

# Trade Receivables Securitizations

## A financing alternative worth considering

In today's tight credit markets, the securitization of trade receivables often is one of the few options companies have to obtain needed funding. While financial institutions are hesitant to make traditional secured loans, some commercial paper conduits sponsored by the very same institutions have funding capacity for trade receivables securitizations.

### Issues You May Wish to Explore

If you have liquidity problems or are seeking additional financial flexibility, here is what you need to know about this financing alternative.

**Trade receivables vs. secured lending.** In trade receivables securitization, raw payment obligations of your customers are turned into highly liquid commercial paper issued by a commercial paper conduit.

**Money to you; little change to your customers.** As the originating company, you set up and sell your receivables to a subsidiary special purpose vehicle (or "SPV"), which in turn receives funding from a commercial paper conduit. You continue to act as a "servicer" and remain the point of contact for your customers and maintain your relationship with them.

**A reliable cash stream.** Most such securitizations are structured as revolving facilities. When receivables are paid, proceeds are invested in new receivables unless financial or other triggers are hit, in which case collections pay down outstanding commercial paper. As with a traditional revolving lending facility, you can usually draw on and repay the facility as needed.

**Balance sheet benefit.** A trade receivables securitization may be structured as an "off-balance sheet" transaction, depending on your accounting treatment. Repaying a secured lending facility with the proceeds from the securitization may dramatically improve the debt-to-equity ratio on your balance sheet.

**Reduced risks in insolvency.** Securitization reduces the commercial paper conduit's risk of your insolvency by isolating the receivables from your company and its operational and business risk via a "true sale" to the SPV. Thus, the conduit can look to the creditworthiness of your customers rather than your company itself in assessing risk.

**Get your house in order.** You will need to have historical performance data, such as default frequency and recovery percentages and make sure receivables reporting is standardized and current. This may require system changes. You also may need to standardize and memorialize customer underwriting and collections procedures.

### Representative Clients:

Huntsman Corporation  
Hapag-Lloyd AG  
Samina-SCI Corporation  
Securitas AB

This is one of many ideas on ways to govern, manage, operate and finance your business. If you would like to review additional ideas, visit the Supporting Your Business section on [www.bakermckenzie.com](http://www.bakermckenzie.com). The site is updated regularly, so visit often.

Our experience and service advantages

**Rich experience. Global perspective.** Our global securitization team has helped clients securitize billions of dollars of assets — from mortgages, credit card receivables, legal fees, private equity fund interests and medical equipment leases to government contracts, licensing rights, trade receivables and time-share receivables. With our broad scope of practice and international resources, we are able to tailor structures to legal, regulatory and tax requirements across a wide range of industries, asset types and jurisdictions.

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