IDB Invest becomes first MDB to tap its securitization

$450m add-on makes deal more efficient

IDB Invest, the arm of the Inter-American Development Bank that lends to the private sector, has tapped the $1bn securitization it issued last year — a step forward for MDBs' use of risk transfer techniques to expand lending capacity.

In October 2024 IDB Invest issued a synthetic securitization called Scaling 4 Impact to free up capital. It was the first major MDB to use the technique since the African Development Bank, which securitized loans to the private sector in 2018 and sovereign risk in 2022.

Now IDB Invest has enlarged its deal by over $450m, the first time an MDB has tapped a securitization.

"This forms an integral part of our originate-to-share business model, and is an effort to continue to establish the MDB asset class," said a source at IDB Invest in Washington. "This brings us capital relief, which will allow us to recycle that capital into new development-related assets."

IDB estimated the capital freed up by the 2024 transaction would enable it to do $500m of fresh lending. The tap will give it capacity for about $250m of further loans.

"It's super-exciting," said Molly Whitehouse, managing director who led the IDB Invest tap at Newmarket Capital, the anchor investor in this deal and AfDB's first transaction. "It demonstrates that structures with private sector investors are also long term partnerships. These are not just one-off transactions but a demonstrable form of ongoing capital solution for MDBs, that can be used for capital management and — as IDB Invest puts it — scaling for impact."

The new element of a tap has been introduced just as several other MDBs are structuring synthetic securitizations. The European Bank for Reconstruction and Development is understood to have mandated Santander for its inaugural deal, while the AfDB is working with Société Générale on a new $2bn transaction.

The International Finance Corp also brought its first securitization in October, but used a different structure: a true sale of the loans to a special purpose vehicle, with even the senior notes placed with investors.

Continent-wide capital relief

IDB Invest's $1bn deal in 2024 covered just over 100 loans to large companies, project financings and financial institutions, in about 20 countries and 10 sectors. The MDB invests in 26 countries across Latin America and the Caribbean.

IDB Invest retained the first loss exposure, up to 2.8% of the portfolio, as well as the senior exposure.

Newmarket provided a cash-collateralised risk participation agreement to absorb the junior mezzanine risk — from 2.8% to 10%.

The next layer from 10% to 13% was guaranteed by two insurance companies, Axa XL and Axis Capital, on an unfunded basis.

It was a static, 18 year transaction — the same loans will stay in the guaranteed portfolio until they are repaid. They have an average life of just under five years.

Newmarket is holding its investment in a portfolio of mezzanine positions in synthetic securitizations, many of them with commercial banks, classed as significant risk transfer (SRT) transactions.

Typically, funded mezzanine SRT investors earn an annual risk premium in the high single digit to low double digit percentage points above a base floating rate cash return. The insurance companies would only receive risk premium.

Back for more

A year after launching the deal, with remarkable speed, IDB Invest has bought more protection. "The retap took a little over two months from concept to execution," said the IDB source.

IDB Invest did not try to bring in new counterparties, but turned to the same team that had put together the original deal: arranger Santander, legal adviser Clifford Chance and investors Newmarket, Axa and Axis.

"While we did not include a replenishing feature in the original deal, we also knew that was not going to be a 'one-and-done' type of transaction," the source said. "We did not have a timing for a new deal or retap in mind, but are grateful to our partners for their flexibility when we presented them with the deal."

Whitehouse said: "When we did the first transaction it was only the second deal of its kind and we were adding lots of things [to the template of the AfDB deal], like the unfunded private sector guarantors, with Axa and Axis in the senior mezzanine tranche."

There was enough innovation going on, not to complicate things with specifically providing for a tap.

But Whitehouse said: "IDB Invest has continued its mandate — the whole point was for it to do more lending for critical needs in its target geographies. They came to us and said 'we've done all this new lending, can we expand the transaction?'"

One structure

The tap is an expansion of the original deal, not a standalone transaction. The tranching and legal structure remain as before, but new loans have been added to the protected portfolio. They will all be commingled in one portfolio and covered by one set of guarantees.

Because some of the original $1bn of loans had amortised, the $450m increase takes the outstanding size of the deal to about $1.2bn.

The new loans span the infrastructure,

energy, financial institutions and corporate sectors across Latin America and the Caribbean.

"SRT is a very flexible, creative tool that can meet a lot of goals," said Whitehouse. "You can use it for a range of underlying asset classes, whether with commercial banks or development banks; you can use it for regulatory capital relief or [lending] limit relief."

Efficiency gain

While commercial banks had returned to do follow-on deals with the same investors, MDBs had not done this yet, she said.

"What is really wonderful about a tap is that you don't have to use the critical volume [of assets] that you might need for a new deal," Whitehouse said. "You can use the existing infrastructure and ballast of the transaction to grow the deal and give IDB this new lending headroom."

Being able to do a tap makes a securitization more efficient for both issuer and investors, because they can enlarge it without all the due diligence, structuring and legal costs of a fresh transaction. This could be particularly useful for MDBs, whose loan origination is lumpier than commercial banks, meaning it could take them longer to build up a suitable portfolio large enough for a new deal.

Enlarging the number of loans in the deal should also improve the portfolio's diversification, making expected losses easier to predict.

"The tap comes at a time when there is a lot of activity within MDB SRT," said Whitehouse.

The AfDB and EBRD are expected to bring their securitizations in 2026, and other MDBs are at earlier stages of considering the technique.

"IDB Invest have paved the way that tap increases are possible and can be part of the value-add of an SRT transaction," said Whitehouse. "I do hope that the idea of the tap should be helpful in other banks saying 'let's do this'."

Revolvers next

A further development could be to structure deals with loan pools that are replenished for a few years before being allowed to amortise. This is done in commercial securitization, including SRT.

Investors in MDB deals so far have tended to get full sight of the loans they underwrite. But this is not a barrier to a replenishing structure.

"We're open to working on them," said Whitehouse. "I'm happy to underwrite a replenishing trade. We would probably prefer sight of the loans before they go into the pool but there are certain replenishment mechanics where investors can review individual loans. I'm sure that one of the next innovations will be a replenishing transaction."

IDB Invest is keeping its options open as to whether its next transaction will be another tap or a fresh structure.

"Securitization is already proving to be a very valuable tool in the MDB sector," said the IDB Invest source. "As we see our comparators also coming to market with their own vehicles, and investors becoming more knowledgeable of the performance of the MDB asset class, this market is poised for growth."