Abstract

The hypothesis directing this study is that RRES can be a viable and useful alternative as compared to the traditional wholeloan financing such as bilateral/club/syndicated loans for development loans to local developers. The limitations of present loan agreements make it difficult for financing banks to manage its loan portfolio and exposure to developers. This is so as development loans cannot be freely assigned nor sold in the secondary market unless it was structured as a transferable loan facility. This coupled with the developers’ general reluctance to have their loans traded for reasons of business confidentiality and preference to maintain their relationships with their bankers of choice have to a certain extent prohibited the growth of RRES. Conversely, banks are also not inclined to lend cheap particularly on a fixed rate and fixed tenure term basis due to liquidity reasons and potential interest rate risks.

The CWPL case study determined that RRES is a practical fund raising vehicle ideal for adoption by other developers in Singapore. RRES disintermediates the banks’ traditional role of financing development project as end investors now fund the project by subscribing to the bonds and at the same time assumed the credit risk of the developer. RRES provides cost savings to developers as cheaper funds can be sourced versus the traditional wholeloan financing given the efficiencies of the capital markets. Lastly, investors have an extra avenue of investing their medium term funds in relatively well yielding assets as compared to other comparable fixed income instruments.