

# Securitization Global Perspective and Selected Issues

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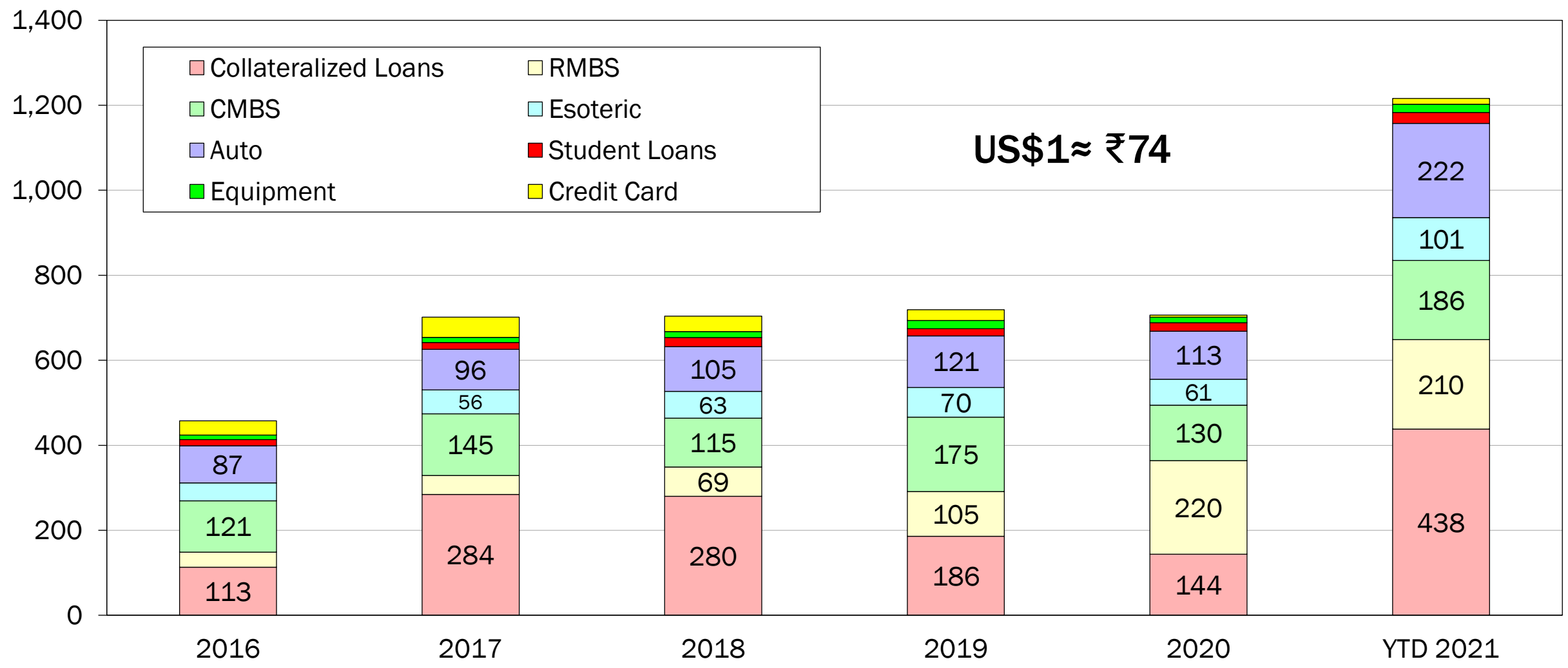
Editor, Journal of Structured Finance

9<sup>th</sup> Indian Securitisation Summit, 2021

Hotel Four Seasons, Mumbai, India

18 November 2021

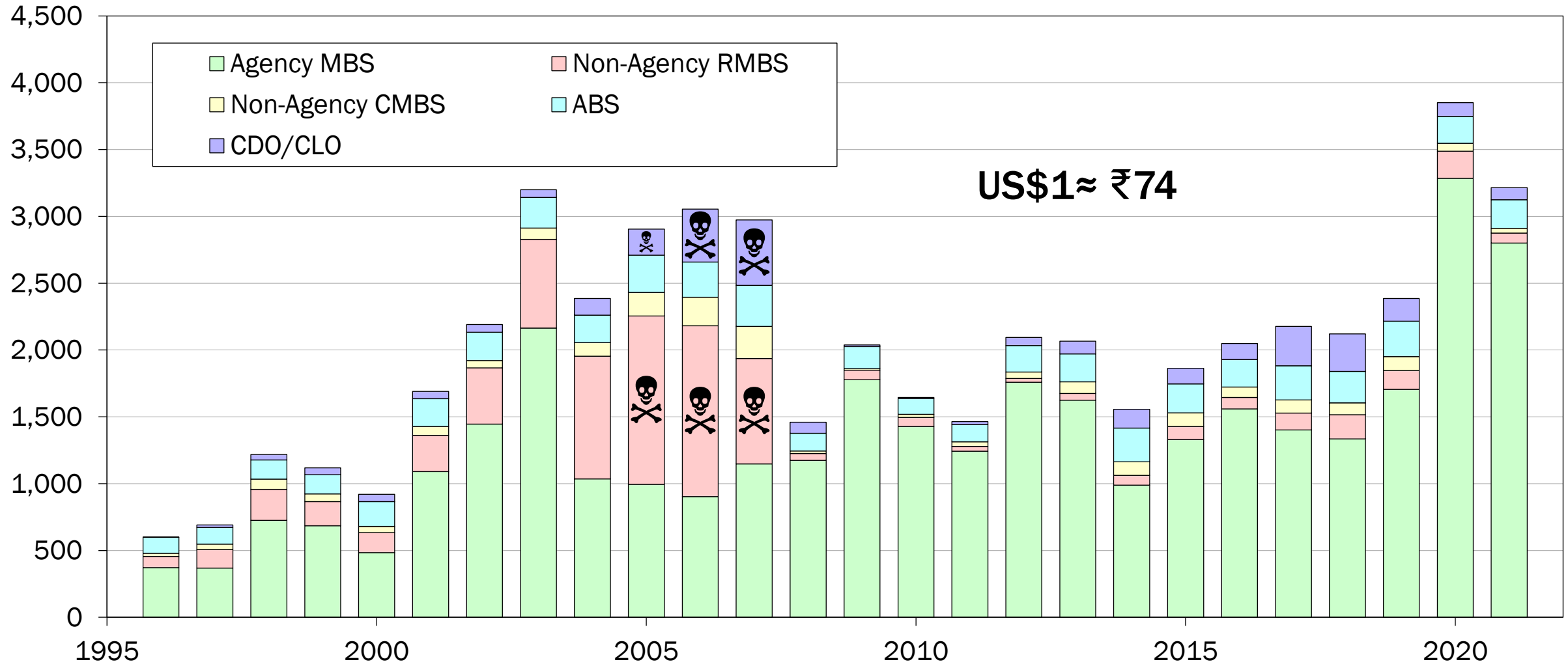
# Global Securitization Issuance Volume ex-U.S. Agency MBS (US\$ billions)



US\$1 ≈ ₹74

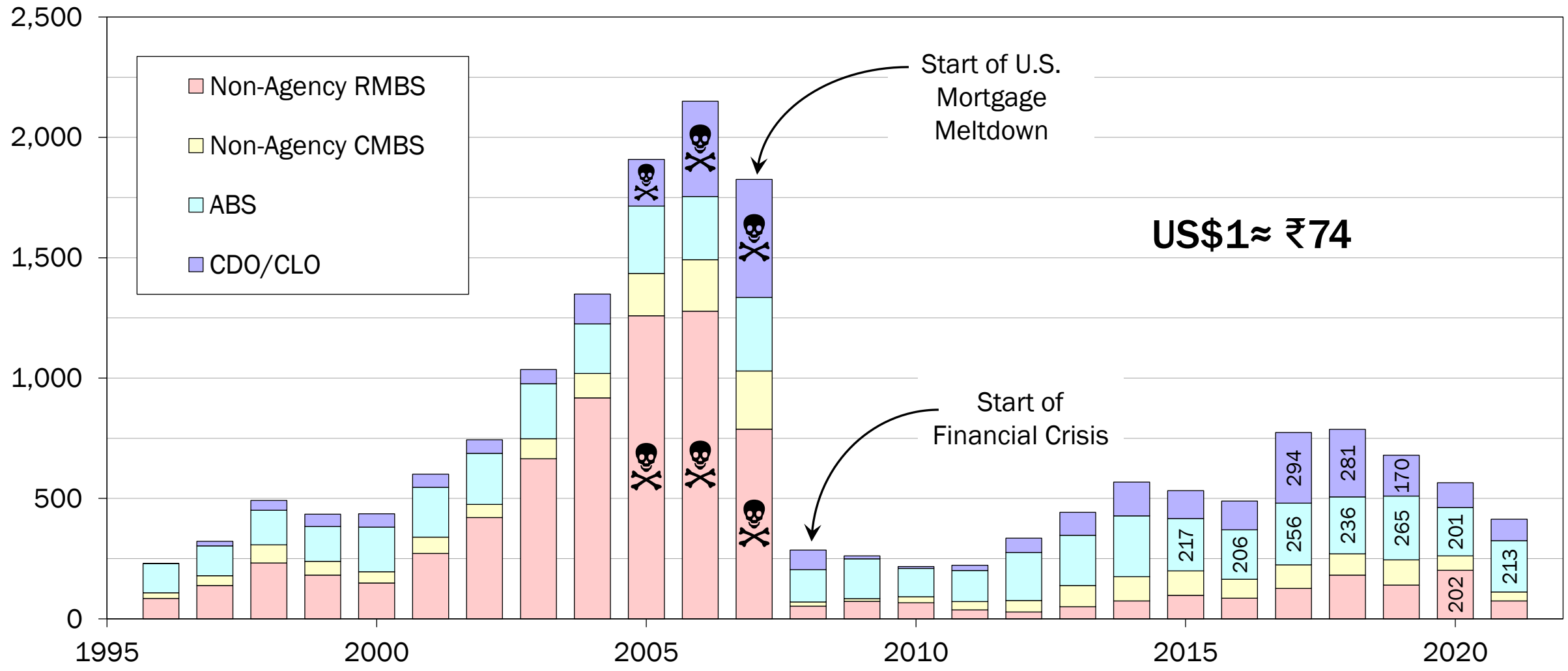
Note: YTD 2021 is through Nov. 5. Source FinSight.com.

# U.S. Structured Finance Issuance Volume Incl. Agency MBS (US\$ billions)



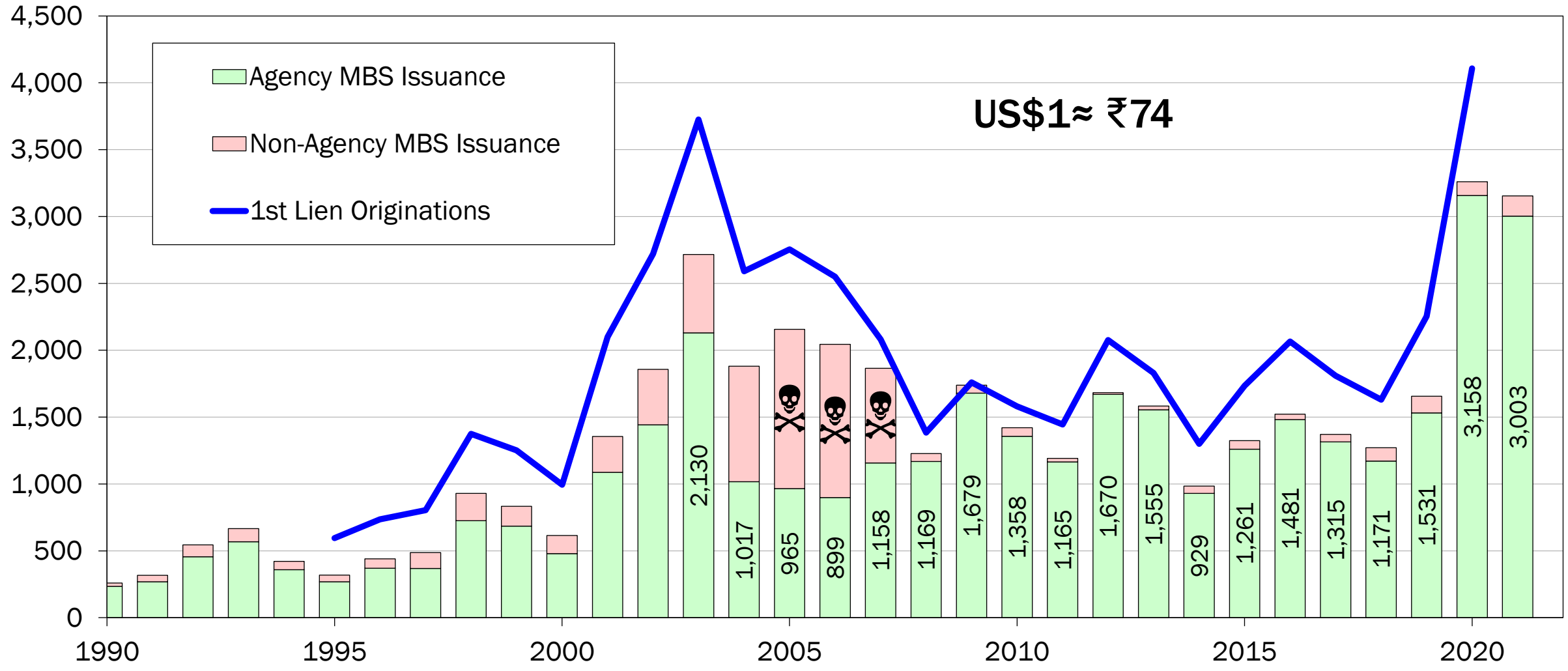
Note: YTD 2021 is through September. Source: SIFMA.

# U.S. Structured Finance Non-agency Issuance Volume MBS (US\$ billions)



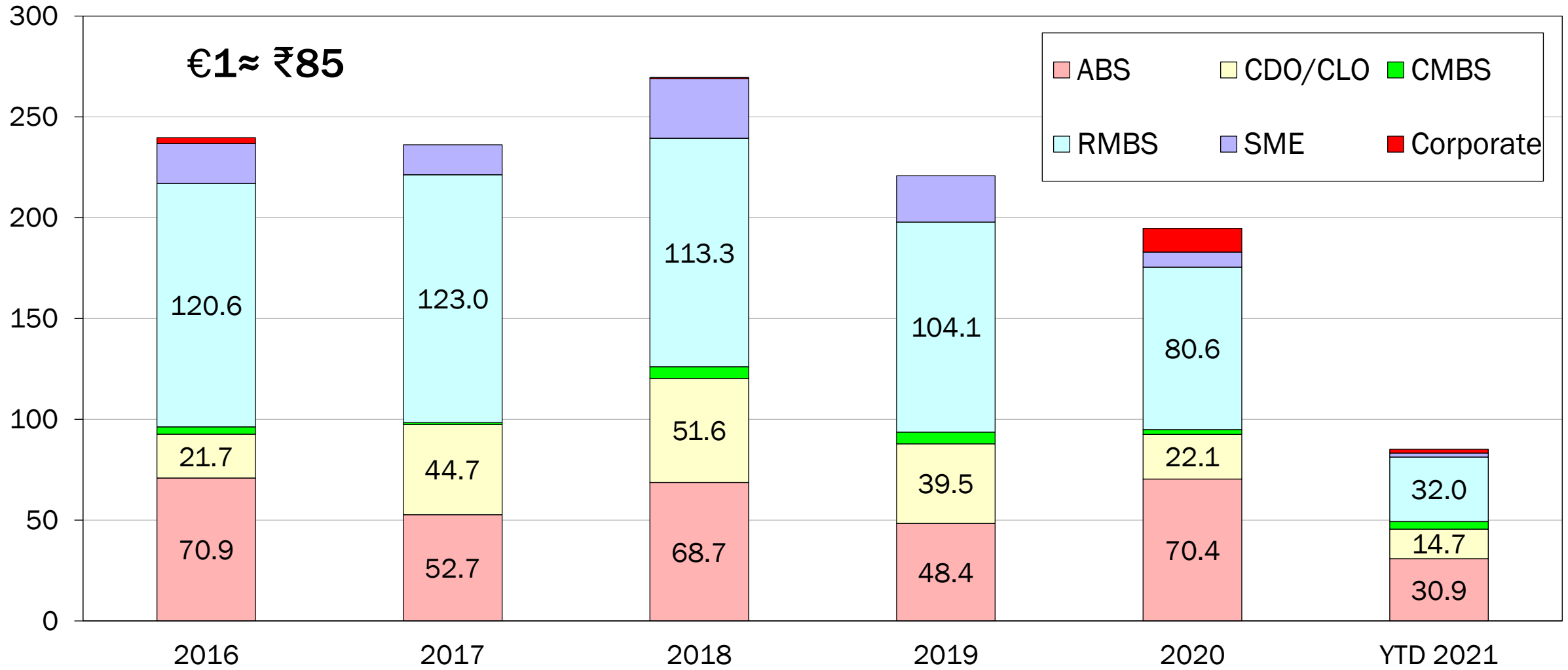
Note: YTD 2021 is through September. Source: SIFMA.

# U.S. Single-Family Residential MBS Issuance Volumes (US\$ billions)



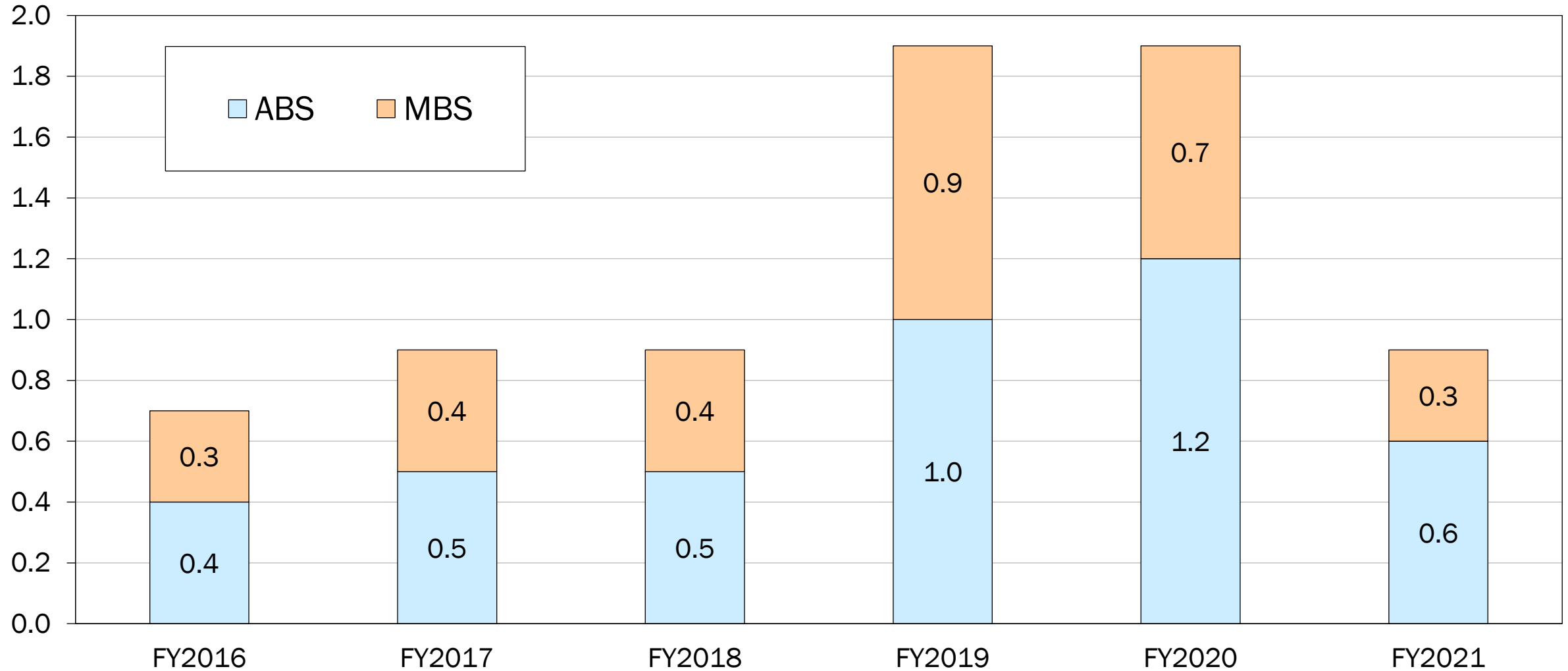
Note: YTD 2021 as of Oct 2021. Sources: Mortgage Market Statistical Annual 2019, B-of-A Global Research, Mortgage Bankers Association

# European Securitization Issuance - Placed & Retained (€ billions)



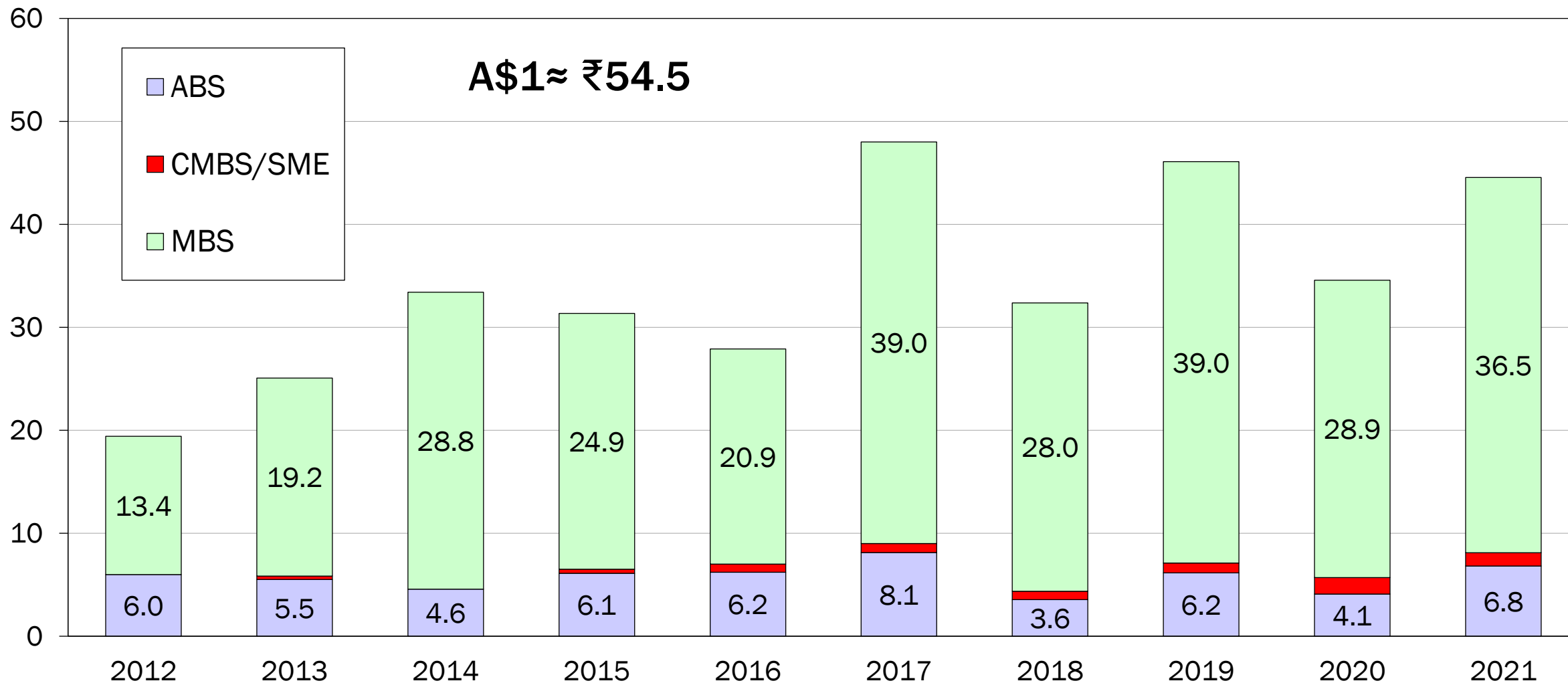
Note: YTD 2021 is through June 2021. Source: AFME Annual Q4 Securitisation Data Reports.

# Indian Securitization Volume (₹ lakh crore)



Source: CRISIL

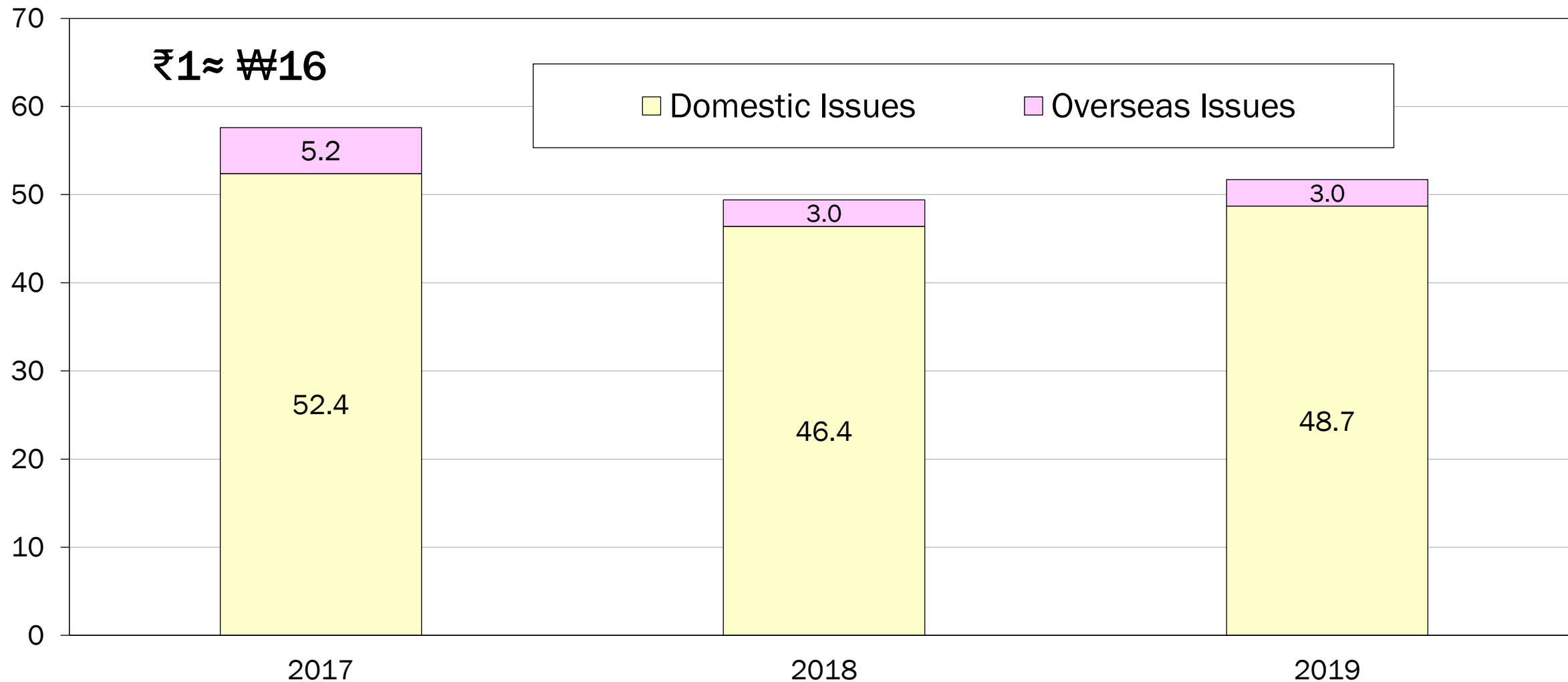
# Australian Securitization Issuance by Deal Type (A\$ billions)



Note: YTD 2021 is through 5 October 2021. Source: Australian Securitisation Forum.



# South Korean ABS Issuance (₩ trillions)



Source: Financial Supervisory Service (South Korea)

## Securitization Benefits

- **Asset-liability matching:** Asset cash flows go directly to securities issued
- **Lower funding costs:** Securities tied to asset-level risk pay lower yields than companies could achieve with traditional borrowings
- **Improved liquidity:** Reduces a company's dependency on traditional sources of borrowing to finance its assets

# Potential Techniques to Achieve the Benefits

- Asset-based lending
- Covered bonds
- Pfandbriefe
- Securitization

***So, why pick securitization?***

## Creditors' Rights – U.S. Bankruptcy System

- U.S. has a very debtor-friendly bankruptcy system
- **Automatic stay:** Prevents secured creditors from seizing and liquidating most types of collateral without court approval
- **Substitution of collateral:** Bankruptcy court can substitute high quality liquid collateral with lower-quality illiquid collateral
- **Release of excess collateral:** Bankruptcy court can release excess collateral

***So, asset risk becomes linked to company risk***

## Motivation for U.S. Securitization

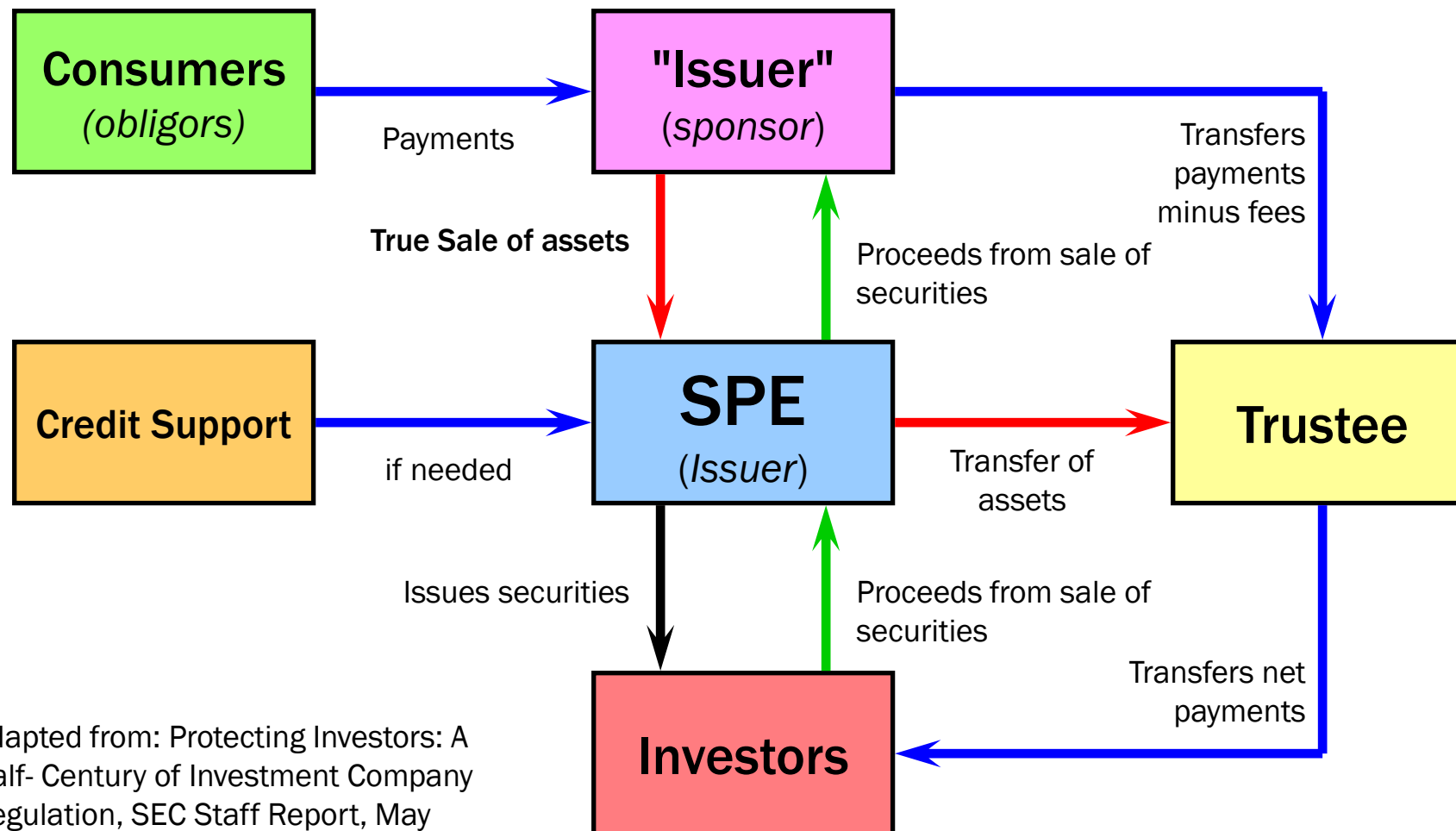
- Overcoming limitations of the debtor-friendly bankruptcy system for asset-based financing
  - Automatic stay
  - Potential substitution of collateral and release of collateral
- Securitization takes assets out of an issuer's "bankruptcy estate" by having a "sale"
- Even though there is a **sale for bankruptcy** purposes, a securitization qualifies as **secured borrowing for tax** purposes

## Solving the Bankruptcy Problem

- **True Sale:** Asset being financed is transferred away from the company so it is not part of a potential bankruptcy
- **SPE:** Need to have a separate entity to which the asset is transferred
- **Non-consolidation:** Entity must be legally separate in the company's bankruptcy

***In a country with a creditor-friendly legal system, it may be possible to achieve the benefits of securitization by simpler means***

# Securitization Diagram



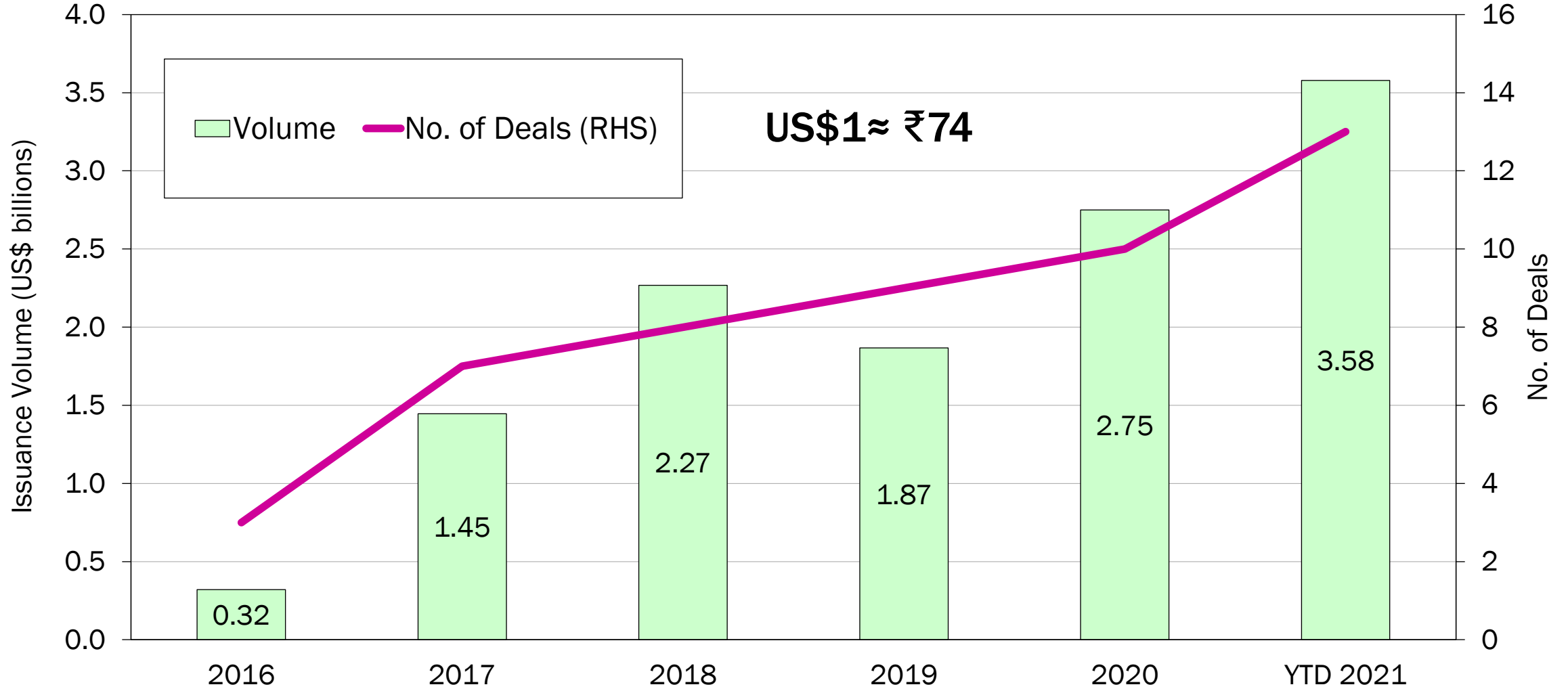
Adapted from: Protecting Investors: A Half-Century of Investment Company Regulation, SEC Staff Report, May 1992, p. 26.

## Other Legal Issues for Securitization

- **Property law:** determining ownership, transferring assets
- **Contract law:** certainty of outcome, government interference
- **Securities law:** framework for investor protection
- **Bankruptcy law:** how debtor friendly
- **Regulation of banks & ins. cos.:** capital treatment of doing transactions and holding securities
- **Taxation:** avoiding two-tier taxation



# U.S. Solar Securitization

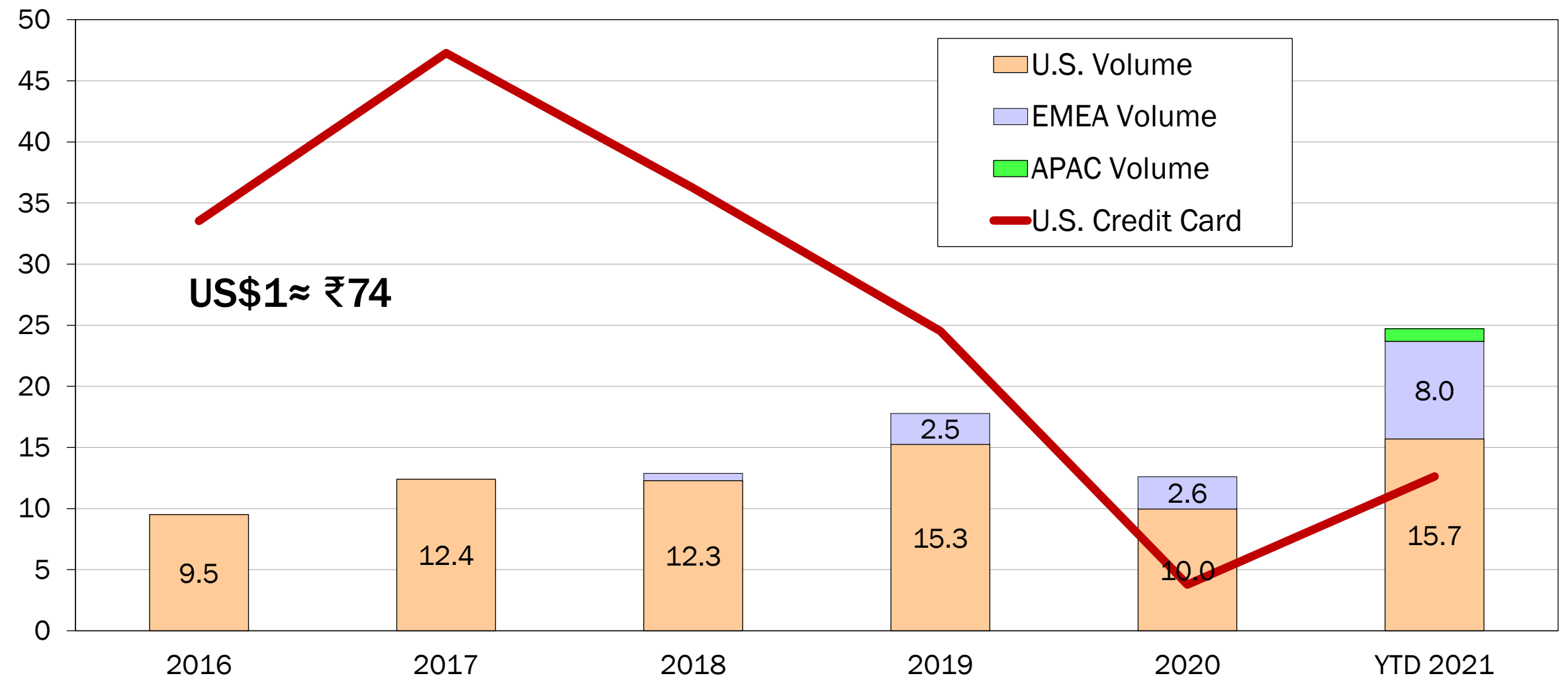


Note: YTD 2021 is through Nov. 7. Source: Finsight.com.

# U.S. Solar Securitization

- PACE = property assessed clean energy
  - Super-priority loans senior to existing mortgages
  - Repaid through assessment on tax bill
  - Fannie Mae, Freddie Mac and the Federal Housing Administration will not accept loans on residential properties with PACE loans
- Residential PACE activity is minimal
- Commercial properties are where PACE activity is concentrated
- Accounts for about 1%-2% of ABS issuance activity

# Marketplace/Consumer Loan ABS Issuance Volume (US\$ billions)



Note: YTD 2021 is through Nov. 7. Source: Finsight.com.

## Marketplace/Consumer Loan ABS

- Marketplace lending and FinTech are becoming an ordinary features of the consumer lending environment
- They produce meaningful ABS issuance volume but lenders use ABS as just one of several funding sources
- Issuance of ABS backed by marketplace/consumer loans is starting to eclipse credit card ABS in the U.S.