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ABSTRACT

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Abstract

The purpose of this study is to offer a reader an insight to a fairly new technique known as securitization. There are many potential benefits which encourage actors to enter into securitization. They are able to remove assets from their balance sheets, thus reducing capital reserves, improve their liquidity and possibilities to manage risks and utilize their wealth more profitably. Securitization was once a tool only for banks to take assets off their balance sheet but nowadays traditional off-balance sheet securitization has developed to a synthetic securitization. In synthetic securitization the risk of the asset is sold with the help of credit derivatives while the asset itself remains in the balance sheet of the securitizer. In a synthetic securitization by selling only the risk securitizer is able to achieve same advantages compared to traditional securitization. The most significant difference between these techniques is the obligation to inform the debtor that his assets are going to be securitized. Traditional securitization requires the debtor to be informed but synthetic doesn`t which means that in synthetic technique customer relations are not jeopardized while desired risk effect is obtained. One of the major risks in securitization is the concept of true sale. If certain conditions are not met, the transfer of assets can be recharacterized as a borrowing from the SPV, where the assets serve merely as a security for the loan. This recharacterization may have serious consequences, if the seller becomes insolvent or goes into bankruptcy. If the transfer is regarded as a true sale the desired balance sheet effect is obtained and securitizer is able to avoid the SPV to be consolidated into securitizer`s own balance sheet. With the help of securitization actors are able to construct different set of portfolios satisfying the various preferences of the investors, thus leading inevitably to a much more effective exploitation of securitization as a form of funding.

Key words	securitization
Further information	