

A ROLE OF SECURITIZATION IN DEVELOPMENT OF MORTGAGE CREDITING

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Keywords: securitization, traditional and synthetic securitization, transfrontal and local securitization, lacks of transfrontal securitization in Russia, aims of securitization, problems of securitization.

The types of leadthrough of securitization are examined in the article and the features of securitization come to light in Russia. The special attention is paid for the determination of securitization dignities as compared to other ways of financing of banks activities. Lack of securitization is examined as a method of mortgage credits for banks refunding.

Refunding of mortgage credits has an important value for the development of mortgage crediting. Securitization of bank assets as an instrument of financing is the main innovation of the 20 century, getting wide distribution all over the world. The mechanism of securitization first appeared in the USA more than thirty years ago and gave an enormous impulse for the development of financial markets. Lately this instrument began to be actively used by the Russian banks.

The purpose of this article is to analyse the phenomenon of securitization in Russia, its dignities as compared to other ways of financing of banks activity and systematization securitization as a method of refunding of mortgage credits for banks.

Currently securitization is paid much attention to by Russian and foreign economists, however in economic literature there is no mutual determination of this term.

According to Financial dictionary securitization is implementing financial means by the issue of promissory securities instead of receipt of loans. Thus main reasons, defiant the process of securitization consist in aspiring to reduction of prices of debt obligations, protecting all increased instabilities of interest rates, changes in taxation and government control.

In a certificate manual edited Y.A. Babicheva under the securitization of bank credits an operation in the process of which bank is understood "sells" credit given out fully or partially, copying it off from the balance to expiration of term of his redemption, and passes a right for the receipt of basic debt and performs it to the new creditor. Thus there is a transformation of assets of bank to liquid securities, provided with the pools of credits, foremost by a mortgage.

In our view the following determination is the most appropriate: "Securitization is a process of involving assets in an issue and maintenance of securities"¹. This determination reflects the basic features of securitization and allows to identify its types.

In general the followings types of leadthrough of securitization are defined: traditional and synthetic.

Unlike foreign practice at the Russian market of transaction of securitization is not so common. The reason for relatively two-bit of transactions of the Russian banks was not absence of necessity for refunding, but little sizes of brief-cases of most potential issuers. Financing mortgage in Russia is carried out mainly due to the resources of the banking system, that appears not so effective, taking into account its low capitalization and limited access to the long-term financial resources in the context of considerable general necessity of economy in credit resources.

The market of securitization in Russia includes three constituents: transfrontal securitization, local and securitization with the use of mechanism of the closed UITS.

Now in Russia there are no investors who would purchase a large volume of bonds. Therefore during the leadthrough of securitization it is necessary to take into account the reaction of international market.

Currently in Russia there is a difficult situation in the field of refunding of mortgage, because the market of the mortgage crediting develops at speedy rates (during 2007 it was providing mortgage credits for 556 bln rubles), the volumes of the credits have been increasing approximately by 30-35% annually, constantly pushing slightly banks to the search of new

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sources of refunding, that is instrumental in development of such mechanism of refunding as a securitization of mortgage assets. Many financial structures declared in 2007 their readiness of leadthrough of transactions in the quickest terms: Mdm-bank, Sobinbank, Yunikredit Bank (former World participating Moscow bank), Al'fa-bank, Bank of Moscow, banks "Russian Standard", "Uralsib", "A delta is Credit", "Yuniastrum", bank "Union", City mortgage bank.

However crisis subprime in the USA, ringing out in the second half 2007 canceled all hopes on the leadthrough of successful transactions on the securitization of credit packages of the Russian financial structures. And so as in Russia a transfrontal securitization is mainly used by virtue of objective reasons (absence in the Russian legislation of normative acts, allowing effectively to conduct a local securitization, and investors in mortgage securities among the Russian corporations), the Russian banks appeared depending on foreign investors.

"Closing" market provoked a series of securitization ban. Banks planning to carry out the issue of mortgage securities forced to correct the plans. To carry out a local securitization banks could not succeed because the Russian financial market is not developed and can not compensate the shortage of liquidity.

Foreign investors, which before came forward as buyers of papers, provided with the mortgage credits of banks, actually fully displaced this activity, from it a market actually left off to exist. Thus the Russian banks were deprived of the access to the western promissory markets. Comparatively cheap and long western money, attracted by means of issue of bonds and securitization of mortgage credits, was one of sources of growth for the Russian mortgage system. The Russian banks are forced to renounce bringing in facilities of foreign investors with the use of securitization in connection with the growth of interest rates at the securitization market.

Another problem is that now large foreign banks carry out the enormous writing and sell out assets. Therefore investors, ready to buy, can now purchase papers at very cheap prices with the low risks and with the high ratings. On this background interest to securities of the Russian banks have fallen down literally to a zero mark - they, in opinion of investors, too expensive.

The conclusion is that application of transfrontal securitization has failings:

At first, dependence on the speculative vibrations of the state of affairs on international financial markets.

Secondly, this financial instrument, being oriented to the international investors, by virtue of the complication and financial parameters is not attractive for the most Russian investors, and consequently, not instrumental in mobilization of internal resources of economy of Russian Federation for development of mortgage and on the whole stabilizing of the Russian economy.

The problem could be less complex, if there was an internal securitization market in Russia. However experts doubt that it is possible to expect it now.

Nowadays refunding of mortgage credits in our country is carried out by Agency on the mortgage housing crediting. In October 30, 2008 it is refunded Agency 131 thousand mortgage credits by a general volume on 100 bln roubles. This result was attained on results activity of Agency in 2003-2008 due to the creation and development of the mortgage crediting in Russia. However, in opinion of analysts, AIZHK also plans to toughen the standards of buying mortgages back at banks.

Therefore internal market of securitization of mortgage credits development is important.

Speaking about efficiency of application of mechanism of securitization in Russia, it is necessary to consider its advantages and aims which banks can attain.

At first, one of the most important reasons of securitization of bank assets is a relatively high cost of loan capital which explains the lack of national bank sector and fund market development. Credit organizations which enter the market of mortgage securities are a tool for the filling in lack of credit resources and allow to attract facilities at more advantageous terms.

Secondly, a securitization allows banks to promote a profitability on a property asset and observe requirement to sufficiency of property asset for banks. At a securitization part of assets passed for a bank statement and translated on other legal entity, that reduces loading on a capital, that a management is carried out bank liquidity.

Thirdly, securitization allows banks to diversify sourcings, attract new sources due to an issue SPV securities.

Selling obligations under loans, a bank shifts with them part of credit risk on an investor. For investors investment of money facilities in securitization assets is less risk than investment in traditional securities, such as mortgage assets. Thus, it is possible to name the decline of bank risks another function of securitization.

Securitization as compared to the ordinary crediting allows to attract financing on more protracted term. Assets grow into long-term securities and credit organizations get access to more cheap promissory resources, that is instrumental in the increase of operating efficiency.

Thus, at refunding by a securitization the stable is arrived at, long-term, relatively inexpensive financing and possibility to give middle- and long-term mortgage credits without lack of coincidence on terms appears.

However the mechanism of securitization has some disadvantages. By the basic lack of securitization as a method of refunding of credits for a bank there is complication of organization of transaction and, as a result, high overhead costs at the issue of papers. Possibility to produce mortgage securities absents at some banks, because they dissatisfy the requirements of CB RF to the mortgage banks. It stipulates securitizations for shallow banks and necessity of forming of large pool of credits (more \$100 million) for achievement of economic efficiency of transaction. That it is possible to mark the deficit of the formed pools of mortgage credits, answering the requirements of investors. In addition, from objective complication of transaction its dependence follows to the legislation of country which it is carried out in. And among factors braking mortgage securities market development imperfection of legislation should be mentioned.

Working out the totals it is possible to come to the conclusion, that mortgage crisis in the USA and subsequent crisis in other countries shows that it is impossible rely on international markets and it is necessary to develop the internal market of mortgage financing. The prospects of second market of mortgage (market of securitization) development in Russia consist in the search of internal sources of refunding of mortgage, in expansion of presence at the mar-

ket of pension fund, insurance companies, large corporate investors.

Steady development requires further perfection of legislation for the decline of risks, distributing them between all participants. In particular, it is necessary to promote capitalization of AIZHK (presently the sufficiency of capital of AIZHK are twice as low as that at Fannie May in the USA). Innovative development means access to the market of new participants, further development of competition, development of new financial products and, as a result capital turnover.

The role of AIZHK as a state institute of development is the following:

- ◆ maintenance of competition of shallow and middle banks with large banks by a facilitation by access to the market of mortgage;
- ◆ decline of risks of primary market by taking of AIZHK of part of risks for borrowers in behalf of creditors;
- ◆ decline of risks of the second market due to organization of issues of mortgage securities of other issuers, and also acceptance of AIZHK of part of risks after issuer of ICB in behalf of investors;
- ◆ internal market of mortgage securities development;
- ◆ introduction of new mortgage products.

Thus, development of local securitization will be a tool for creation a safe asset for the different types of investors, to bringing in national savings, to the decline of dependence on loans of the overseas banks, decline of risks, related to international financial shocks. All these will provide the development of domestic bank sector and capital markets.

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