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MCB backed ABS – As a Brand New Turkish capital markets' product

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Recent regulatory developments unveiled a new initiative aimed at addressing the liquidity needs and increased funding costs of Turkish banks. The initiative opens a new chapter in the Turkish securitisation market by allowing the issuance of ABS backed by MCB.

Background

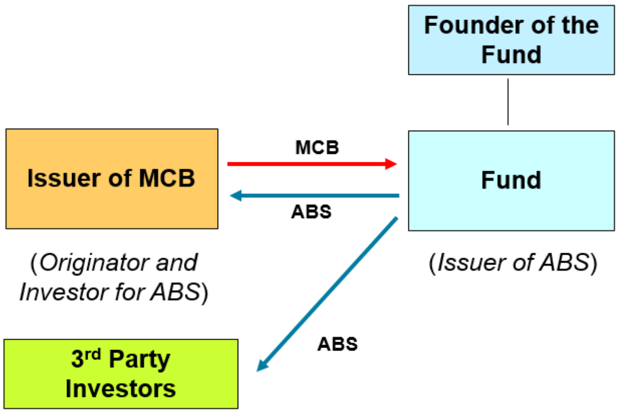
Against a backdrop of economic turmoil and drastic increase in the cost of funding for borrowers including the Turkish banks, regulatory measures were announced by Turkish policy makers. These measures aim at lowering the cost of funding for Turkish banks and increasing liquidity, through the use of a hybrid structure of mortgage covered bonds ("**MCB**") and asset-backed securities ("**ABS**").

Regulatory Developments

In the past weeks, authorities including the Capital Markets Board (the "**CMB**"), the Banking Regulation and Supervision Board (the "**BRSA**") and the Banks Association of Turkey (the "**BAT**") made statements supporting the implementation of measures through the Turkish capital markets that would help addressing the liquidity needs of Turkish banks as well as reducing their cost of funding.

- On 11 November 2018, the CMB amended the Communiqué on Asset and Mortgage-Backed Securities, to enable issuances of ABS backed by MCB issued by Turkish banks. The CMB also removed the requirement for a purchase agreement between the originator bank and the fund issuing the ABS, facilitating the transfer of the MCB to the balance sheet of the fund. To incentivise the issuers further, the CMB also amended the provisions of the Communiqués on ABS and MCB, reducing the CMB fees to 0% (zero per cent.) for any issuances before 31 December 2019.

- On 21 November 2018, the BRSA circulated a decision to Turkish banks, where it expressed its support to the development of a structure where the Turkish banks having issued MCB, would also become investors of ABS, backed by several issuances of MCB (*see diagram below*).



In the same decision, the BRSA also announced that the risk-weighting of such ABS would be 0% (zero per cent.), if issued within one year following the first issuance date.

This would mean that, for a period of one year, the BRSA will treat such ABS in terms of risk-weighting, in the same manner as cash, cash equivalents, gold, receivables from IFIs, receivables from the Central Bank, and receivables from Turkish central administrative bodies held by investor Turkish banks.

- The above announcement of the BRSA raised queries as to whether Turkish banks could use such ABS as collateral for obtaining liquidity from the Central Bank, in a way similar to conventional repo transactions using Treasury bonds. On 29 November 2018, the BAT made an announcement and clarified the ground indicating that this is not the intention — although it expects such ABS issuances to be beneficial in terms of strengthening the Turkish capital markets.

A first issuance of ABS imminent

On 28 November 2018, JCR Eurasia Rating published a rating report on the Public Disclosure Platform with respect to a potential issuance of ABS by the Asset Finance Fund founded by the Turkish Development and Investment Bank (*Türkiye Kalkınma ve Yatırım Bankası A.Ş. Varlık Finansmanı Fonu*) (the "**Fund**").

In its rating report, JCR Eurasia Rating explained that the ABS are to be backed by MCBs issued by T.C. Ziraat Bankası A.Ş., Türkiye Halk Bankası A.Ş., Türkiye Vakıflar Bankası T.A.O. and Türkiye Garanti Bankası A.Ş.

The first ABS issuance by the Fund is planned to be in a notional amount of 3.15 billion Turkish Lira and is expected to be sold to domestic qualified investors and investors abroad without a public offer. JCR Eurasia Rating rated these ABS investment grade: international long-term local currency grade "BBB-" and international short-term local currency grade "A-3". JCR Eurasia Rating further indicated that, in accordance with the obligations of minimum risk retention pursuant to the Communiqué on Asset or Mortgage-Backed Securities No. III-58.1, the Turkish banks which issued the underlying MCB will purchase 5% (five per cent.) of the ABS to be issued.

Commentary

The CMB aims to achieve more effective use of mortgage finance institutions and to strengthen the Turkish capital markets besides reviving the Turkish housing market. While achieving this task would be an important success, it would be helpful to understand who the potential investors in these ABS would be; how the proceeds of such issuances would be utilised by the four Turkish banks and what percentage of the ABS will ultimately be purchased by them.

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