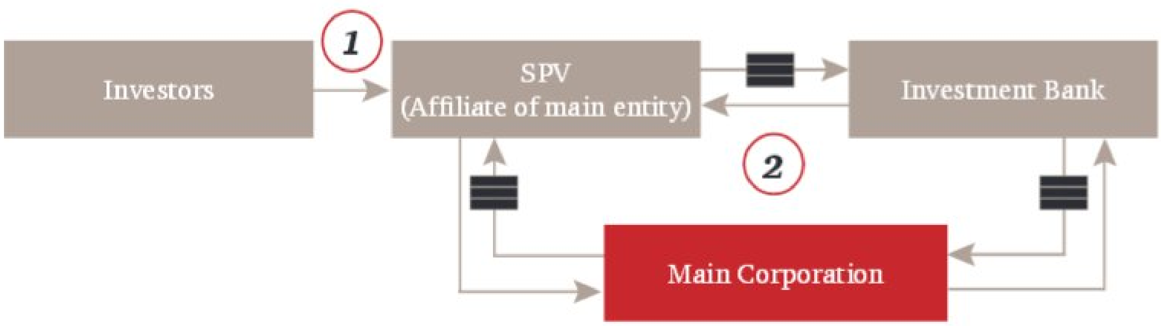
The SPV Structure

The following diagram shows how SPV structures are used for property development in Europe.

The following diagram shows the typical structure of a SPV used to obtain financing.



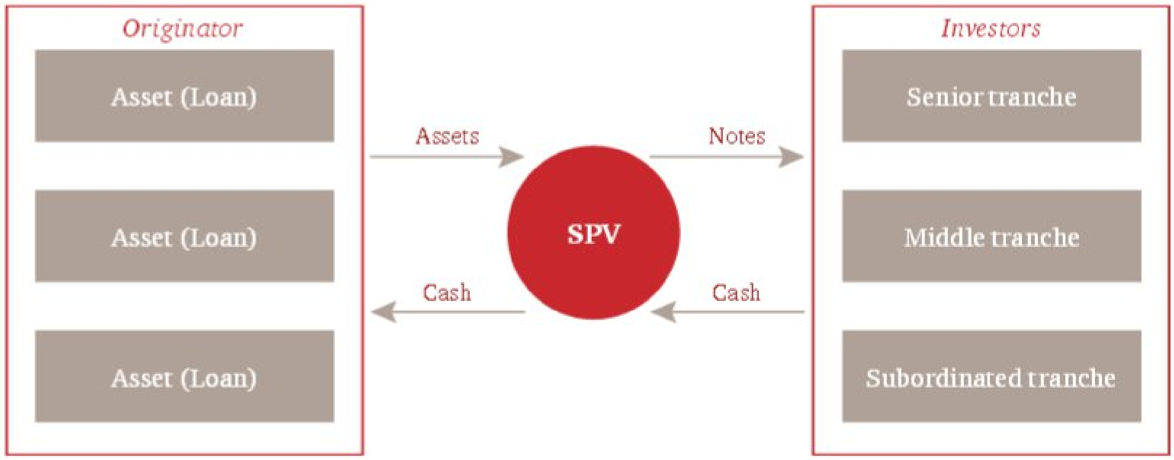
The Main Corporation creates a SPV (its affiliate) in order to sell assets on its balance sheet to the SPV and obtaining financing through the SPV.

The SPV obtains funds to purchase the asset by way of debt financing from independent equity investors.

The SPV starts a circular transaction by transferring the money raised first to the main corporation and then to the investment bank. The assets flow in the opposite direction from the main corporation to the SPV and then to the investment bank and back to the main corporation, thus effectively cancelling each other out.

Since the SPV owns the assets, which then become the collateral for the securities issued, lenders evaluate the credit quality of the collateral and not the credit quality of the corporation. As a consequence, lower funding costs are possible. For example, a non-investment grade issuer might be able to obtain funding at investment-grade levels by isolating the assets in the SPV.

The following diagram meanwhile shows how a typical SPV would be structured in a securitization.



The underlying assets or loans are purchased by the SPV, then grouped into tranches and sold to meet the credit risk preferences of a wide range of investors.

The SPV legal entity is usually set up as an ‘orphan company’ with shares settled on charitable trust and with professional directors provided by an administration company in order to maintain independence between the underlying assets and the originator and to ensure that the assets of the SPV do not appear on the balance sheet of the originator.

Key SPV Benefits:

- Asset Ownership – An SPV allows the ownership of a single asset often by multiple parties and allows for ease of transfer between parties.
- Minimal red tape – Depending on the choice of jurisdiction, it is relatively cheap and easy to set up an SPV. The process may take as little as 24 hours, often with no governmental authorization required.
- Clarity of documentation – It is easy to limit certain activities or to prohibit unauthorized transactions within the SPV documentation.
- Freedom of jurisdiction – The firm originating the SPV is free to incorporate the vehicle in the most attractive jurisdiction from a regulatory perspective whilst continuing to operate from outside this jurisdiction.
- Tax benefits – There are definite tax benefits of SPVs where assets are exempt from certain direct taxes. For example, in the Cayman Islands, incorporated SPVs benefit from a complete tax holiday for the first 20 years.
- Legal protection – By structuring the SPV appropriately, the sponsor may limit legal liability in the event that the underlying project fails.
- Isolation of Financial Risk– By structuring the SPV as an ‘orphan company’, the SPV assets may not be consolidated with the firm’s on-balance sheet assets and are ‘bankruptcy remote’ in the event of bankruptcy or a default.
- Meeting regulatory requirements – By transferring assets off-balance sheet to an SPV, banks are able to meet regulatory requirements by freeing up their balance sheets.