

DEAL PROFILE ►

Ford: Driving securitisation around the Globe

Ford, the automobile manufacturer, has embarked on a groundbreaking securitisation strategy – and one which Permjit Singh reckons will provide a template for other major corporates to use.



Until Globaldrive, many European-based corporates had routinely sold their receivables to multi-seller conduits – sponsored by banks – over which they had no control.

According to Apea Koranteng, director at Standard & Poor's rating agency in London: "The Globaldrive programme represents the first European asset-backed securitisation programme exclusively for the repackaging of auto receivable-backed primary issuance by a corporate using a special purpose vehicle. It is another highly visible example of securitisation as a valid funding technique."

Peter Voisey, of Lovell White Durrant – which advised Ford – said: "I believe the launch of the Globaldrive programme will prove a landmark in the development of the European securitisation market."

Globaldrive BV, a limited-liability company incorporated in the Netherlands, will issue asset-backed securities, the proceeds of which will be used to purchase receivables – either itself, or an interest in receivables purchased by another entity, called a purchaser. The purchaser may fund its purchase via a loan from Globaldrive; by issuing securities to Globaldrive; or by Globaldrive purchasing an interest in it or its assets.

'Fire walls' around discrete pools of receivables: that secure corresponding series of securities are a key feature of the programme's structure – and one that enables each series of securities issued under it to be independently rated.

With such protection, and in contrast to some master trust structures, the deterioration of a pool of receivables will not jeopardise the rating of other securities that are secured on corresponding pools of receivables, owned by Globaldrive and which have not deteriorated.

Ford's financing arms, Ford Motor Credit Company (Ford Credit) and Ford Credit Europe, have a vast pool of assets around the globe that may be securitised, and over which the start-up costs of its programme can be amortised. As well as economies of scale, a programme offers other benefits.

A single issuing vehicle for its global securitisation issues offers Ford the marketing advantages of a single brand name: "Globaldrive creates a platform from which we are able to issue a variety of international transactions. As a result of this common platform, investors are able to approve a single entity – it therefore becomes investor-friendly," said Jim Bosscher, of Ford Credit.

An established infrastructure (which includes standardised transaction documentation) will enable assets to be securitised when desired and when market conditions are most favourable.

Securities can be issued in a variety of currencies (although in practice this may be limited by the availability of a currency swap to hedge the exchange risk), and the issuer has the option to convert to the euro, at a variable or fixed rate of interest, and for periods ranging from one to 30 years. They will be issued on a continuous basis in series – those of a series are intended to be interchangeable – and may be ranked into senior and junior securities.

The programme is expected mainly to securitise a range of motor vehicle assets (wholesale and retail loan, lease, conditional sale and hire-purchase agreements), but it can also securitise other types of asset, in addition to those acquired from other originators.

Ford Credit has traditionally financed its auto loans through a combination of bank loans, commercial paper and bonds, and is an active issuer in its domestic (US) securitisation market. Globaldrive represents a new vehicle through which assets can be refinanced – especially those of Ford Credit Europe.

According to lead manager JP Morgan, Globaldrive's first issue was distributed to funds, corporates, insurance companies and banks, and included strong distribution to new investors in Ford Credit asset-backed securities. Geographically, the issue was distributed to Europe, the Middle East and Asia.

Globaldrive's first issue was a DM1bn repackaging of certificates issued to Globaldrive by a US master trust. The trust's assets comprise auto-dealer floor-plan loans originated in the US by Ford.

They are secured over vehicles manufactured or distributed by Ford or other manufacturers and distributors and, in some cases, may be secured by other real and personal property of the auto-dealers.

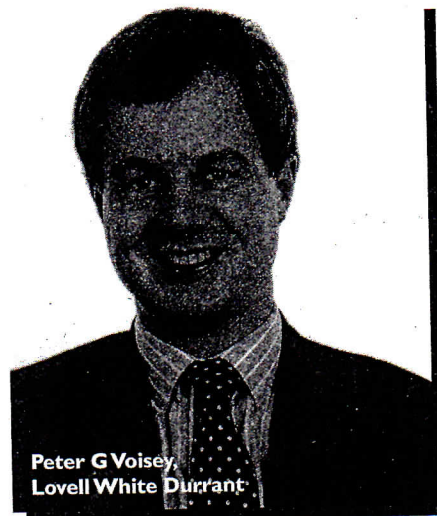
Generally, the principal amount of a loan in respect of a new vehicle is equal to the wholesale purchase price of the vehicle and, subject to certain exceptions, becomes due following the retail sale of the vehicle.

Currency and interest-rate risk was hedged through a swap via Morgan Guaranty Trust Company of New York, whereby Globaldrive exchanged DM1bn for US\$566m on completion and will receive Deutsche mark interest quarterly to service the interest rate of Deutsche mark Libor plus 6bp payable on the asset-backed securities it issued.

In exchange for interest received, Globaldrive will pay interest quarterly to the swap counterparty at US dollar Libor plus 10.9bp. The dollar interest payment by Globaldrive is equal to the interest it receives on the certificates issued to it by the US master trust.

Under a second swap, the master trust receives from Ford Credit the US dollar interest payable to Globaldrive, and pays to Ford Credit a rate of interest that is based on either one-month US dollar Libor or a US dollar prime rate.

The credit rating of the Deutsche mark notes is based on the credit



Peter G Voisey,
Lovell White Durrant

enhancement of the certificates, and of the rating of the swap provider (Morgan Guaranty Trust). Credit enhancement of the certificates is based on overcollateralisation by Ford Credit, excess spread, and a reserve fund.

Reflecting the short-term nature of the underlying receivables, the transaction includes an initial revolving period, in which principal repayments will be reinvested in additional receivables in order to maintain a constant pool size. This will be followed by an accumulation period, during which principal received is accumulated, after which principal will be repaid in full to investors (expected to be in October 2000).

Through Globaldrive, Ford will fulfil its securitisation objectives of continued access to the capital markets, diversification of its funding options, and achieving off balance sheet treatment – but on a global dimension.

The programme's initial capacity of US\$5bn might appear overly ambitious – until one realises Ford Credit Europe alone had net receivables as at June 1997 of US\$17bn. For Ford, the advantages of a programme of issues are clear. Its die has been cast, and it is one which other major corporates look set to copy.

