



Ambac's Triple-A Financial Guarantee Helps Fuel Investor Demand for First Cross-Border Mortgage from a Korean Bank

\$499,400,000

Korea First Mortgage No. 1 Limited

First Korean Bank Cross-Border Mortgage-Backed Securities

The U.S. mortgage-backed securities market has grown to become an active, multi-trillion dollar market over the years. Financial institutions in developed countries around the world are increasingly seeking to replicate this success using similar securitisation techniques for their mortgage loan portfolios. South Korea's Korea First Bank decided to take a major step in this direction with plans for the first cross-border mortgage-backed securities deal from a Korean bank.

Although Korea First Bank traces its roots back as the oldest bank in Korea, its consumer mortgage lending only began in June 2000. This limited mortgage lending history combined with recent credit shocks in the Korean financial markets had the potential to dissuade investors from the planned \$500 million issue. To strengthen the bonds' ratings and reassure potential investors, Korea First Bank sought a financial guarantee for the mortgage-backed issue. With unmatched experience in the U.S. mortgage-backed market, as well as recent experience in mortgage-backed securitisations outside the U.S., Ambac Assurance was asked to analyze the deal and consider providing insurance.

Ambac underwriters focusing on the Korean capital markets drew on the expertise of their U.S. colleagues in evaluating the Korea First Bank mortgage loan portfolio. Although loan history was limited, Ambac's specialists felt confident that the assembled portfolio represented high quality residential loans. In addition, Ambac was reassured by Korea First Bank's use of advanced consumer credit concepts and strict eligibility requirements. Ambac agreed to insure \$328 million of Class A1 bonds due in 2014, as well as \$171.4 million of Class A2 bonds due in 2024. The weighted average life of the Class A1 bonds was 1.7 years and the Class A2 bonds was 5.8 years. The triple-A-rated Ambac also guaranteed a swap that was established as part of the transaction to mitigate currency and interest rate mismatches throughout the life of the deal.

In March 2004, the groundbreaking deal came to the 144A private placement market with the highest rating available. Demand was strong from investors around the world- the deal was three times oversubscribed- and a substantial amount of bonds were placed with investors in Asia.

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