CSFB closes second project securitization

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The securitization deal that the project finance market has been waiting for closed in April. Credit Suisse First Boston has issued a second tranche of project debt with a far more intriguing mix of assets than the first.

The deal is a considerable advance on the original $617 million Project Funding Corporation (PFC) 1, in that it is far more international in make-up and diverse in terms of technologies covered. Loans booked in G7 countries (primarily the US, UK and Germany) account for about 50% of the total $500 million deal.

The remainder consists of emerging markets and non-OECD debt, including countries such as the Philippines, Venezuela, Thailand, Morocco, Turkey, Chile, Colombia and Qatar. Much of this debt is already covered by ECA guarantees and political risk provisions.

The majority of the projects included are relatively recent and still subject to construction risk, as opposed to the earlier package where most of the loans had termed out. The transaction has been carried out in conjunction with German Bank BHF and is rumoured to include US commitments booked before its acquisition by ING in September 1999.

The debt, originating in around 8 sectors has been divided, as with PFC 1, into five differently rated classes. 79% of the loans are rated Triple A, 7% A, 3% BBB, 7% BB and 4.9% are non-rated. A wrap from a third party covers the middle three classes, although CSFB states that it cannot divulge the party's identity. The notes are issued through a commercial paper conduit, which is understood to be transparent.

The final improvement is that PFC 2 is designed to be flexible and permanent. Further additions to the pool are permitted, subject to ratings approval and a suitable credit structure set out in the note indenture. Through this process, it would be possible to arrive at a master trust structure for the assets. CSFB were advised by legal firm Mayer Brown and Platt and rating agency Standard & Poor's.

The deal appears to have given the lie to conventional wisdom that project financing carries too much complexity and too long tenors in order to be attractive to the CP market. The tenor is some 17 years, with an average life of six.

A further point of interest is that the loans offer a new class of assets with a high yield. Early candidates to try and replicate the CSFB deal are rumoured to be margin-conscious Morgan Stanley and Merrill Lynch. Though market maturity will have finally arrived with the presence of certain heavyweight providers from the project market.