 | | | | | | | | 3 |
| AA | | 2 | | | | | | | 2 |
| A | | | 18 | 3 | 1 | | 1 | 1 | 24 |
| BBB | | | 16 | 51 | 6 | 3 | 1 | 2 | 79 |
| BB | | | | 3 | 3 | 2 | 1 | | 9 |
| B | | | | | | 1 | | 1 | 2 |
| CCC and Below | | | | | | | | | 3 |

## Mexico

After a steep recession in 2009, Mexico's economy has been recovering, with real GDP growth estimated by Fitch to have reached close to 5% in 2010. Economic recovery in 2010 was aided by the favorable external trade performance. Total issuance levels remained somewhat stable at just over $5.0 billion compared to those of 2009, excluding structured transactions sponsored by states and municipalities, which amounted to approximately $3.0 billion for the year.

However, despite the supportive economic policies and job creation, domestic demand conditions remain relatively subdued. The rising wave of drug-related violence appears to be dampening confidence, investment, and economic activity and could have an impact on growth in 2011.

## Mexican Housing Markets

Despite the economic recovery experienced throughout 2010, performance of Mexican RMBS has not exhibited many signs of improvement, particularly those originated by nonbank financial institutions (Sofoles/Sofomes) with significant exposure to informal economy workers.

Delinquency levels continue to increase across the Mexican RMBS portfolio, albeit at a decreasing rate when compared to 2009 levels. Most transactions backed by loans originated by banks show early signs of stabilization. RMBS backed by Sofoles/Sofomes originated loans denominated in UDIs continued to experience the sharpest rise in delinquency levels. In addition, it is apparent that weaker underwriting standards were employed in many of the more recent UDI-denominated RMBS transactions originated by Sofoles.

During 2010; Fitch´s Mexican RMBS portfolio experienced 35 negative rating actions on 23 different tranches. Within the same time frame, 54 tranches were affirmed. The vast majority of all downgrades reflected in the transition table below are related to UDI mortgages originated by Sofoles/Sofomes, while the affirmations were mostly related to ABS transactions and RMBS transactions backed by Peso-denominated loans as well as Cedevis and Fovissste transactions.

### Mexico

| Original Rating | Current Rating | | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | AAA | AA (+/–) | A (+/–) | BBB (+/–) | BB (+/–) | B (+/–) | CCC and below | PIF | WD | |
| AAA | 75 | 9 | 10 | 2 | 3 | 1 | 2 | 8 | | 110 |
| AA | | 6 | 1 | | | | | | 3 | 10 |
| A | 1 | | 10 | 4 | 3 | 3 | 6 | 3 | | 30 |
| BBB | | | | 4 | | | 2 | 1 | | 7 |
| BB | | | | | | | | | | 0 |
| B | | | | | | | | | | 0 |
| CCC and Below | | | | | | | | | | 0 |

A closer look into specific underperforming RMBS backed by Sofoles-originated loans shows characteristics such as high geographic concentrations, problem projects concentrated on few specific developers, higher exposure to the informal employment sector, and a larger percentage of developer-originated loans. Internal studies indicate these are all elements contributing to the higher delinquency levels. The weak financial condition and deterioration of certain servicer platforms has also contributed to the poor performance of specific transactions.

Recent developments in servicing include the replacement of poor primary servicers, which has impacted several Sofoles-backed transactions. Servicer substitutions are concentrated in transactions sponsored by Credito y Casa and Sucasita. While Metrofinanciera may continue to face challenges with its servicing platform during 2011, Fitch believes its recent emergence from bankruptcy will be followed by less uncertainty.

Infonavit-related RMBS (Cedevis) 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 and losses. During much of 2010, stabilization and a gradual decline in extensions were detected, partly due to an increase in the number of workers affiliated with the Instituto Mexicano del Seguro Social (IMSS) which resulted in higher employment levels. However, in September 2010, there was a change in the trend as extension activity started to increase once again.

The Fovissste-related transactions (TFOVIS), experienced a prepayment spike in August 2010 due to an extraordinary early retirement program sponsored by the government, which occurs once every six years and resulted in abnormally high prepayment figures. An increase in delinquency levels was also observed in these past few months and, like Cedevis transactions, these transactions also experienced a recent increase in extensions.

Fitch expects a continued increase in delinquency levels throughout the first half of 2011 for most UDI-denominated transactions sponsored by Sofoles and the rating outlook for these transactions is generally negative. However, a continued growth in economic activity and employment levels, an increase in collection efforts, and a successful loan modification program should allow for some degree of stabilization during the second half of 2011. Ultimately, recovery levels on foreclosed properties and nonperforming loans, as well as the success rate of the substitute servicers, will also determine whether transactions are able to improve their performance.

Peso-denominated loans and certain bank-originated transactions are expected to continue to outperform UDI-denominated loans and the rating outlook for these transactions continues to be stable, as they were originated under more stringent underwriting standards and were directed mostly to higher income individuals with stronger job stability.

### Mexican ABS Markets

As anticipated, delinquencies continued to increase in 2010 across much of the Mexican ABS portfolio. Nonetheless, consumer and auto loan transactions were generally able to weather the negative conditions. A combination of structural features including cash traps, reserve accounts, and priority of payment waterfalls along with general support from issuers helped these transactions remain more resilient. During the course of 2010, three Infonacot ABS transactions were paid in full, as well as an auto loans cross-border deal. One more Infonacot transaction is expected to pay in full during March 2011. Fitch expects delinquencies to increase somewhat during 2011 for transactions issued during 2010, given that no delinquent loans are allowed at closing. For seasoned transactions (those issued before 2010) Fitch expects the level of delinquencies to be lower than those observed during 2009–2010, as the economy continues to show signs of recovery.

The remaining portion of Fitch's rated portfolio comprises asset types that include CMBS, trade receivables, equipment leases, and future flow transactions. These assets in most cases they showed improvement compared to 2009 performance, and there were no additional rating downgrades during the year.

The year saw new participants as well as repeat issuers in the ABS market. One noteworthy deal is Ally Credit's (GMAC Mexicana) first securitization. Adequate collateral quality and diversification, coupled with credit enhancement levels able to withstand significant defaults along with experienced servicing, helped solidify an exceptional credit profile. As of December 2010, performance for the transaction has been strong enough to increase credit enhancement levels, reaching its target over-collateralization (OC) slightly sooner than expected, after five payment dates.

As a repeat issuer, INFONACOT came to market with one public transaction during 2010. In Fitch's opinion, the pool composition of the most recent transaction improved over previous ones due to more conservative underwriting criteria employed by INFONACOT since April of 2009.

ABS issuance in the Mexican market was concentrated in two transactions — the refinancing of three securities backed by future flows of fleet contracts and the issuance of securities backed by revenues of State of Mexico's public registry of properties. For 2011, Fitch expects to see transactions from the following asset classes: unsecured consumer loans; CMBS; equipment leases; and trade receivables.

## Brazil

In 2010, Brazil continued down its path of economic growth to reach an expected all-time peak growth of 7.6% of GDP, which will be difficult to repeat in 2011, with current market estimates suggesting growth of 4.5% for the year. However, this growth, driven by strong consumer demand, has outpaced production capacity growth, pushing up inflation over the past year.

Towards the end of 2010, Brazil's central bank took measures aimed at the banking sector to discourage unsustainable consumer credit growth, which reached an unprecedented 11.4% of GDP as of October. The rise in consumer credit growth has been largely fueled by consistently declining unemployment rates and real income growth. Concerns over rising consumer indebtedness led the regulator to take action by increasing reserve requirements for time deposits, increasing risk weighting for certain longer term consumer and auto loans, and gradually reducing the significant outstanding available balance of deposit guarantees made available to banks by the Fundo Garantidor de Credito (the equivalent of the U.S. FDIC). These available balances had been increased at the height of the liquidity squeeze suffered by wholesale funded banks in the first half of 2009.

In part these measures were a reaction from the central bank after uncovering fraudulent loan sales by a midsized bank, Banco Panamericano S.A. in November 2010. While Panamericano had several outstanding auto loan securitizations in the market at that time, the only Fitch-rated transaction paid-in-full in June of last year. Fitch had downgraded this transaction in early 2009 due to the fact that the bank was purchasing higher risk loans and that the bank was not adhering to the pre-established representations and warrants declared by Panamericano.

### Credit Performance and Trends

Credit performance in consumer ABS appeared to rebound in 2010 after lenders once again tightened credit origination standards. In general, consumer ABS transactions in Brazil are predominately revolving structures, which permit shifting origination standards that can directly affect the securitization loan portfolio performance. In addition, the loss timing in these transactions is usually very front loaded, as the majority of losses are realized within the first 18 months from loan origination.

Credit performance in other ABS sectors such as trade receivables and future flow transactions remained stable for the year. However, credit deterioration did continue in one securitization that suffered rating downgrades — Eco Multi Commodities FIDC, related solely in the agricultural loan sector.

RMBS transaction performance remained stable in 2010, with rating affirmations (17 rated class issuances) dominating upgrades (three issuances) and downgrades (one issuance). Overall, cumulative losses improved slightly as a percentage of original outstanding loan balances throughout 2010.

Although RMBS securitization over the past decade has predominantly comprised new home loans financed directly with homebuilders, bank originated home financing is experiencing double-digit lending growth, largely represented by the federal government bank Caixa Economica Federal (CEF) with nearly 75% of total home loans outstanding. Nonetheless, total home financing is only nearing 4.0% of GDP.

## Brazil

| Original Rating | Current Rating | | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | AAA | AA (+/–) | A (+/–) | BBB (+/–) | BB (+/–) | B (+/–) | CCC and below | PIF | WD | |
| AAA | 15 | | | | | | | 1 | | 16 |
| AA | 3 | 19 | | | | | | 8 | 1 | 31 |
| A | 1 | 1 | 26 | | 1 | | | 3 | | 32 |
| BBB | | | 1 | 11 | | | | 5 | | 17 |
| BB | | | | | 1 | | | | | 1 |
| B | | | | 1 | | | | 1 | | 2 |
| CCC and Below | | | | | | | 1 | 1 | | 2 |

Under the new regulation expected to take effect in March 2011, banks will now be able consider a portion of their securitized loan portfolios as meeting the current regulatory requirement, which obligates them to maintain 65% of savings deposits invested in real estate related financings. Fitch expects some large retail banks to debut new RMBS securitization platforms in 2011 given this change.

### Regulatory Initiatives Update

Once again, the Brazilian Central Bank has postponed effective consolidation rules for loan portfolio sales (and securitizations). Now expected to become effective in January 2012, these rules have been postponed three times from the original expected effective date of January 2009. The latest postponement came on the brink of the discovery of the above mentioned fraud issues surrounding Banco Panamericano. Fitch expects the effective implementation of this rule to positively affect the credit profile of consumer ABS structures, as banks will have less incentive to sell (e.g. securitize) loan portfolios at substantial gain-on-sale, which has undermined true credit enhancement levels. In contrast, it is likely issuance levels will go down as various participant's perception of the incentives to securitize might be reduced.

## Argentina

After GDP growth decreased to 0.9% in 2009, recovery was evident in 2010, with GDP growth of approximately 8.7% expected. Consistent with the stronger economic growth of 2010, overall issuance levels for structured finance transactions reached close to ARP17.7 billion in 2010, representing an increase of 83% compared with 2009. Over half of this, ARP9.8 billion, is related to public infrastructure projects, comprising future flow transactions related to the securitization of hydrocarbon royalties and tax revenues, with the remainder falling into the project finance category. Excluding these transactions (project finance and future flows) total issuance levels in 2010 increased 22% over 2009, with the main drivers of this increase centered on traditional ABS consumer and personal loan transactions totaling ARP6 billion, an increase of 60% from 2009.

The infrastructure projects are generally sponsored by the national government and the major investor is the public pension fund (ANSeS). One of the most relevant projects of the year was Fideicomiso Financiero NASA, a USD1.4 billion transaction for the completion of the nuclear power plant Atucha II Nucleoelectrica Argentina S.A. (NASA), which is indirectly owned by the government. The underlying assets of the trust are future flows derived from a 10-year power purchase agreement (PPA) between NASA and CAMMESA (a wholesale electricity administrator). The PPA hires 80% of NASA's power capacity and power generation at fixed prices. NASA's assets involved three nuclear power plants with 30 years of historical high availability and dispatch rates.

### Argentina

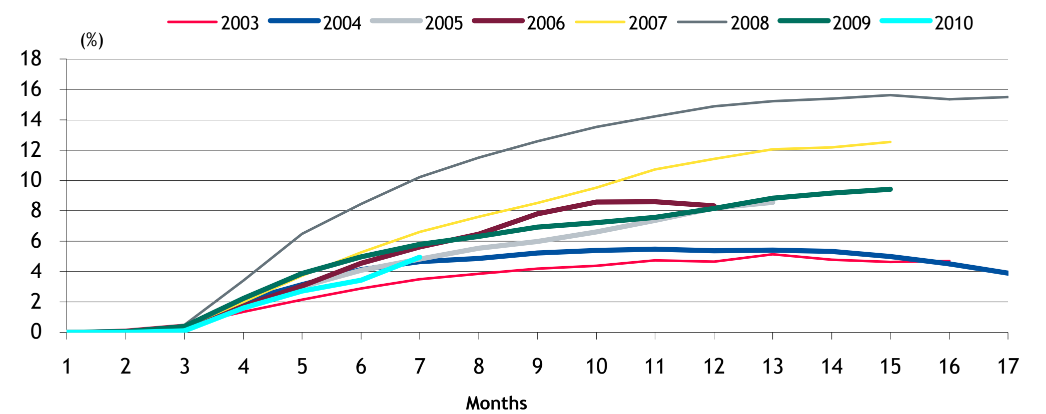
| Original Rating | Current Rating | | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | AAA | AA (+/–) | A (+/–) | BBB (+/–) | BB (+/–) | B (+/–) | CCC and below | PIF | WD | |
| AAA | 60 | | | | | | | 200 | 1 | 261 |
| AA | | 25 | | | | | | 87 | 2 | 114 |
| A | | 2 | 30 | | | | | 75 | | 107 |
| BBB | | | | 19 | | | | 43 | | 62 |
| BB | | | | | 11 | | | 5 | 1 | 17 |
| B | | | | | | 21 | | 21 | 2 | 44 |
| CCC and Below | | | | | | | 139 | 71 | 3 | 213 |

In the consumer finance market, delinquency levels decreased to 2006 levels as a result of changes in the origination policies and the overall better economic picture. However, the magnitude and speed of the improvement varied among originators, depending on specific market circumstances as well as individual origination and collection policies.

The first 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. In fact, retailer's origination volume increased more than 60% during the year.

Delinquency levels in the consumer finance sector also decreased during the year primarily due to a change in underwriting policies and a greater volume of consumer credits as compared to cash loans. Historically, cash loans, which borrowers may use for any purpose, tend to have higher losses than consumer loans, which are used to purchase a specific item, such as a home appliance. Fitch expects that the delinquency levels in 2011 will rise slightly compared to 2010 levels due to inflation and an increase in the indebtedness of borrowers. However, given certain other mitigating factors such as positive OC levels for the senior tranches, high levels of excess spread and the fully sequential waterfall payment structures, the rating outlook for these transactions is stable and Fitch does not expect a significant rating impact on the assigned ratings.

**Vintage Consumer Loan Trust**
(Loans Delinquet 90 Days or More of Initial Pool)




For 2011, Fitch estimates that the securitization of consumer loans will continue growing in volume as GDP expands and the government continues to incentivize consumption, especially considering that 2011 is a presidential election year. New infrastructure projects, generally related to the energy sector, are expected to come to market in 2011 as well, whether sponsored by the national government or not.

## Colombia

### Economic Environment

The Colombian economy has emerged relatively unscathed from the global financial crisis. Colombia registered GDP growth of 0.8% during 2009 despite contractions of 2.4% for Latin America and 2.5% globally. In 2010, there was widespread recovery driven mainly by an increase in consumption and investor confidence, along with conservative fiscal policies and high liquidity in both local and international markets. Fitch expects 2010 GDP growth to be approximately 4.5%. Colombia's economic resilience and improved macroeconomic performance in relation to its peers translated into a change of its sovereign Rating Outlook to Positive from Stable for its foreign and local currency issuer default ratings (IDRs) in October 2010.

Market liquidity, tied to a low interest rate environment, incentivized a total of 31 companies from the corporate and financial sectors to access funding through the capital markets during the year, with spreads declining and tenors increasing. Nearly 60% of the issuances were placed by financial institutions, mainly banks, looking for additional sources of capital to meet increased credit loan demand. As of December 2010, the total placements were USD7.8 billion, surpassing the observed levels of 2009. Structured Finance placements amounted to nearly USD2.9 billion, more than a 50% increase from 2009 levels of USD1.9 billion.

**Colombia**

| Original Rating | Current Rating | | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | AAA | AA (+/–) | A (+/–) | BBB (+/–) | BB (+/–) | B (+/–) | CCC and below | PIF | WD | |
| AAA | 49 | | | | | | | 8 | 1 | 58 |
| AA | 3 | 13 | | | | | | 8 | 1 | 25 |
| A | | 3 | 6 | | | | | 1 | 1 | 11 |
| BBB | | | 3 | 12 | | | | | | 15 |
| BB | | | | | 3 | 1 | | | | 4 |
| B | | | | | | 1 | | | | 1 |
| CCC and Below | | | | | | | 10 | | | 10 |

### RMBS Market

As of December 2010, the outstanding balance of RMBS deals in the market was USD3.4 billion. During 2010, Titularizadora Colombiana placed three pesos and three UVR issuances, amounting to USD2.3 billion, which more than doubled the USD791 million placed in 2009. With this, Titularizadora became, once again, the largest issuer of private debt in the local market with approximately 28% of all 2010 placements. However, Fitch expects lower activity in RMBS placements during 2011 once the available tax credit winds down in 2011.

The improving economic environment is reflected in the credit profile of the securitized portfolios showing stable delinquency levels. The majority of the transactions also have increasing OC levels and decreasing LTVs. Fitch expects the performance of its rated RMBS portfolio to continue on this positive trend throughout 2011.

### ABS Market

ABS placements represented 21% of the structured finance deals placed in 2010. Fitch assigned ratings to six new deals in the ABS sector during the year. Transmilenio continued with its placements, issuing two securitizations of future government allocations for a total USD145 million. Bancoldex issued its first transactions which was backed by a subset of its portfolio totaling an amount of USD188 million. Fitch also rated a CMBS transaction which was the second transaction in the past two years.

Fitch sees strong growth potential within the ABS sector in the future and expects an increase in issuance levels for 2011 given the growing interest from investors in different asset classes. For example, in 2010, Titularizadora Colombiana created another company able to create asset securitizations of different asset classes, such as auto loans, and expects to start operating it in 2011. Government backed securities will also active during 2011 given the continued governmental support for infrastructure projects such as transportation projects and mining and oil expansion developments

## Chile

During 2010, the Chilean securitization industry experienced a sharp decline in issuance as compared to 2009, due mainly to lower financing requirements from local companies as well as the effects caused by the earthquake and tsunami that occurred February. Issuance totaled less than USD200 million which was a considerable decline compared to 2009, which totaled nearly USD700 million.

As noted above, the earthquake and resulting tsunami that struck last February affected much of the country and resulted in some uncertainty in the local market about the possible impact on various securitized bonds. However, as the year progressed, the majority of asset-backed securitized bonds rated by Fitch did not fall under stress and, in fact, performed in a manner consistent with Fitch's expectations without observing any significant changes in trends for any of the major risk variables. Although no significant changes in delinquency levels were observed, RMBS loans did experience increases in the length of time it took for foreclosures, as the market slowed down immediately following the earthquake, and many homes subsequently needed repairs prior to continuing with the foreclosure process. This resulted in a strain on cash flow for certain transactions.

During 2010, four series of Fitch-rated bonds were upgraded and seven series were downgraded. The upgrades were seen in both ABS and RMBS structures, mainly due to the higher levels of credit enhancements given the significant amortization experienced as the bonds approach maturity. On the other hand, the downgrades taken on the RMBS transactions were due more to the weaker performance of some mortgage portfolios, because of higher levels of foreclosures and delinquency levels which have surpassed the initial estimates by Fitch.

**Chile**

| Original Rating | Current Rating | | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | AAA | AA (+/–) | A (+/–) | BBB (+/–) | BB (+/–) | B (+/–) | CCC and below | PIF | WD | |
| AAA | 3 | | | | | | | | 2 | 5 |
| AA | 1 | 8 | | | | | | 9 | 9 | 27 |
| A | | | 2 | 1 | | | | | 2 | 5 |
| BBB | | | | 3 | | | | | 3 | 6 |
| BB | | | | | | 1 | | | | 1 |
| B | | | | | | 1 | | | | 1 |
| CCC and Below | | | | | | | 13 | 11 | 10 | 34 |

As has been the case for the past few years, new securitization issuances in the local market continue to be dominated by ABS revolving type structures, which historically, have shown good performance providing investors a certain level of confidence.

Fitch sees a slightly more active market in 2011, concentrated in familiar asset classes and structures, such as credit cards, consumer credits, and repackaged debt transactions. Likewise, it is expected that the mortgage segment will continue to decrease relative to other segments in the securitization market.

Ultimately, while Fitch anticipates that there could be some ratings pressure related to its RMBS transactions, the majority of the Chilean ratings are expected to perform in 2011, with the potential for upgrades across certain transactions

## Other Markets

Among other countries in the region, Peru was the most active during 2010, led by cross border future flow issuance of USD500 million. The high credit ratings assigned to Scotiabank Peru and BBVA Continental, supported by Peru's 'BBB' local currency IDR, allow the notes issued by their DPR programs to achieve ratings within the 'A' rating category, the highest among Fitch's portfolio of future flow DPRs.

Fitch expects continued activity from Peruvian sponsors in the international ABS market throughout 2011 as high initial capital investment projects will continue to make use of frameworks setup by the Peruvian federal government to facilitate private funding. While the framework setup to develop the Interoceanica Highways (IIRSA Sur and IIRSA Norte) within the Ministry of Transportation has proven to be very successful throughout the years, adapted models by the Ministry of Housing and Sanitation, as well as the Ministry of Transportation itself, should continue to facilitate capital markets funding to much needed infrastructure projects expected to start up during 2011.

Within Central America, Panama's La Hipotecaria sponsored a USD86.4 million RMBS transaction, USD72 million of which benefited from an irrevocable and unconditional guarantee by the Overseas Private Investment Corporation (OPIC), and carried a 'AAA' rating. This was La Hipotecaria's 10th securitization transaction, and second cross-border deal. Their business model, focused on payroll-deductible mortgages granted to low- and middle-income borrowers, have provided very low delinquency and loss levels to securitized portfolios. Such positive asset performance is supported by a low 5.0% unemployment rate as well as average annual real GDP growth of 8.1% over the past five years and significant construction and real estate activity, both of which are expected to decrease in 2011.

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 RMBS and auto loan sectors. El Salvador is expected to see a first-quarter auto loan transaction placement. In addition, there are early signs that the securitization market may be an adequate channel to facilitate funding for mortgage origination in the region throughout the year.

It is likely that the Panamanian and Salvadoran markets will grow further in 2011 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. From an investor perspective, issuances based on structures will provide a wider investment universe, especially benefiting those interested in long-term investments.