

CRITERIA OF FINANCIAL ASSETS SUITABILITY

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The article views characteristics of financial assets which make them suitable for securitization. It defines criteria that reflect the most important characteristics of securitized assets.

There are many views on the problem of assets securitization, but most of them are vague and indistinct. For example:

“You can securitize practically everything”.

“If it’s a flow, securitize it”.

“Theoretically everything is possible in structural finance. Two transactions can not be identical. You should deal with all types of assets and structures moving step by step”.

Taking into consideration recent success of assets securitization one could come to the conclusion that all kinds of assets which make payments flow are suitable for securitization. But bearing in mind efficiency and reasonability such conclusion we should say that such conclusion is too optimistic. In any case of assets securitization you face a compromise between its feasibility and costs. So the main questions can be formulated like this: Is it possible to achieve the goals using less costly ways of financing and will securitization of assets justify the costs of structuring? You can answer the given questions only after analyzing concrete deal with consideration of all its parameters.

1. Calculating and forecasting of future payment flow

It is possible to reach reasonable equivalence between incoming and outgoing payment flow in terms of date and volume if assets generate payment flow regularly and the flow is well-forecasted and can be valued. Depending on the type of asset these characteristics are either inherent or should be specially constructed by choosing appropriate deal structure.

2. Judicial concession of assets and possibilities of transfer

Any concession of assets automatically leads to giving information about the credit to the third parts which can lead to abuse of law of protection of information and norms regulating the regime of banking secrecy. Concession will

be valid only in case securitized assets are free from encumbrance or any other claims from the third parts. In practice organizational and technical problems also become stumbling block. Expenditures on the introduction of IT of the corresponding level sometimes are rather high and at the first sight make securitization of assets questionable.

3. Critical Mass Test

Usually securitization of assets asks for large volume of financing because of high up-front costs and expenditures on current management and control. To cover these costs it is necessary to “cut down expenses on scale”.

4. Demographic and geographic structure of debt

A high concentration of debtors in certain sectors of economy and a large share in the pool of assets can influence negatively on the frequency of defaults. A modern theory of portfolio management makes a conclusion that the risk of portfolio can be reduced by diversification.

5. Low frequency of defaults, premature payment and non-payment

The higher the reliability the simpler and less costly is securitization of assets. To achieve high reliability ABS credits backed by real estate (mortgage).

6. Cash in-flows exceed cash-out flows

Another important characteristic of assets is a large spread between cash in-flows and cash out-flows.

7. Withdrawal of assets and possibilities of using assets backing

To protect investors withdrawal of assets is guaranteed by means of the so called fiduciary concession. Due to this all property rights are given to the third part that can dispose them only in certain circumstances.

8. Standartization and homogeneity of assets

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Another limiting factor can be the absence of standard documentation on right/chose in action. Thr insufficiency of standartization of credit documentation complicates a deal. Payment flow with uniform and predictable characteristics can be created only if assets are enough homogeneous.

9. Final estimation of financial assets

Practically every asset, that can be technically and legally concessed and generates predictable payment flow, can be used as collateral. But taking into consideration difficulties with structuring and economic reasons more often are used:

◆ standardized homogeneous assets that can be estimated and have circulation on the market;

◆ assets, the volume of which exceeds critical mass;

◆ assets with high credit quality and consequently with low risk of non-payment.

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