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BNP Paribas in commodity securitisation first

By Ajay Makan in London

French bank BNP Paribas has sold a bundle of commodity trade finance loans to investors in the first deal of its kind, as financiers and traders seek to diversify the funding sources available to the industry.

The recourse to securitisation, a well-used technique in the US mortgage and consumer credit market, reflects how the commodities trade finance model is being transformed in the post-financial crisis world.

The European lenders that dominate the sector cut lending to trading houses during the eurozone crisis as they struggled to secure dollar funding, leading traders to tap other lenders such as Arab banks.

Even as funding pressures on European banks have eased, they are being forced to shrink their balance sheets to comply with tighter capital requirements. That threatens the financing model, in which trading houses such as Glencore Xstrata require large quantities of working finance to bulk buy raw materials.

By packaging loans and selling them as securities, which can attract scores from credit rating agencies, banks and trading houses hope to attract investors such as pension funds, sovereign wealth funds and insurers into what has been a specialised industry.

“This is one way to accommodate the various regulatory and capital constraints we face while continuing to grow our business with the commodity trading houses,” said Gabriel Vaduva, deputy head of energy and commodity distribution solutions at BNP.

The $130m of debt includes loans by BNP to trading houses to fund purchases of oil cargoes or metal shipments, for example. It also includes so-called “receivables” – debts owed by the buyers of commodities, such as refineries and carmakers, once shipments are delivered.

BNP Paribas and Lord Capital, a fund manager that specialises in trade finance investments, will retain small junior tranches, which will suffer losses first if any of the loans default. The senior tranche of about $100m has been sold to an unnamed asset manager.

That tranche received a triple A rating from Fitch Ratings, although its analysts said it was unlikely that many of the trading houses, or end users of the commodities would hold triple A ratings. A high rating should help attract wider investor interest in future offerings.

BNP said it planned to tap the securitisation market again, and would also bundle other types of trade finance loans.

Fabrice Susini, global head of securitisation at BNP, said there was strong investor interest.

But some banking participants in the industry warned there would be limits to the securitisation trend.

“To attract the investors who don’t have the expertise to scrutinise the loans, you need a high rating, but that means you can only put the top-notch debts into the securitisation,” said Kris Van Broekhoven, global head of commodity trade finance at Citi, a bank which is expanding its lending to the sector.

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