Strategic Analysis of Asset Securitization

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Abstract. Asset securitization is the cornerstone of modern financial prosperity, Chinese asset securitization is a microcosm of China's financial market reform. China's asset securitization road began in the 90s of last century, mainly through four stages of development: early exploration (1992-2004), pilot (2005-2008), stagnation reflection (2009-2011) and once again leave (2012 -2015). Although securitization has a complete modern financial process, but China's environment makes asset securitization road marked by a deep Chinese imprint, and formed a Chinese asset securitization basic features, which further reflects China are facing asset securitization challenge. The current Chinese economy has entered a new normal, asset securitization as an important tool for financing innovation, should play a more active role. Based on Chinese asset securitization road course, characteristics and challenges, strategic choice of Chinese paper asset securitization were thinking and analysis.

Introduction

Asset securitization is recognized as the most important financial innovation of the 20th century, today laid the cornerstone of the global capital market boom. Asset securitization originated in the 1970s in the United States, becoming the wave of financial innovation in the mainstream financing techniques. Since 1977, American investment banker Lewis Rainier for the first time using the "asset securitization" of the term since, on asset securitization connotation hotly discussed in academic research, financial activities, and government regulation. Reference academic study of the "father of securitization" - the definition of Professor Fabozzi of Yale University, he believes that "securitization can be broadly defined as a process by which the loan process will have common characteristics, consumer installment contracts, leases, receivables and other assets cannot flow into the packaging market, with the investment characteristics of interest-bearing securities." Financial Activities definitions from Girton satisfied, he believes that "asset securitization is to enable savers and borrowers to part or a process or tool matching all through the financial markets, where the open market reputation through financial replace the bad market closed market credibility provided by a bank or other financial institution."

Financial create and accelerate the flow of money, of course, this requires a safe premise, namely to ensure the integrity and continuity of cash flow. Wall Street maxim spread, as long as there is a steady cash flow, put it securitized. Asset securitization fit the inherent needs of modern financial development to achieve the organic combination of financial innovation and economic needs. From the practical operation, the sponsor but the lack of liquidity and risk assets could generate predictable and stable cash flows to sell ad hoc bodies, by the institution through a series of structural arrangements separate from the restructuring of assets in some future period earnings, thereby enhancing the degree of credit assets, the assets will be converted into a free flow of securities trading in the financial markets, and ultimately financial financing. As an asset securitization vehicle securitized products, by type of underlying asset securitization varieties can be divided into credit asset securitization, mortgages and other synthetic derivative securities; according to whether the underlying assets as collateral assets divided securitization varieties It can be divided into asset-backed securities and mortgage-backed securities. From the US practice, asset securitization originally designed to guide housing and through participation in the financial
markets to achieve home ownership of public policy objectives, mortgage-backed securities as the most typical asset securitization products have emerged, the idea was subsequently used in.

**Chinese Asset Securitization’s Practice Course**


Early stage of exploration, asset securitization is basically from scratch, establish rules, take the frame. At this stage, for the domestic asset securitization laws, regulations and capital market conditions do not improve, more business by setting up offshore SPV, the use of mature markets overseas asset securitization product release. The earliest prototype of asset securitization can be traced back in 1992, Sanya City Development and Construction Corporation issued vouchers Sanya real estate investment, development and construction of Sanya City Corporation Sanya single cell Continent 800 acres of land for the issuance of the subject matter, a public offering of $ 200 million 3-year investment securities, which took the first step for the Chinese asset securitization. 1996 Zhuhai highway asset securitization program through the establishment of overseas subsidiaries established SPV, 2 Yi worth of products offshore issue, is China's first standardized asset securitization products, but also China's first test the water business overseas asset securitization issue the way. In 2000, the People's Bank of China approved by China Construction Bank, Industrial and Commercial Bank of China for the housing loan securitization pilot units, marking the asset securitization is recognized by the government. The domestic asset securitization project is to 2003 Cinda Asset Management Corporation and China Huarong Asset Management Company totaled 14.838 billion yuan of NPLs asset securitization.

Pilot phase, asset securitization opportunities ushered in rapid development. In 2005, the first year is called securitization. The central government opened the prelude of asset securitization, and has issued a series of supporting systems. March 21, by the Chinese People's Bank of lead, together with the Commission, the Ministry of Finance and other nine ministries and commissions to participate in the credit asset securitization pilot coordination group formally decided CDB and CCB as pilot units, respectively, of credit asset securitization and mortgage loan securitization pilot, followed by the relevant ministries have issued a series of supporting systems: China PBOC and CBRC jointly issued the "credit asset securitization pilot management approach", the Ministry of construction issued the "Ministry of construction on personal housing mortgage-backed securities mortgage involves a change of registration issues related to the pilot notice", the Ministry of Finance released the "pilot securitization of credit assets accounting rules," National interbank Funding Center released the "asset-backed securities trading rules of operation", the central Securities Depository clearing Co., Ltd. issued the "issuance of asset-backed securities registration and settlement business hosting operating rules", the CBRC issued a "financial institution credit asset securitization pilot supervision and management measures." This laid the foundation for the initial development of asset securitization system.

Due to the impact of the US financial crisis, due to macro-prudential and risk control considerations, regulatory authorities stopped issuing approval for asset securitization products. The outbreak of the subprime crisis really surprising, financial innovation over the US capital markets induced systemic financial risk, and the financial market turbulence quickly brought serious recession. Recession and further induce severe social problems and political turmoil, discussions on the government and the market once again become a hot topic. The root causes of the disaster, is precisely what the asset securitization, which directly resulted in the domestic politicians and policy makers fear of asset securitization.

Until 2012, finally restart the asset securitization, and showed a trend of explosive prosperity. From 2012 to 2014, less than two years, only the total number of issued securities from 21 to 377, the total issued from 7.952 billion yuan to 309.134 billion yuan. Terms of issuers, but also by the policy banks and large commercial banks, joint-stock banks to further expansion, auto finance
companies, asset management companies, city firms, agricultural firms, foreign banks and financial leasing companies and other institutions. The scope of the underlying asset, but also to further expand from a single corporate loans to individual housing mortgage loans, personal small consumer loans, credit cards, auto installment loans, small micro-enterprise loans, corporate receivables, credit assets, trust beneficiary, foundation facilities such as the right of return, commercial paper, bonds and derivatives immovable property, equities and derivatives, commercial properties and so on.

China Asset Securitization’s Characteristics and the Challenges

China's asset securitization is closely related to China's financial market development process, although asset securitization has a complete modern financial process, but China's environment makes asset securitization road marked by a deep Chinese imprint. Fundamental sense, this is the result of the Chinese market to choose. Asset securitization as a financing tool for the inventory of assets and accelerate the flow of money, enhance economic vitality has a unique role, but China's economic system, political system and social culture of the United States decided not copy the mode of operation of asset securitization. Although China's asset securitization practice time is not long, but the salient features also gradually becoming apparent.

First, the foundation fund pool products to corporate loans based. Chinese asset securitizations of the underlying assets are mainly business credit and guarantee loans, asset-backed securities belong to the category. That there is a significant gap between the United States of practical experience, the US asset securitization is the main long term, large-scale mortgage. But China's housing system and determine the nature of the land there is a limit mortgage credit; and corporate loans do not involve collateral, easy to handle, and the short-term, the market price is not bad, a natural asset securitization prefer objects. Before 2008, 668 billion in assets securitized products business loans accounted for about 66%, while the proportion of individual housing mortgage loan portfolio is only 11%; in 2012 after the release of asset securitization restart of 19.262 billion, 84% of high-quality corporate loans, the rest is auto loans.\[4\]

Secondly credit is important to ensure the safe flow of financial risks isolation valve, but the Chinese credit rating market growth is not sufficient, by restricting the growth of external letter. Internal growth mainly through internal adjustments letter asset securitization structure will redistribute cash flow, so to achieve the required bond credit rating, specific methods have priority, secondary structural arrangements, overcollateralization, spread accounts, cash accounts and the like. External by letter, also known as the third-party guarantees, refer to all or part of the credit guarantee financial institutions other than the issuer, sponsor, service providers, provided the trustee, in order to enhance the credit rating of securitized assets, mainly institutional guarantees, Third-party credit, asset sales and other parties to provide recourse. Chinese asset securitization to increase trust in the self-evident to upgrade the main, basic use of senior / subordinated, enhance trust and internal structure of excess spread credit risk reduction; and the increase in foreign communication method is more flexible, more diversified, different products take different means to increase trust, enhance trust and various tools are useless, and the different means used interchangeably.

Thirdly Chinese asset securitization in operation to avoid re-securitization, asset securitization ordinary basic transaction structure is similar. Asset securitization products issued in the interbank market more, banks are major investors, the existence of the phenomenon of mutual support, so that the risk cannot be transferred out of the banking system, this phenomenon has not changed since 2005. Although the domestic financial sector along with multi-agent prosperity, trust, funds, securities firms, insurance is developing rapidly, but the body still cannot get the bank's dominant position.

Chinese asset securitization of these features is not by chance that the Chinese financial market with institutional shortcomings, institutional deficiencies and lack of development of the secondary market is closely related to the development of China's asset securitization has also brought challenges. Institutional shortcomings of China's financial market is segmented style regulation
rather than unification of supervision, the current bull market regulation and market segmentation generally, "line 3 will be" securitization concerns a different legislative basis, underlying assets channel product offering, even release place, the rating requirements are different. In fact, the modern development of financial depth of integration of a significant trend, the traditional sub-sector has been insufficient supervision of the financial system, a comprehensive and effective regulation, financial regulation and more modern appeal and integration of supervision. The asset securitization basic content and properties are similar, fragmented regulation will appear on regulatory arbitrage, offside, is not conducive to the development of asset securitization. Chinese financial market development time is short, institutions and regulations are not perfect. Asset securitization is concerned, there are no sponsors for the SPV and specialized tax provisions, asset securitization face double taxation, and increased costs, adverse impact on market development.\[5\] Other agencies imperfect legislation back into the brokerage and other bank credit asset securitization brings higher costs, but also increased the inter-bank market and exchange market interval. The legal relationship between the structure of securitization of credit assets subject is more complex, and in the disclosure of information during the tracking issue, SPV legal capacity, accounting standards, credit and other asset securitization enhance every aspect, there is still space to improve laws and regulations. Hypoplasia of the secondary market also restricts the securitization market for sustainable development. In the US mortgage bond market, by the three agencies Ginnie Mae, Freddie Mac and Fannie Mae were issued and guaranteed secondary market liquidity is very good, greatly contributed to the prosperity of the primary market; mortgage credit market also in this way. In China, although credit-backed securities and asset-backed bill can market transactions, securities brokerage exclusively to assets listed on exchanges between the bank, but it's very quiet trading, investors are basically held after the purchase expires. China on the secondary market in terms of the root causes of underdevelopment, underestimated or valuation of investments of the cash flow difficulties is the main problem.

**Strategic Choice of Chinese Asset Securitization**

Chinese asset securitization road experienced a scratch, increasingly regulated process, with the deepening of China's financial market reform, asset securitization has also ushered in a new prosperity. As China's financial market linkages with the international market more closely, China's financial market will be more mature, the mechanism will be more perfect. Asset Securitization After 20 years of development, the basic framework of preliminary experience and increasingly obvious and deepening the reform still needs to encourage depth financial innovation, and make top-level design. For Chinese asset securitization practice history, characteristics and challenges, this article would like to make the following thought.

Expand the types of asset pool to enhance the level of risk of underlying assets. The current Chinese economy has entered a new normal, serious government debt, high rate of non-performing assets of the financial system, to increase the counter-cyclical. Finance is the lifeblood of the national economy, accelerate financial innovation, improve mobility for enhancing the dynamic economic development of great significance. Asset securitization as a modern financial market is the most important innovation tool for improving the economic environment with outstanding practical value. Asset pool to encourage the kind of high-risk assets, propelled by low-risk assets will be incorporated into small micro-enterprise loans, agricultural loans, loans to local financing platform and other asset pools, in order to achieve a real risk of asset stripping. At the same time, plus accelerate the introduction of insurance investment products Details asset securitization, with the Stock Exchange timely platform for individual investors and enrich the investment structure, diversify investment risks and enhance market liquidity.

Currently securities depositories and clearing inter-bank market and exchange markets are isolated, corresponding to the two markets with two separate custody and settlement system, which also correspond to the Central Depository Trust & Clearing Co., Ltd. and the China Securities Depository and Clearing Corporation. Currently complex custody transfer severely limits the arbitrage mechanisms play a role. If the background of the registration, custody and settlement
unified inter-bank markets and exchanges listed as a foreground different varieties of trading, investors with a trading account can simultaneously two markets bonds. Funds and bonds can be achieved in the inter-bank market and the exchange market, the free flow of market transactions to expand their scope to stimulate the inherent vitality of the market, which laid the foundation for integration of regulatory reform.

Broaden the breadth and depth of the bond market, to promote the development of financial services. Asset Securitization develop will help to promote the coordinated development of the money market, credit market, bond market, stock market, and improve the efficiency of the financial market allocation of resources. To adapt to speed up financial services institutions, in particular the development of credit rating agencies and insurance agencies. Faced with complex asset pool structure, investors on the operational capacity of rating agencies, higher demands, domestic rating agencies should accelerate reform and innovation, and constantly enhance their credibility and competitiveness. Asset securitization also widened the space for development of the insurance industry, through asset securitization, by the insurance industry to undertake part of long-term credit banking assets, could be effective in dispersing credit risk in the banking system, improve the balance sheet structure of the bank, but also to broaden channels of insurance funds, banking and insurance industry to achieve "win-win." Insurance agencies and promoters can also be used as credit enhancement mechanism of asset-backed securities through different roles involved in multi-level asset securitization.

Market fully reflects humanity. Asset securitization is a perspective view mirror side of human nature, greed and greed goodwill crying coexist. In the short term, securitization reduced financing costs, increased output, and promoting the economic prosperity; but the long term, excessive speculation deteriorated financial environment, the breeding ground for moral hazard, aggravating inflationary pressures, bringing output cyclical fluctuations, and to an economic recession. A microscopic perspective, asset securitization accelerated liquidity, but also enlarged the human greed, invest in speculative coerced very active, and even fanaticism. The financial genius who are eager to become their own package of securities available for sale, are in order to seek more exciting investment. 2008 US subprime mortgage crisis has fully exposed the destructive power over asset securitization, asset securitization in promoting China on the road to keep careful and awe. Financial professionals in the enjoyment of financial product innovation brought about results and achievements, still have to remind ourselves not out of range. All in all, financial markets are national norms macroeconomic control means, relative to capital, government credibility and social stability have higher political significance.

References