

2002 Review and 2003 Outlook:

Latin American Asset-Backed and Mortgage-Backed Securities- Volumes Decrease in 2002 Amid Concerns of Key Countries' Economies; Domestic-Asset Securitization Increases

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SUMMARY

The stability of Brazil's economy is likely to continue playing a pivotal role in 2003 in the Latin America structured finance markets, as Moody's expects Brazilian companies to continue to be the dominant cross border issuers in the region. Moody's also anticipates a continuation of increased future-flow and mortgage-backed securities (MBS) transactions from Latin America.

In domestic markets, Moody's expects MBS and MBS-related transactions to dominate the domestic sector in 2003, particularly in Chile and Mexico, as these products gain acceptance by local institutional investors. Moody's also expects increased issuance from Brazilian receivables investment funds. In addition, Brazil may see more MBS transactions in the coming year.

2002 saw declining volumes as total combined issuance of Latin American cross border and domestic asset-backed (ABS) and mortgage-backed securities decreased 34% to approximately US\$5.6 billion in 2002, from US\$8.5 billion a year earlier.

The decline was driven by a drop in cross border issuance, as the Latin American cross border securitization market in U.S.-dollar terms, shrunk approximately 43% from 2001 to 2002. The financial crisis in Argentina, uncertainties over political stability in Brazil, and investor concerns about corporate credit quality throughout the world were among the principal factors that contributed to the decline.

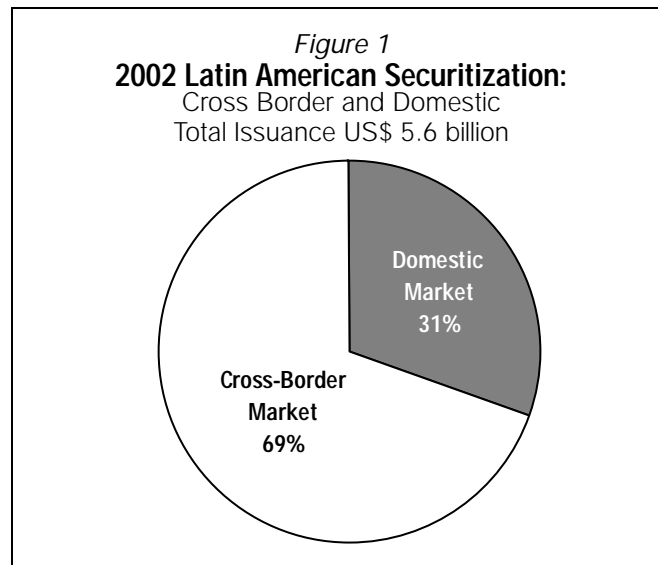


2002 REVIEW

Total combined issuance of Latin American cross border and domestic asset-backed (ABS) and mortgage-backed securities (MBS) decreased 34% to approximately US\$5.6 billion in 2002, from US\$8.5 billion a year earlier.

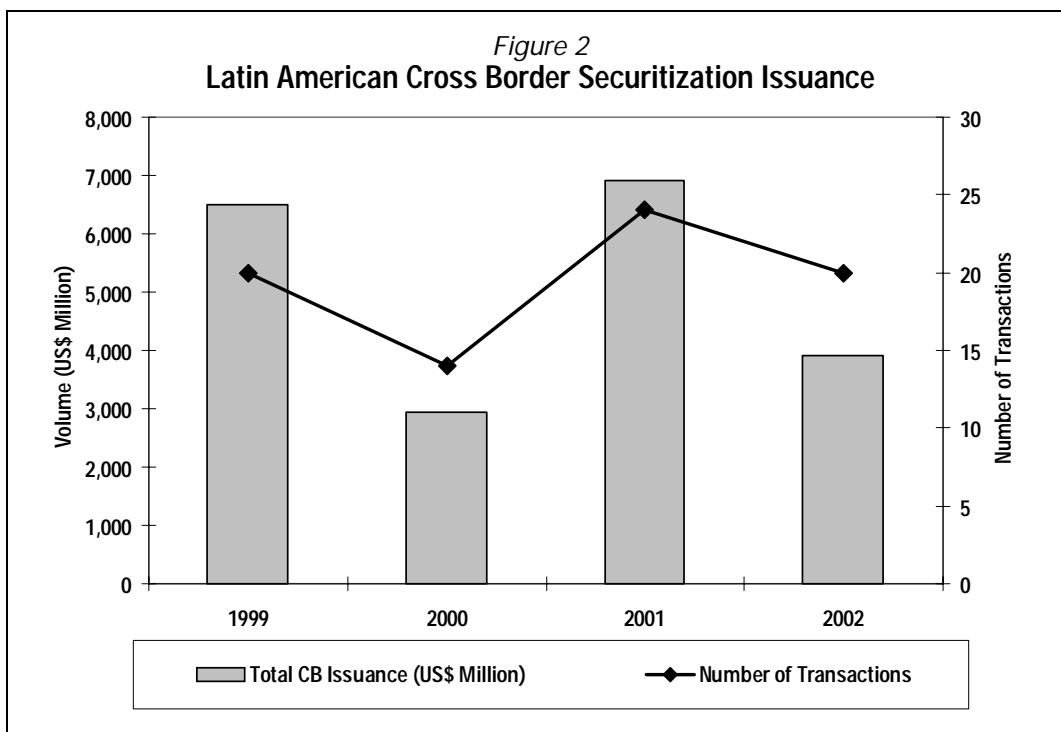
The decline was predominantly in cross border issuance, as the Latin American cross border securitization market—in U.S. dollar terms—shrank by approximately 43% from 2001 to 2002.

On the other hand, despite turbulence in many key Latin American economies, securitization in the domestic markets increased 13% to US\$1.7 billion from US\$1.5 billion a year earlier. For the second consecutive year, MBS and real-estate-related transactions were the principal asset types securitized in Latin America during 2002.



1. The Cross Border Market: Volumes Decreased 43%

As noted above, the volume of Latin American cross border securitization decreased to approximately US\$3.9 billion in 2002, from nearly US\$6.9 billion in 2001, a decline of 43%.



A number of factors contributed to the decline in issuance from 2001. These factors include: the financial crisis in Argentina, uncertainties relating to the Brazilian presidential election and general investor concerns about corporate credit quality worldwide.

In December 2001, the Argentine government defaulted on approximately US\$112 billion of local and foreign currency debt. The unprecedented Argentine financial, economic, and social crises that followed negatively affected many potential structured finance transactions, as many of the usual market participants in Argentina and elsewhere opted to remain on the sidelines, fearing regional contagion in Latin America.

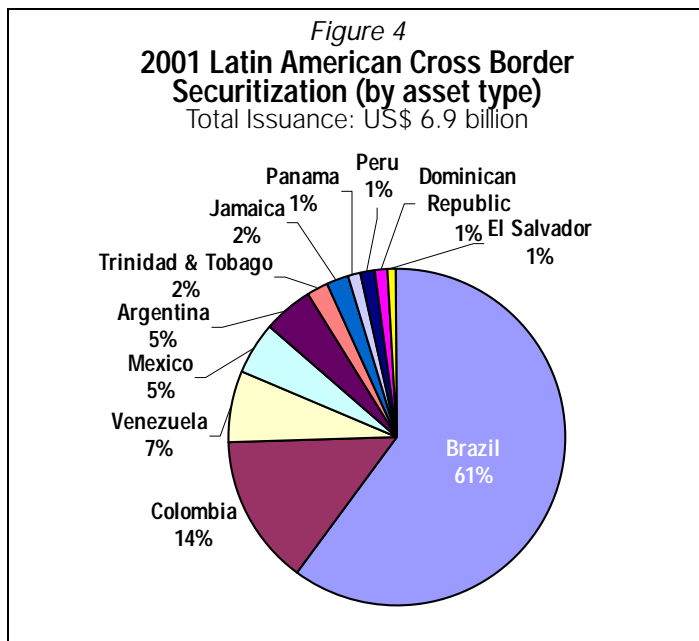
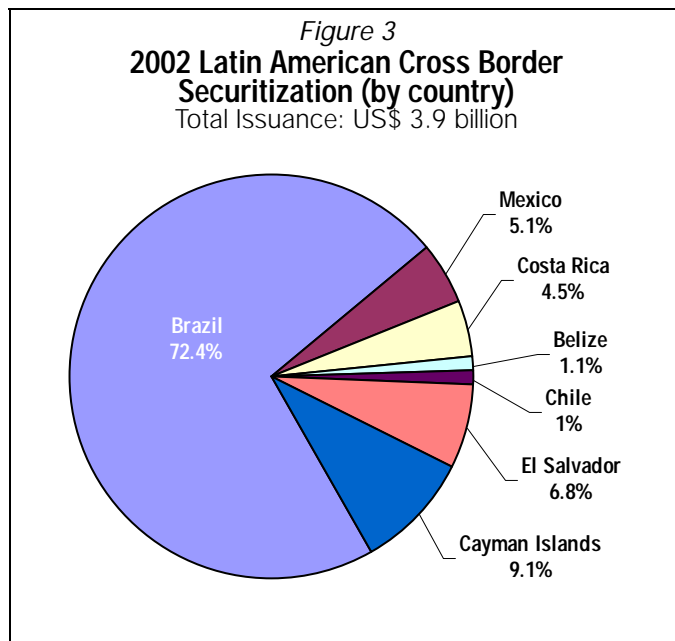
The October presidential election in Brazil also created many uncertainties among investors and issuers because of the leftist roots of the then-leading candidate (now president) Luiz Inácio Lula da Silva. These uncertainties contributed to reduced levels of debt issuance by Brazilian companies, which in 2001 had been the principal source of cross border structured finance transactions.

And finally, investors' skepticism toward corporate credit quality throughout the world brought on by the Enron and WorldCom scandals also affected Latin American issuance.

Investors' perception of increased risk throughout the region can also be seen in the percentage of securities placed that were wrapped by an **Aaa**-rated monoline insurer. In 2002, over half of the US\$3.9 billion of cross border structured finance featured guarantees provided by **Aaa**-rated monoline insurers. By contrast in 2001, of the US\$6.9 billion of debt issued, less than a quarter of all new issuances carried credit enhancement from one of the **Aaa**-rated monoline insurers.

Brazil: The Largest Cross Border Issuer

Issuers domiciled in Brazil accounted for 72% of the total dollar volume of Latin American cross border securitization in 2002 versus 61% in 2001 (see figures 3 and 4). Although Brazilian issuers were clearly the most active Latin American issuers in 2002, overall issuance volume was still down significantly compared to 2001. In 2002, Brazilian cross border issuance totaled US\$2.8 billion, compared to US\$4.2 billion in 2001.



Brazilian banks such as Banco do Brasil, Banco Itaú, and Unibanco issued notes backed by MT100 payments. In addition, Aracruz Celulose closed a deal backed by its export receivables. Political risk-enhanced (PRI) bonds were also issued by top Brazilian companies such as Petrobras, CVRD, Bradesco, and Unibanco.

Mexico's Low Level of Cross Border Issuance Continues

As was the case in 2001, there was a low level of issuance from Mexican entities-particularly the larger Mexican banks. This continues a trend that began several years ago. In 2000, Mexican banks originated approximately US\$1.0 billion of securitized debt. In 2001, they securitized US\$350 million in future assets. By 2002, however, net new issuance backed by future flow assets by the largest Mexican banks was US\$200 million as Banamex

paid down its outstanding MT100 transactions and replaced them with an increase from its existing credit card merchant voucher master trust.

There are two major forces behind this trend. First, traditional high quality issuers in Mexico have attractive alternatives to satisfy their financing needs as many are now rated investment grade (in many cases above the **Baa3** investment-grade floor). And second, the leading Mexican banks are now owned by foreign banks, and as a result have access to a wider array of financing options.

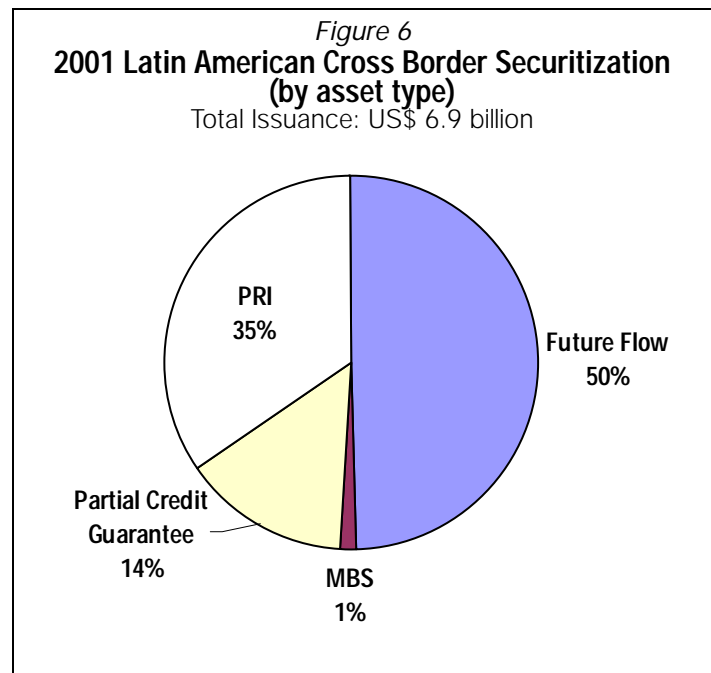
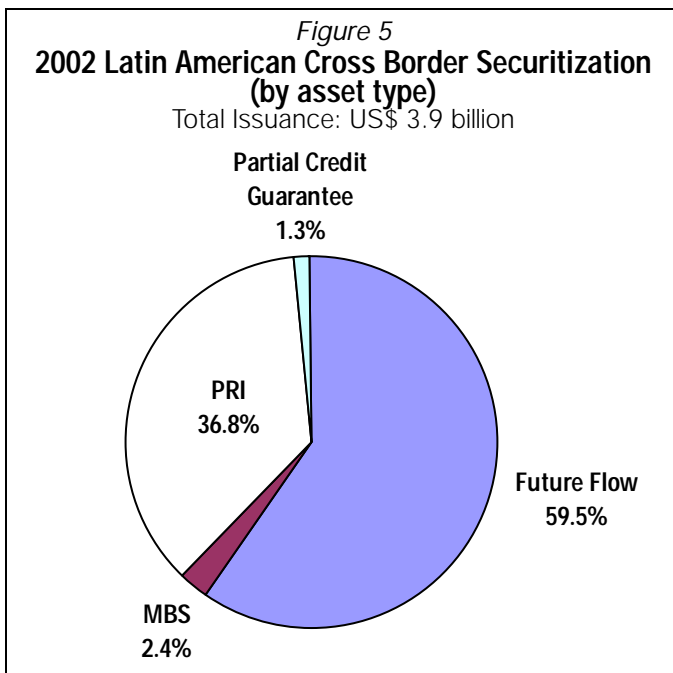
Increased Participation from Central American Countries

There was increased activity from Central American issuers during 2002, with Costa Rica and Belize entering the cross border market for the first time during the year. Two cross border transactions took place in Costa Rica: a credit card merchant voucher deal of US\$125 million issued by Credomatic, and the country's first MBS transaction (US\$50 million), backed by mortgages originated by Banco San José and Banco Interfin, two of the largest private banks in Costa Rica.

Belize's first cross border transaction was a US\$44.5 million issuance backed by mortgages and small-business loans originated by the Development Finance Corporation of Belize. In addition, there were two issuances from El Salvador totaling US\$265 million. The deals were backed by electronic transfers and/or remittances and were issued by two leading Salvadorean banks.

Future Flow Followed by Political Risk Insurance Are The Major Asset Types

As was the case in 2001, during 2002 the Latin American cross border structured finance market was dominated by future flow and PRI transactions. Future-flow transactions accounted for over 59% of total cross border issuance during 2002, compared to 50% in 2001 (see figures 5 and 6).

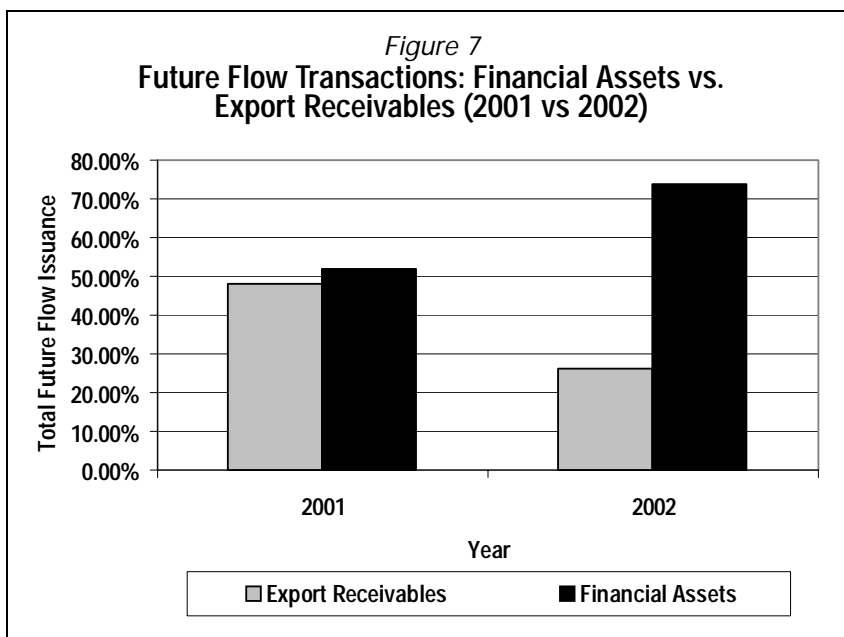


Investor and monoline preference for future-flow-backed bonds remained strong, which contributed to future flow deals maintaining their lead as the most popular transaction structure in 2002. The resilience of future flow structures has reinforced investors' acceptance of the structure, with Argentina remaining a prime example of their strength. During 2002, future flow transactions weathered the stressful financial situation in Argentina better than any other type of structure¹.

The vast majority (74% by volume) of future flow transactions were backed by financial receivables, with transactions backed by export receivables running a distant second at 26% of issuance. By contrast, in 2001 the split between financial and export receivables future-flow transactions was nearly even (see figure 7). This trend

¹ Argentine future-flow-backed transactions benefited from the fact that funds backing such deals are usually in foreign currency and they are captured offshore, thus adding a level of protection from such risks as transferability, convertibility and devaluation, which heavily afflicted other types of securitizations-such as MBS-in the aftermath of the Argentine sovereign default and subsequent financial chaos. For more information, please refer to the Moody's special report "The Impact of the Argentine Sovereign Default on Cross-Border Securitizations," published in September 2002.

towards financial asset receivables is based on the fact that many of the largest Latin American exporters had already completed securitization transactions in the past and that the largest Brazilian banks have only recently entered into the capital markets with future flow transactions.



Additionally, the low issuance volumes by Latin American exporters were negatively affected by the absence from the structured finance market of PDVSA and Pemex, the national oil companies of Venezuela and Mexico, respectively, which were traditionally two of the largest issuers of export-backed future flow securities in the region. PDVSA saw its access to the market hampered by the political and economic instability in Venezuela, while Pemex has taken advantage of its ability to borrow on an unsecured basis.

Transactions enhanced by political risk coverage were the second-largest asset type issued by Latin American companies during 2002-accounting for 36.8% of the entire region's cross border structured finance market. The largest PRI transaction was a US\$500 million bond issuance for Petrobras, which closed in February 2002. CVRD, Bradesco, and Unibanco also placed bonds enhanced by coverage for convertibility and transferability risk. PRI-enhanced bonds provide protection against convertibility and transferability risks, while leaving investors to assume the full credit risk of the issuer. Most of the PRI deals were closed in the first quarter of 2002.

Increased Cross Border Rating Actions in 2002²

Country and Industry Risks behind Most Downgrades. Many of the downgrades of Latin American cross border transactions during 2002 were prompted by higher systemic risks, resulting from the difficult economic conditions in Argentina, Brazil, and Venezuela.

In Argentina, most of the cross border securitization downgrades were related to transactions backed by domestic assets (mortgages and oil and gas royalties), and they were caused by the re-denomination of U.S. dollar obligations in private contracts into Argentine pesos ordered by the Argentine government in January 2002 (also called "pesification"). Securitized mortgage loans were denominated in U.S. dollars, while gas royalties were calculated as a percentage over the price of commercialized gas in long-term contracts, also denominated in U.S. dollars. The government-decreed "pesification," coupled with the significant devaluation of the peso, led to a severe loss in the value of the collateral supporting these securitizations. Additionally, Moody's downgraded the YPF Sociedad Anonima structured export notes. The downgrade was triggered by a decline in the fundamental credit quality of YPF, the issuer of the notes. These notes matured and were paid off in October 2002.

In Brazil, Moody's downgraded the ratings of six PRI-enhanced notes issued by Brazilian banks. PRI does not protect against the fundamental risks affecting issuers, and in these cases the downgrades followed a down-

² For more information on rating actions taken by Moody's affecting Latin American structured finance transactions during 2002, please refer to the section titled STRUCTURED RATING ACTIONS, attached as an Appendix to this report.

grade of the global local currency ratings of the respective Brazilian banks. The banks' downgrades, in turn, reflected the increase in systemic risks that began to affect Brazil's banking system during 2002.

In Venezuela, Moody's downgraded the PDVSA Finance senior unsecured notes in April 2002 due to concerns over disruptions in PDVSA's oil production, refining, and export flows following the standoff between President Hugo Chavez and much of PDVSA's senior managers and rank and file employees. The PDVSA Finance notes were downgraded again in December as PDVSA's oil production and exports stopped due to a strike by PDVSA's employees.

On the other hand, some rating actions were related to issuer and industry-specific predicaments, such as in the cases of the Grupo Minero Mexico and Imexsa export-backed notes. Both companies are in the cyclical mining industry, which is currently mired by low metal prices, excess production, and lower demand due to the slowdown in the global economy. In addition, the stressful conditions in the airline industry contributed to the downgrade of the ticket receivables-backed deal originated by VARIG.

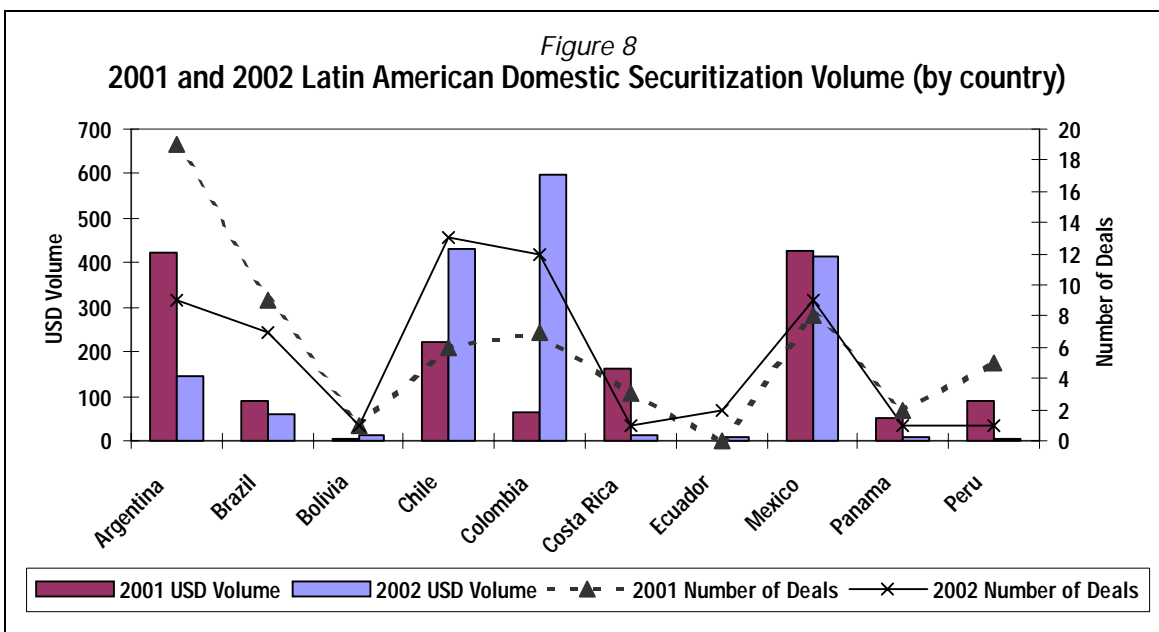
World Bank's Decision to Extend Terms to Argentina Affects Other Deals with Rolling Guarantees. In October 2002, Moody's downgraded the notes issued by the Republic of Colombia that benefited from a partial rolling guarantee by the World Bank. The rating originally assigned to the notes relied on the assumption that if the rolling guarantee were triggered, the World Bank would make an immediate demand for reimbursement from the Republic of Colombia.

However, in October the World Bank announced that it was not demanding immediate repayment owed to it by Argentina in connection with bonds that carried a similar partial credit guarantee from the World Bank. In addition, the World Bank granted the Republic of Argentina almost five years to fully repay this obligation. In Moody's opinion, the World Bank's actions minimized the Republic of Argentina's incentive for the timely reimbursement of amounts disbursed under the guarantee.

The World Bank's actions in the Argentine case may send a message to other borrowers, such as the Republic of Colombia, that they could expect similar treatment from the World Bank should circumstances necessitate a draw under their respective guarantees. Without a demand for immediate repayment from the World Bank, the probability that any borrower will reimburse it in a timely manner (thereby enabling the guarantee to roll to the next non-guaranteed debt service payment) is significantly reduced.

2. The Domestic Market: Volumes Increased 13%

Market conditions in Latin America were less favorable during the last year than in 2001 due to financial and political uncertainties experienced in Argentina and Brazil. Despite this distress, total domestic structured finance activity totaled US\$1.7 billion during 2002, which was 13% higher than the US\$1.5 billion of domestic securitization volume in 2001. This increase was driven by issuance activity in Chile and Colombia.

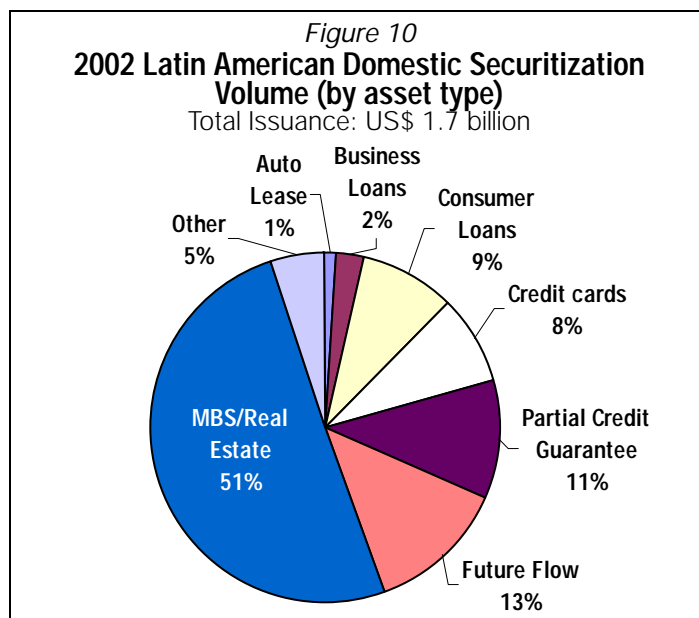
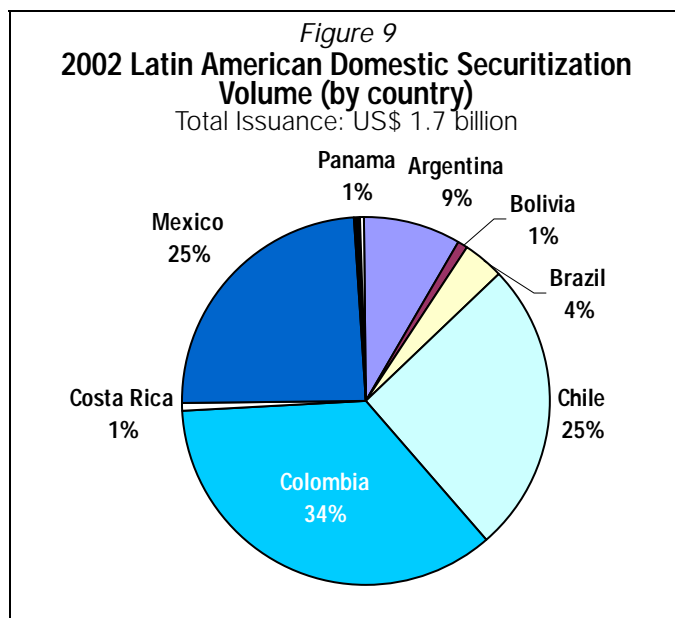


In terms of the number of transactions, however, there was a slight decline. Fifty-six domestic securitizations closed in Latin America during 2002, compared with 60 in 2001 (see *figure 8*). The drop in Argentine securitizations—from 19 in 2001 to 9 in 2002—accounted for the biggest decline. This decrease was partially offset by the increase in the number of transactions closed in Colombia, which rose to 12 in 2002 from 7 in 2001.

In U.S. dollar volume, Colombia, Mexico and Chile combined for approximately 85% of total issuance. MBS and real estate asset securitizations were the leading types of transactions issued.

Major Domestic Issuers: Colombia, Mexico, and Chile

In the domestic securitization markets Colombia (34%), Mexico (25%) and Chile (25%) accounted for the highest issuance volumes (see *figure 9*). The issuance levels from individual countries experienced some significant changes from 2001 to 2002. Colombia, which saw little activity in 2001, emerged as the largest issuer in 2002. Issuance from Mexico remained strong and Chilean issuers continued to become more active. Conversely, Argentina (which together with Mexico issued the highest volume in 2001) saw its share decrease to 9% in 2002 from 26% in 2001. Issuance volumes in Costa Rica and Peru, also shrunk dramatically—93% and 96%, respectively.



MBS & Real Estate Transactions Account for over 51% of Volume

MBS and other real-estate-related securitizations accounted for 51% of total domestic issuance out of the Latin American region during 2002, an increase from the 43% that the sector captured in 2001. Titularizadora Colombiana—a Colombian entity that was created in 2001 to jumpstart the Colombian MBS market issued two large MBS deals. Each issuance was approximately US\$200 million. Mortgage and other real estate-asset transactions also dominated the Chilean, Brazilian, and Mexican markets.

The percentage of credit-card-backed deals increased from 2% in 2001, to 8% in 2002. Most of the credit card transactions were issued in Chile. Bonds carrying partial credit guarantees accounted for 11% of the domestic market in 2002. There were no such transactions in 2001.

Moody's Rates First Transactions of New Asset Types in Domestic Markets

In 2002, Moody's rated securitizations of new asset types in Chile, Mexico, and Brazil. Moody's rated Chile's first private-label credit card deal. In Mexico, Moody's rated the first take-out securitization from a SOFOL³ (*Sociedad Financiera de Objeto Limitado*). Moody's also assigned a preliminary rating to the first consumer loan securitization in Brazil. Máxima Financeira⁴ is the first to benefit from the Central Bank of Brazil's resolution 2907 (November 2001). Resolution 2907 allows for the creation of *Fundos de Investimentos em Direitos Creditórios* (FIDCs) or receivables investment funds. As bankruptcy-remote entities that enjoy beneficial tax treatment under the Brazilian tax code, FIDCs are intended to be cost-effective securitization vehicles.

³ Special-Purpose Financial Companies.

⁴ For more information, please refer to the Moody's pre sale report "Máxima Financeira Series 2002-1", published in November 2002.

2003 OUTLOOK: CROSS BORDER AND DOMESTIC MARKETS

For 2003, Moody's expects a substantial percentage of cross-border securitizations to be originated by Brazilian entities. Therefore, the stability of Brazil's economy is likely to continue playing a pivotal role in 2003 cross-border securitization issuance, as a number of repeat issuers and the larger Latin corporations and financial institutions are domiciled there. Moody's also anticipates that Central America will continue to contribute to future flow transaction volumes—a trend that began in 2001. In addition, Moody's expects more cross border deals backed by Central American mortgages.

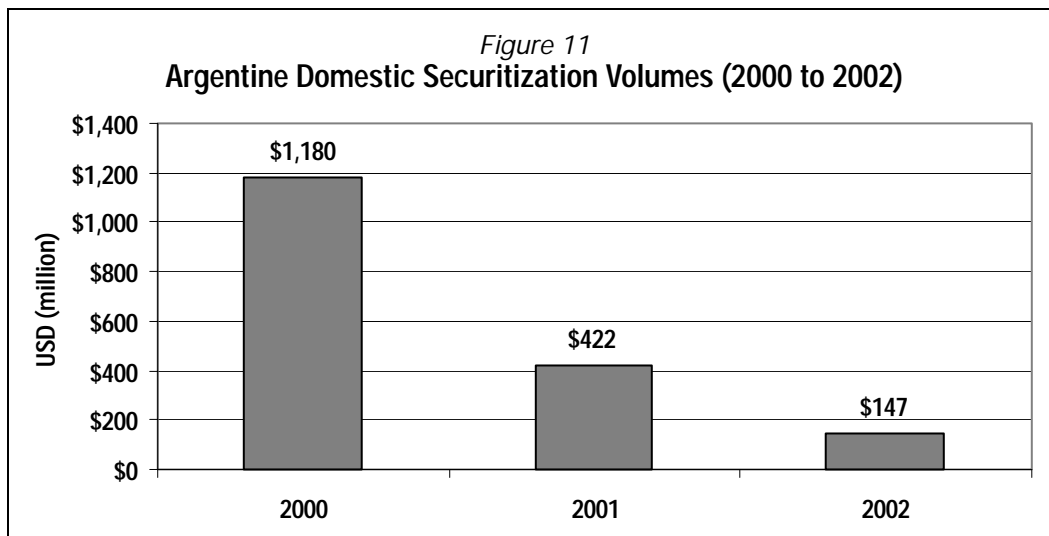
In the domestic markets, Moody's anticipates that MBS and MBS-related transactions will continue to fuel growth in the domestic asset market in 2003, particularly in Chile and Mexico, as these products have gained acceptance by local institutional investors. Moody's also expects an increase in issuance from Brazilian receivables' investment funds, which offer issuers a cost-effective securitization vehicle.

COUNTRY TRANSACTION SUMMARIES

ARGENTINA

Domestic Market

The domestic market in Argentina saw some activity during 2002—albeit very limited. Issuance during 2002 declined 65% versus 2001 volumes. The transactions that closed were driven mainly by demand from local pension funds. While Argentina's economy has shrunk dramatically, salaried workers are still making pension contributions. That has, in turn, created some liquidity, although at much lower levels than in recent history. *Figure 11* illustrates the decline in domestic issuance over the last three years. Transactions backed by personal loans dominated the securitization arena. These deals tend to be for relatively short terms—a feature that appeals to local investors seeking to minimize exposure risks.



Outlook

In Moody's opinion, the stressful economic environment will continue to limit virtually all activity in the cross-border market. On the domestic front, although Moody's expects some continued scattered activity, issuance there is expected to be minimal.

BELIZE

Cross Border Market

Moody's assigned a rating of **A3** to the senior bonds and **Ba2** to the junior bonds of the first rated mortgage deal for a Belizean issuer. The transaction, issued by the Belize Mortgage Company, was closed in April 2002.

The US\$44.5 million transaction is backed primarily by residential mortgage, agriculture and industrial business loans originated by the DFC (Development Funding Corporation), a government-owned entity. The DFC pro-

vides a large number of loans to the following sectors: tourism and services, agriculture, (focusing on bananas, sugar, citrus production, and fisheries), student loans, and housing. The transaction benefited from an unconditional and irrevocable guarantee from the government of Belize (rated **Ba2**) and a non-honoring sovereign policy for the senior bonds from Steadfast Insurance Company, which can be drawn only upon a non-honoring event of the government of Belize guarantee.

Domestic Market

There were no domestic transactions in Belize during 2002, principally because Belize has no local pension funds to invest in such products.

Outlook

There is the potential for a new structured finance offering in 2003, as local officials continue to seek lower-cost financing alternatives, including loans from multilateral and bilateral lenders, rather than from their traditional lending institutions.

BRAZIL

Cross Border Market

Concern about the presidential elections in Brazil translated into a weaker exchange rate and upward pressure on long-term interest rates, which had a negative effect on economic growth. These uncertainties contributed to reduced levels of debt issuance, not only by issuers domiciled in Brazil but also throughout the region.

Although overall volume from Brazil decreased by over 30% from 2001, Brazilian companies continued to be the most active cross border market participants among their Latin American peers in 2002. The major asset types originated were future flow and PRI, as approximately US\$1.4 billion in notes of each asset type was issued last year.

Petrobras, Bradesco, CVRD and Unibanco issued bonds enhanced by PRI. Petrobras, which issued an aggregate of US\$800 million of PRI-enhanced notes in 2002, was the largest Latin American cross border issuer of structured debt, even as its total issuance volume decreased from US\$1.8 billion in 2001.

The securitization of future financial assets was strong during 2002, with Banco Itaú, Banco do Brasil, and Unibanco completing securitizations of their electronic SWIFT remittances, or MT100 payments. It was the first year Unibanco issued cross border debt into this market.

With the exception of a securitization of future exports of bleached eucalyptus kraft pulp by Aracruz, all the Brazilian future flow transactions that were issued in 2002 were backed by financial future flows.

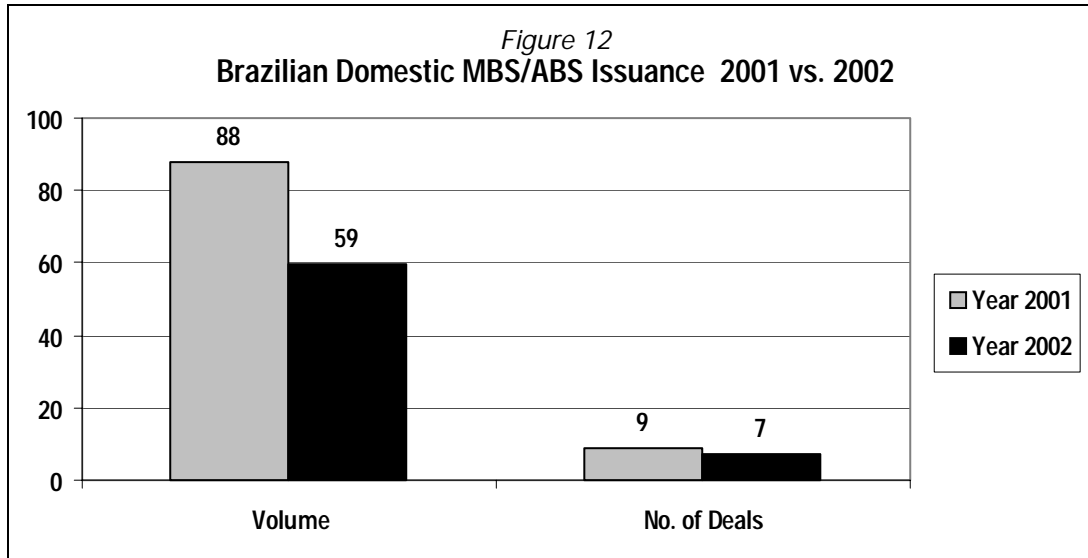
And finally, Banco BBA Creditanstalt acting through its Nassau, Bahamas branch issued \$50 million in subordinated notes that carried a partial credit guarantee provided by the International Finance Corporation. This was the first such transaction for a Latin American entity, and the first time that Banco BBA issued in the structured finance cross border market.

Domestic Market

Total domestic ABS and MBS issuances in Brazil decreased from US\$88 million in 2001 to US\$59 million in 2002. The decrease was primarily a result of the economic turbulence in the region and the uncertainty on the part of investors over the Brazilian presidential election in October 2002. Structured transactions in Brazil have also been historically limited by local investors' unwillingness to treat securitized bonds differently than straight corporate bonds from the same originators. In some cases, for example, investors have apparently required a premium over their expected return for the effort required to analyze structured investments. The end result is that a structured issuance can be more expensive than a 'plain vanilla' corporate bond, in spite of its stated objective to mitigate corporate risk by disassociating itself from the originator's fundamental credit risk.

Mortgages were the main asset type securitized over the last two years (see *figure 12*). The Inter-American Investment Corporation continued to play an important role in the Brazilian MBS market as it bought new issuances in order to provide the market with liquidity and help develop the secondary mortgage market. Moody's rated two MBS transactions issued by Brazilian Securities totaling US\$4.9 mm. Both were rated **Baa3** on a global local currency scale and **Aa1.br** on the Brazilian national scale. Moody's also assigned a preliminary rating

of **Baa3** on a local currency global scale and **Aa1.br** on the Brazilian national scale to a sixth Brazilian Securities' MBS transaction, which is expected to close in January 2003.



Moody's expects that a provision enacted in 2001 will add efficiency to the market by confirming that mortgages originated under an earlier law, Law 70 of 1966, can be subjected to a non-judicial foreclosure. Although this earlier law had permitted out-of-court foreclosures, in the last 35 years almost all foreclosures were handled through the judicial process. While the provision seems to have shortened the time for foreclosing on a property from several years to about eight months, there have been too few non-judicial foreclosures to calculate a meaningful average for the current foreclosure time.

As noted above, the receivables investment funds created by resolution number 2907 of the Central Bank on November 29, 2001 created a new instrument for structured transactions in Brazil. The funds exhibit characteristics of both traditional structured finance transactions as well as of investment companies. They are bankruptcy-remote entities and are afforded beneficial tax treatment under the Brazilian tax code.

Moody's assigned a preliminary rating of **Baa2** on a global local currency scale and **Aaa.br** on the Brazilian national scale to the senior shares to be issued by Fmax (US\$28.6 MM), which will be backed by a pool of consumer loans accounts originated by Máxima Financeira. The consumer loans are used to purchase a variety of goods (predominantly white goods) at participating department stores. This fund will be open-ended, but senior shareholders will decide whether to continue the fund in five years' time. Senior shareholders will be able to redeem their shares at any time, but repayment of the shares will commence one month after the redemption is requested. However, the actual time for full repayment will depend on the liquidity of the fund and how many shareholders choose to redeem their shares at the same time. This is the first receivables investment fund to be closed in Brazil under the new regulation.

Outlook

The outlook for structured transactions in the cross border and domestic markets is relatively strong, in large part because of pent-up financing needs that could not be met in 2002. Market conditions seem to have stabilized since the presidential election and most expect President Luiz Inacio Lula da Silva to be cautious (at least in his first weeks in office) in promoting any policies that might stir negative market sentiment.

In the domestic markets, Moody's expects the number and volume of Brazilian domestic ABS and MBS transactions to rise in 2003, to a large extent because of the creation of receivables investment funds. While the growth of this type of fund will depend greatly on investors' acceptance of the first issuances, Moody's has seen strong initial interest among local market participants.

The continued involvement of Inter-American Investment Corporation (IIC) will hopefully contribute to the development of a secondary MBS market in Brazil. The IIC has a US\$10 million facility that it can use to invest in securities to help develop the secondary mortgage market. As it resells the securities it has purchased, it frees

up availability (always with a limit of US\$10 million) to purchase new securities. The IIC purchased MBS from Brazilian Securities, which has helped local investors become more comfortable with MBS transactions as those securities are now in the process of being successfully placed among local investors. In addition, the IIC has granted a warehouse line of US\$25 million to Brazilian Securities to purchase new mortgages in order to issue more MBS transactions.

Brazilian Securities is likely to remain as a major issuer of domestic debt in 2003, as it has a new warehouse line of U.S\$ 5.0 million with the FMO⁵. In addition, Cadim (a large Canadian real estate merchant and fund manager with operations in the Americas, Europe, and Asia) is now a new shareholder with an ownership interest of 50%.

Moody's also expects cross border structured issuance from Brazilian entities to remain strong in 2003. Future flow deals by top-tier banks and exporters, along with PRI transactions are expected to comprise the core of cross border deals from Brazil in 2003.

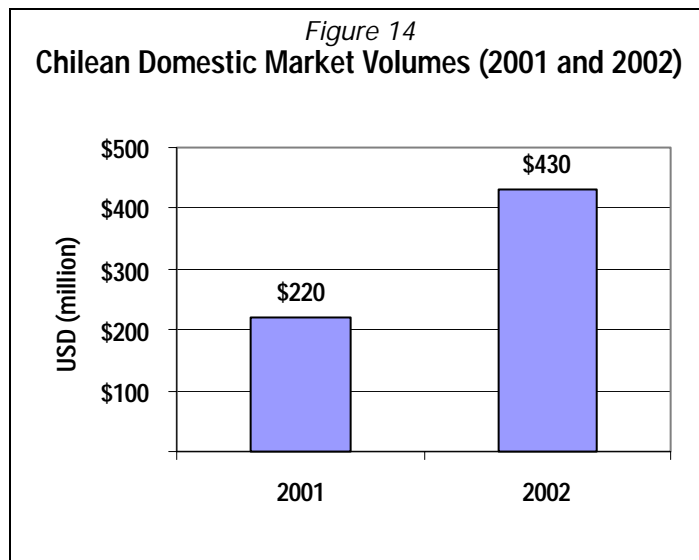
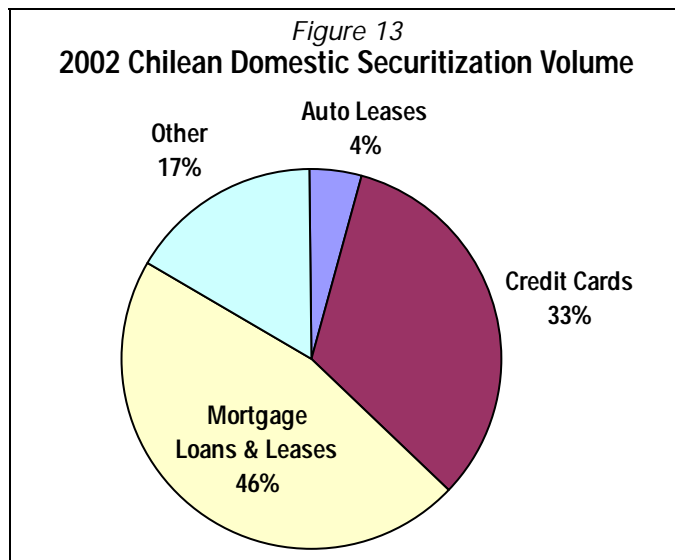
CHILE

Cross Border Market

A future flow deal backed by LanChile's airline ticket receivables—totaling US\$40 million—was the only cross border deal that closed in the Chilean structured market during 2002.

Domestic Market

The domestic securitization market in Chile was very active during 2002, and it was one of the markets with the highest volumes in the region. Total domestic issuance equaled approximately US\$430 million, an increase of 95% over last year's volume, accounting for 25% of the local capital market volumes for the entire Latin American region. The two largest asset classes securitized during 2002 were mortgage loans and leases, along with private label credit cards (see figures 13 and 14).



There were five transactions that took place in the mortgage loan and lease segment during 2002. Those segments continue to develop and now enjoy widespread acceptance among local institutional investors, given that many have begun to warm up to MBS and MBS-related securitizations. A US\$90 million, retail credit card securitization paved the way for securitization of this asset class in Chile. The transaction was backed by receivables of Ripley retail store credit cards. Ripley Stores is one of the largest retail chains in Chile. The transaction was the first of its kind and two similar securitizations soon followed.

Outlook

Moody's expects the historical pattern to continue - little activity in the Chilean cross border market during 2003, and strong domestic demand as Chile continues to recover from its 1999 recession. Moreover, Moody's anticipates that mortgage-backed as well as mortgage-leasing-backed transactions will continue to be a major

⁵ FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden NV) Netherlands Development Finance Company.

driving force in local securitization. Moody's also expects Chilean securitization to expand into new segments, such as deals backed by future university tuition payments and credit cards. The growth of the domestic market in Chile should also benefit as the local investor community continues to become more familiar with structured products.

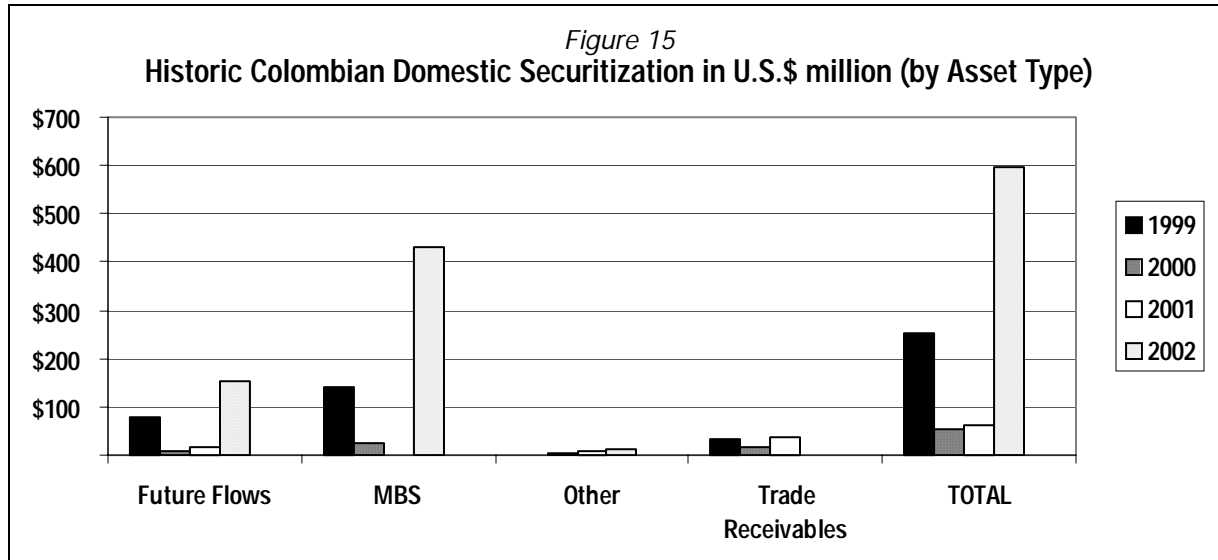
COLOMBIA

Cross Border Market

There were no cross border transactions from Colombian issuers during 2002.

Domestic Market

Domestic securitization grew significantly in US dollar volume during 2002 and surpassed levels last seen in 1999. Moreover, the number of structured deals increased to 12 from 7 in 2001.



The difference in US dollar volume is attributable to two transactions issued by Titulizadora Colombiana S.A.'s ("Titulizadora Colombiana") in an aggregate amount of approximately US\$400 million. These transactions are unique as they are backed by two types of mortgages: social interest housing loans (subsidized, low-income loans) and non-social interest housing loans (all other loans fall into this category). The Colombian government is providing a direct guarantee for social interest housing loans and the IFC is providing a partial credit guarantee for the non-social interest housing mortgages.

The agricultural sector continued to be the dominant asset class in terms of number of deals closed. Six of the offerings that were closed in 2002 were issued by Sociedad Ganadera Ltda. These deals are backed by livestock that are nurtured by a "trust" for 12 months and then sold to create capital. The type of assets securitized in the agricultural sector seems to be widening. For example, a US\$3 million securitization backed by rights to farm property also closed in 2002. Finally, a US\$18.2 million deal was closed for Titupalma, will be the first palm-oil receivables backed securitization in Colombia. A similar deal, which is being structured by Colombian bank Commodities & Banca de Inversion, is taking longer to structure.

Outlook

In spite of the continued civil war and lack of general security in Colombia, the local securitization market looks as if it will continue to grow in 2003. Titularizadora Colombiana, the nation's first residential mortgage securitization entity, was created in July 2001 with the support of IFC and sponsored by lending originators. Titularizadora Colombiana expects to eventually securitize 30% of Colombia's mortgage loan originations. In addition, Colombia's agricultural sector will probably continue to use securitization to raise capital. However, the long term development and sustainability of the local capital markets and companies' access to the international capital markets will ultimately depend on the government's ability to provide for a stable and secure domestic environment.

COSTA RICA

Cross Border Market

Moody's assigned a rating of **Aaa** to the first Costa Rican mortgage-backed securitization, based on a financial guaranty policy provided by XL Capital Assurance, and a political risk insurance policy provided by Sovereign Risk Insurance Ltd., as agent on behalf of XL Insurance Ltd. Banco Interfin S.A. and Banco San José, two of the largest private banks in Costa Rica, originated the mortgages.

In addition, Credomatic issued notes totaling US\$125 million backed by credit card merchant voucher receivables which were wrapped by a **Aaa**-rated monoline insurer. 2002 was the first year in which Costa Rican issuers successfully placed structured transactions in the international capital markets.

Domestic Market

Securitization is still in its early stages in Costa Rica accounting for only a marginal percentage of Costa Rica's capital market during 2002, as the country's true sale trust law was just enacted in late 2000. In 2002, a single transaction of approximately US\$11 million was placed in the domestic market showing a decrease of 93% to 2001. The transaction securitized receivables from leasing contracts of all Burger King franchise restaurants in Costa Rica.

Outlook

In the cross border market, mortgages are likely to remain the most prevalent asset class, as home ownership continues to grow, and as private banks have increased their participation in the developing middle income residential mortgage market. On the domestic front, Moody's believes that there is potential for a small increase during 2003, as local investors become more familiar with structured products.

EL SALVADOR

Cross Border Market

Total issuance volume from El Salvador was US\$265 million in 2002. Banco Cuscatlán and Banagrícola each issued notes backed by electronic transfer and/or remittance payments.

Domestic Market

There were no domestic transactions in El Salvador during 2002.

Outlook

Moody's expects more future flow transactions from El Salvador during 2003.

MEXICO

Cross Border Market

Cross border securitization from Mexico has slowed considerably over the last few years due to the investment-grade ratings of most of Mexico's top issuers and the foreign ownership of the largest Mexican financial institutions. In 2002, only one such transaction took place in Mexico: Banamex issued a net increase of US\$200 million backed by credit card merchant vouchers as it refinanced debt of its existing MT100 master trust.

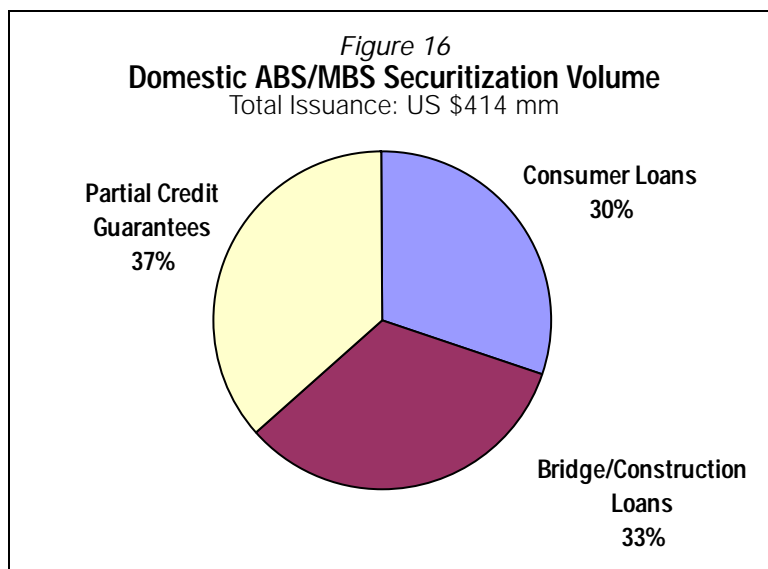
Domestic Market

The domestic debt market in Mexico grew from approximately US\$2.9 billion to approximately US\$3.5 billion. This increase was not as dramatic as in previous years, and the slow down in growth was caused primarily by the economic troubles of its major trading partner, the United States.

Domestic structured finance transactions however, experienced a slight decline. The total structured finance market in 2002 was approximately US\$414 million, down from US\$427 million in 2001, representing a decrease of 3%. Nevertheless volume was still significantly higher than 2000 with US\$65 million.

Partial Credit Guarantees (37%) were the largest asset type in the Mexican structured finance market. Housing market related transactions (33%) continued to be an important asset type securitized (see *figure 16*), stemming

mainly from the high demand for housing and the need for construction financing and mortgage financing alternatives. Consumer loans also represented an important share of the securitization market. This piece of the market was dominated by the largest consumer finance company in Mexico, Elektrafin.



The securitization of the housing market did not take off in 2002 to the degree initially expected. Nevertheless, there were various important steps taken towards unifying housing sector standards, which should promote the creation of a secondary market. For example, Moody's provided its first mortgage servicer rating in Mexico in October 2002, when it assigned a servicer rating of **SQ2** to Hipotecaria Su Casita.

In addition, Moody's also rated three transactions (Su Casita, Sare, and Metrofinanciera) backed by obligations from mortgage take-out providers⁶.

Moody's rated Metrofinanciera 2002-1 take-out securitization in November 2002. This transaction was the first deal to feature a Sociedad Hipotecaria Federal (SHF) partial credit guarantee on a securitization.

The creation of SHF (September 2001) is an important development in the low-income housing market because it offers an alternative way to raise money for the housing market and it introduces the potential for a secondary mortgage market. SHF is currently the only government entity (similar to Ginnie Mae in the United States) established in Mexico for the purpose of creating a secondary mortgage market. A secondary market would allow for allocation of the risks and returns of the mortgage market across more market participants than would be possible in a primary market only. Furthermore, SHF fulfills an important role in Mexico's low-income housing market⁷, as no established real estate rental market exists there yet.

Although SHF will provide several financing tools that should help to expand Mexico's primary and secondary mortgage markets, it is Moody's opinion that SHF's focus on the first loss partial mortgage guarantee is a major step in enabling the growth of mortgage securitization. Moody's expects the partial mortgage guarantee to provide clear benefits for both issuers and investors of MBS. From an issuer perspective, the guarantee allows for more economical structures, as less capital will be required to make the transaction feasible.

The implementation of SHF's partial mortgage guarantee should also encourage higher issuance of mortgage-backed securities. While this reform is an important step forward, it remains to be seen how well the partial credit mortgage guarantee will work in practice.

Outlook

On the domestic front, Moody's expects that transactions relating to the Mexican housing sector will continue to grow at an accelerated rate in 2003. In fact, one of SHF's main objectives is to increase the supply of housing to low-income and low-to-medium-income Mexican households through the securitization of mortgage portfolios, which would also serve to increase the supply of mortgage-backed securities in the local market.

⁶ Mortgage Take-out Providers are the major source of funding for the low-income housing market of Mexico.

⁷ For more information, please refer to the Moody's special report "Sociedad Hipotecaria Federal: Does the Mortgage Partial Guaranty Work? - The Proof is in the Pudding", published in July 2002.

Mortgage and construction related issuance are likely to be the principal asset classes securitized because of the country's extensive housing deficit and the search by construction companies and Sofoles for alternative funding methods. The year 2003 could see the emergence of a secondary market for housing credits, as SHF is planning to issue a MBS program of about US\$1 billion. This transaction should create greater uniformity in origination and servicing practices and thus facilitate the development of the secondary market. While there is still uncertainty as to which investors will be able to buy the SHF issuance, as pension funds are currently not able to hold more than 10% of assets in debt from financial institutions, The housing shortage is such an important issue in Mexico that the government may change the pension fund regulations to allow them to buy more MBS and housing sector related debt.

In addition, the SHF partial credit guarantee and full guarantees could be used by Sofoles or other financial institutions to issue MBS or take-out transactions. The market will probably also see more take-out securitizations similar to those issued in 2001 and 2002. Finally, Moody's expects partial credit guarantee transactions to continue to play an important role in the Mexican domestic market as this asset type has been well received by local investors.

Moody's expects cross border issuance volume to remain stable.

PERU

Cross Border Market

There were no cross border transactions in Peru during 2002.

Domestic Market

Total volumes issued in Peru's local capital market shrunk by approximately 40% from 2001 to 2002. Issuance was affected by the turmoil surrounding the economies of Peru's neighbors Argentina and Brazil. Uncertainties about how the government would finance its mounting fiscal deficit during 2003 also added downward pressure on overall market activity. In terms of securitization, there was a sharp downturn from 2001's US\$91 million to 2002's single future flow transaction of US\$3.5 million.

Outlook

Moody's anticipates securitization from Peruvian issuers to increase slightly during 2003, depending to a great extent, in the soundness of the economies of Peru's neighbors.

URUGUAY

Cross Border Market

There were no cross border transactions in Uruguay during 2002.

Domestic Market

Uruguay does not yet have the necessary legislation for securitizations. The Uruguayan congress has been working on a securitization law that will allow for the creation of trusts and for true sales. However, there is no timetable for this law to be enacted.

Outlook

Without the necessary legislation in place, it is impossible for Uruguay to develop a local securitization market. However, once the economy recovers from the economic crisis caused by Argentina's banking crisis and congress approves the aforementioned law, Uruguay should have a relatively healthy environment for structured finance transactions.

APPENDIX

Country	Deal Name	Originating Company	Asset Type	Amount (US\$MM)	Closing Date	Moody's Rating
Belize	Belize Mortgage Company 2001-2 Class A	Development Finance Corporation of Belize	Mortgages and Small Business Loans	40	Apr-02	A3
Belize	Belize Mortgage Company 2001-2 Class B	Development Finance Corporation of Belize	Mortgages and Small Business Loans	4.5	Apr-02	Ba2
Brazil	Arcel Finance Limited	Aracruz Celulose S.A.	Export receivables	250	Feb-02	Aaa
Brazil	Banco BBA-Creditanstalt S.A. Step Up Subordinated Callable Notes due 2012	Banco BBA-Creditanstalt	IFC Partial Credit Guarantee	50	Jul-02	Baa3
Brazil	Banco Bradesco S.A. 4.05% Subordinated Notes due 2012	Banco Bradesco S.A.	PRI Policy	Yen 17.5 bil	Apr-02	Baa1
Brazil	Brazilian Diversified Payment Rights Finance Company, Series 2002-1	Banco Itaú S.A.	Remittances	250	Apr-02	Aaa
Brazil	Brazilian Diversified Payment Rights Finance Company, Series 2002-2	Banco Itaú S.A.	Remittances	150	Jul-02	Aaa
Brazil	Brazilian Securities Series 2002-1	Rossi Residencial	Residential mortgages	R\$5.46 MM	Feb-02	Aa1.br/ Baa3
Brazil	Brazilian Securities Series 2002-2	Rossi Residencial	Residential mortgages	R\$5.08 MM	Aug-02	Aa1.br/ Baa3
Brazil	Dollar Diversified Payment Rights Finance Company, Series 2002-1	Banco do Brasil S.A.	Remittances	250	Jul-02	Aaa
Brazil	Dollar Diversified Payment Rights Finance Company, Series 2002-2	Banco do Brasil S.A.	Remittances	40	Sep-02	Baa1
Brazil	Máxima Financeira S.A. Series 2002-1	FMAX	Consumer Loans	R\$ 100 MM	N.A.	(P)Aaa.br/ /Baa2
Brazil	PB Special Trust 2001 P-15 and PB Special Trust 2001 P-32 Floating Rate Loan Certificates due May 2011	Petrobras	PRI Policy	300	Dec-02	Baa1
Brazil	Petrobras International Finance Company Ltd.	Petrobras	PRI Policy	500	Feb-02	Baa1
Brazil	Unibanco Diversified Payment Rights Finance Company, Series 2002-1	Unibanco-União de Bancos Brasileiros	Remittances	400	May-02	Aaa
Brazil	Unibanco-União de Bancos Brasileiros S.A. 9.375% Step Up Subordinated Callable Notes due 2012	Unibanco-União de Bancos Brasileiros	PRI Policy	200	Apr-02	Baa1
Brazil	Vale Overseas Limited - Enhanced Guaranteed Notes	Companhia Vale do Rio Doce (CVRD)	PRI Policy	300	Mar-02	Baa2
Cayman Islands	Oil International Limited \$200,000,000 3.98% Notes Due 2009	-	-	200	Dec-02	Aaa
Chile	Ripley - Series 2002-1	CAR S.A.	Future credit card receivables	94	Aug-02	Aaa.cl/A1
Costa Rica	Costa Rican Housing Finance Bond Program, Series 2002-1	Banco Interfin S.A. and Banco San José S.A.	Residential Mortgages	50	Aug-02	Aaa
Mexico	Hipotecaria Su Casita, Series 2002-1, Clas A	Hipotecaria Su Casita S.A. de C.V.	Residential mortgages	MX\$ 600 MM	Oct-02	Aaa.mx/ Baa1
Mexico	Hipotecaria Su Casita, Series 2002-1, Clas B	Hipotecaria Su Casita S.A. de C.V.	Residential mortgages	MX\$ 72 MM	Oct-02	Ba2.mx/ B3

Country	Deal Name	Originating Company	Asset Type	Amount (US\$MM)	Closing Date	Moody's Rating
Mexico	Hipotecaria Su Casita, Series 2002-1, Clas C	Hipotecaria Su Casita S.A. de C.V.	Residential mortgages	MX\$ 43 MM	Oct-02	Caa2.mx/ Caa2
Mexico	Imexsa Export Trust No. 96-1 10 5/8 Senior Structured Export Certificates Due 2005	Ispat Mexicana S.A de C.V. (Imexsa)	Steel Exports	62	Sep-02	Caa1
Mexico	Metrofinanciera Series 2002-1	Metrofinanciera S.A. de C.V.	Take-out Securitization	MX\$ 500 MM	Nov-02	Aaa.mx/ Baa1
Mexico	Sare S.A de C.V. Series 2002-1	Sare Holding S.A. de C.V.	Take-out Securitization	MX\$ 200 MM	Dec-02	Aa1.mx/ Baa2

LATIN AMERICAN STRUCTURED FINANCE RATING ACTIONS

Downgrades

Moody's downgraded the ratings of BHN IV Mortgage Trust Series 2000-1 Class AF Senior Notes, and Class AV Senior Notes to **Ba3**, and then to **Ca** in January 2002. The notes remain under review for possible further downgrade.

Moody's downgraded the ratings of BACS I Mortgage Trust Class AF Mortgage-Backed Bonds, and Class AV Mortgage-Backed Bonds to **Ba3**, and then to **Ca** in January 2002. The notes remain under review for possible further downgrade.

Moody's downgraded the rating of Imexsa Export Trust Certificates to **Ca** in January 2002.

Moody's downgraded the rating of Salta Hydrocarbon Royalty Trust to **Ba3** in January 2002, and then to **Caa1** in February 2002. The notes remain under review for possible further downgrade.

Moody's downgraded the rating of YPF Sociedad Anonima Structured Export Notes to **Baa2** in February 2002.

Moody's downgraded the rating of Grupo Mexico Export Master Trust No. 1 Structured Notes to **Caa1** in February 2002, and then to **Caa3** in April 2002.

Moody's downgraded the rating of Grupo Minero Mexico's Secured Export Notes to **Caa2** in February 2002, and then to **Ca** in April 2002.

Moody's downgraded the ratings of PDVSA Finance Ltd. to **Baa2** in April 2002, and then to **Ba1** in December 2002.

Moody's downgraded the rating of Banco Bradesco S.A. 10.25% Subordinated Notes due 2011 to **Baa1** in July 2002.

Moody's downgraded the rating of Banco Bradesco S.A. 4.05% Subordinated Notes due 2012 to **Baa1** in July 2002.

Moody's downgraded the rating of Banco Itaú S.A. 10.00% Subordinated Notes due 2011 to **Baa1** in July 2002.

Moody's downgraded the rating of Banco Itaú S.A. 4.25% Subordinated Notes due 2011 to **Baa1** in July 2002.

Moody's downgraded the rating of Brazil Development Funding Corporation Secured Notes to **A3** in July 2002.

Moody's downgraded the rating of Unibanco-União de Bancos Brasileiros S.A. 9.375% Step Up Subordinated Callable Notes due 2012 to **Baa1** in July 2002.

Moody's downgraded the rating of RG Receivables Company, Ltd. 9.6% Credit Card Backed Notes due 2005 to **Ca** in July 2002.

Moody's downgraded the rating of The Republic of Colombia 9.75% Amortizing Notes to **Ba2** in October 2002.

LATIN AMERICAN SOVEREIGN RATING ACTIONS

Upgrades

Moody's upgraded the long term foreign currency rating of Mexico to **Baa2** in February 2002.

Downgrades

Moody's downgraded the long term foreign currency rating of Uruguay to **Ba2** in May 2002, to **B1** in July, and then to **B3** in July.

Moody's downgraded the long term foreign currency rating of Brazil to **B2** in August 2002.

Moody's downgraded the long term foreign currency rating of Venezuela to **B3** in September 2002.

Negative Outlook

Moody's assigned a negative outlook to the **Ba2** long term foreign currency rating of Colombia in March 2002.

Moody's assigned a negative outlook to the **Ba2** long term foreign currency rating of Belize in August 2002.

Doc ID# SF18600

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