

Research on credit asset securitization of commercial banks in China

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ABSTRACT. *This paper mainly analyzes the current situation of credit asset securitization of commercial banks in China, the necessity and benefit of its development, as well as the risks, difficulties and challenges, and puts forward corresponding countermeasures and steps to strengthen the short board of domestic direct financing market, promote the integration of direct financing and indirect financing market, and create a good financial market and macroeconomic environment.*

KEYWORDS: *Commercial Bank; credit asset securitization; direct financing; financial market*

1. Introduction

Asset securitization business has been developing since its beginning in 1970s, and has been further standardized and perfected after the subprime mortgage crisis in 2008. Therefore, domestic and foreign researches on asset securitization, especially commercial bank credit asset securitization, have a deep cognitive and comprehensive study. And it is deepening. This provides valuable conditions and help for the research and elaboration of credit asset securitization.

With the deepening of interest rate liberalization in China's banks, as well as the problem of mismatch of deposit and loan maturity and rough development mode, credit asset securitization will become an increasingly important channel for commercial banks to develop. At the same time, the development of credit asset securitization business of commercial banks in China will also become one of the opportunities to strengthen the short board of domestic direct financing market. It is also an important driving force to promote the integration of direct and indirect financing.

China's commercial bank credit asset securitization started late, began in 2005, after the stagnation period from 2008 to 2012, and resumed at the end of May 2012. Although the issuance intensity is increasing and the scale of transactions is expanding, there is still great space for development. It will provide practical

significance for developing China's asset securitization market and establishing a advanced financial market and macro economic environment.

2. Overview of credit asset securitization

2.1 Definition

Credit asset securitization refers to the process that commercial banks convert the original non circulating credit assets into negotiable capital market securities through three basic steps: credit enhancement, risk isolation and asset reorganization, so as to obtain investment value.

2.2 Characteristics

(1) Safety

Commercial banks carry out credit enhancement by means of layered credit assets and mortgage guarantee, thereby reducing the uncertainty of their future cash flow and increasing their income assurance.

(2) Independence

The initiating bank of credit assets securities, by setting up a special purpose vehicle for securitisation of assets, guarantees the independence of these assets and separates them from other assets in the asset pool of commercial banks, so as to achieve risk isolation.

(3) Liquidity

The credit asset securitization products of commercial banks can be traded and circulated in the secondary market of securities. This feature enables investors to obtain profits while enabling commercial banks to obtain liquidity and broaden sources of capital.

2.3 Benefits

(1) Increasing capital gains

Through issuing and trading credit asset securitization products, commercial banks can expand the source of funds and raise capital turnover and capital utilization efficiency, which will lead to the improvement of bank capital gains.

(2) Risk diversification and transfer

Commercial banks convert credit assets into asset-backed securities and sell them to investors, which can alleviate the problem of mismatching of deposits and loans, release liquidity risks, and disperse and transfer credit risks through credit asset securitization products trading.

(3) Upgrading asset management level

In the course of operation of credit asset securitization, commercial banks can enhance their operational capacity. Meanwhile, the introduction of external constraints has increased the safety of bank assets operation.

2.4 Risks

(1) Adverse selection and moral hazard

In the process of asset securitization, information asymmetry and short-term investors' behavior may lead to adverse selection and moral hazard.

(2) Stability reduction

Commercial banks obtain liquidity through credit asset securitization, at the same time, if these problems can't be properly treated: the quality of the underlying assets of the securitization is reduced, the implicit or explicit guarantee is not enough, the convergence of direct financing and the indirect financing system is not smooth, the risk will be overcharged.

(3) Cost increase

In the process of securitisation of credit assets, interest costs, channel costs, management costs and other expenses are inevitable.

(4) Triggering financial industry risk

In the process of commercial bank credit asset securitization, all kinds of undesirable situations, such as inadequate information disclosure, improper accounting and tax treatment, unreasonable pricing of credit asset backed securities, and so on, may be accompanied by the convergence of asset securitization involved in the field, resulting in chain reaction, triggering financial risks.

3. The necessity and effectiveness of promoting securitisation of credit assets in China

3.1 Necessity

With the deepening of the interest rate liberalization of banks, the competition between commercial banks has become increasingly fierce. The source of funds mainly based on deposit business is becoming more and more narrow. Securitization of credit assets is becoming an increasingly important channel to expand the source of funds for commercial banks.

At the same time, due to the existence of the mismatch of deposit and loan maturity, the liquidity problem of commercial banks needs to be solved urgently, and securitization of credit assets will promote capital flow to control the term mismatch of commercial banks.

Moreover, with the rapid development of economy, commercial banks in China rely solely on the extensive development mode of consuming capital and expanding the scale of assets, which has caused certain restrictions on sustained profits. Therefore, further advancing financial innovation, optimizing the structure of income source of commercial banks through the securitization of new financing tools, and diversifying business will significantly improve the growth ability of commercial banks.

3.2 Benefits

(1) Micro level

Credit asset securitization is conducive to broadening the sources of capital, adjusting the credit structure and improving the capital adequacy ratio of commercial banks in China. So it is an important way to improve the profitability and growth ability of commercial banks.

Credit ABS is conducive to enhancing liquidity management and to a certain extent on revitalizing the capital stock of commercial banks, so as to ease the phenomenon of capital precipitation in China's commercial banks due to a large number of fixed asset investment loans and a decrease in liquidity under economic transformation.

Commercial banks expand the scale of credit asset securitization business, improve the quality of credit asset securitization products issued and traded, can optimize the structure of bank assets and liabilities, and promote the rational dispersion, slow release and control of risks of commercial banks such as credit risks and operational risks, so as to enhance operational capacity and enhance competitive advantage under the effective restraint and supervision of the market.

(2) Macro level

On the one hand, through carrying out asset securitization business, commercial banks will realize the reallocation of various risks within the financial market within a certain range. Under reasonable guidance, commercial banks can reduce systemic risks of commercial banks and ensure the healthy and sustainable operation of financial markets.

On the other hand, with the vigorous development of asset securitization business, commercial banks are not only the sponsors of credit asset securitization business, but also act as investment institutions in the secondary market to facilitate transactions in the market and promote market liquidity. Therefore, securitization of credit assets is one of the opportunities to strengthen the short board of domestic direct access financing market. It has a great effect on solving the problem of unbalanced development between the direct financing market and the indirect financing market in China.

At the same time, this promotes the integration of direct financing and indirect financing, and will help improve China's modern financial system, so as to create a

better financial market and macroeconomic environment.

4. The present situation of China's securitization of credit assets

4.1 Overall situation

China started the pilot work of securitization of credit assets in 2005, but from 2005 to 2007, the market size was small, and 2008 to 2012 was at a stagnation stage. Until the end of May 2012, the asset securitization business was restarted and the issuance efforts were intensified. China gradually entered the stage of credit ABS normalization.

According to the data in recent years, the scale of issuance of credit assets securitization in China in 2018 was 931 billion 835 million yuan, an explosive growth compared with the 597 billion 729 million yuan issue in 2017. The issuance scale of 2019 continued to grow, which was 963 billion 459 million yuan, but the growth rate slowed down significantly. In the first quarter of 2020, the scale of issuance was 128 billion 291 million yuan, accounting for a decrease in asset securitization products.

At the same time, the volume of business in the secondary market of credit asset backed securities has risen sharply. Commercial banks have become major investors. The proportion of overseas institutions has increased, and the secondary market has gradually matured.

4.2 Institutions and products

In 2019, the number of credit ABS market initiators increased to 53, while state-owned banks were still the main force, but the scale of shares declined, and the scale of shareholding banks launched significantly increased.

From the perspective of product structure and sponsors, the main credit ABS of commercial banks is:

RMBs (Residential Mortgage-Backed Securities) is the largest number and scale of basic assets issued. In 2019, the number of RMBs sponsors expanded to 18, all of which were commercial banks, mainly state-owned commercial banks, and joint-stock commercial banks as an important supplement.

Credit card loan ABS developed rapidly in 2019, and rose to third credit ABS products. The sponsor was 4 national shareholding commercial banks.

CLO (Collateralized Loan Obligation) continued to decline in 2019, and fell to fourth credit ABS products, mainly sponsored by joint-stock commercial banks.

4.3 Development trend

The issuance and trading scale of credit asset securitization products has been expanding, and the number of participating institutions and investors has increased, and the market activity has been improved.

From the perspective of product and market segmentation, RMBs is expected to remain the dominant position in the credit ABS market in the future. Although in order to restrict the excessive growth of real estate prices, the housing financing is tightened and the growth rate of personal housing mortgage loans is limited, but in view of the low credit risk and the high dispersion of basic assets in RMBs products, it can better satisfy the investors' preference for the current low market risk. And the effectiveness of credit ABS itself to commercial banks, coupled with the total demand for personal housing loans, is still at a high level. RMBs products still have strong attraction for sponsors and investors.

In recent years, the rate and the scale of non-performing loans of commercial banks in China have been increasing. In order to ease the pressure on banks, the ABS of non-performing loans may become a development hotspot in the future.

5. Risks and challenges in the securitization of credit assets of commercial banks in China

5.1 Risks

The mutual possession of asset securitization products between commercial banks, while enhancing the correlation degree of business, also deepens the potential risk correlation. If not properly handled, it is likely that the superposition and amplification effect will occur in the process of mutual transfer of risks, leading to the increase of systemic risk in banking industry.

At the same time, in the process of securitisation of credit assets, the risks originally concentrated in the banking system may also extend to other fields along with the liquidity transaction, resulting in the difficulty of risk management and the expansion of the scope of the radiation. If there are loopholes in the intermediate links, it will lower investors' earnings and generate market instability, and even trigger systemic financial risks and spread to other social sectors.

5.2 Challenges

(1) At present, there are not many commercial banks participating in asset securitization in China. The banks with large assets are relatively active in their participation, while smaller banks are unable to carry out their business rapidly due to the limitation of resources and specialization.

(2) Most of the investors in China's commercial bank's credit asset securitization

business are still commercial banks. Relatively speaking, other institutions and investors are not paying much attention, and there is still much space for development in the secondary market.

(3) The structure of credit assets securitization of commercial banks in China is relatively simple. Among them, the scale and proportion of CLO (Collateralized Loan Obligation) are relatively small, and the issuing banks are few, so its role in promoting the substantial economy needs to be excavated.

6. Countermeasures and steps to promote the development of credit asset securitization of commercial banks in China

6.1 Micro level

On the one hand, commercial banks change their business models that rely solely on capital consumption and expand asset scale, carry out diversified operations, improve the initiative of credit asset securitization, and actively explore the development and issuance of credit asset securitization products, such as further expanding the scale of CLO products, while controlling the problem of mismatching of deposits and loans, and at the same time promoting the optimization and expansion of business loans, to achieve the goal of promoting the development of the real economy; in the light of the structure of credit assets and the situation of issuing and trading market, rationally developing, issuing and investing credit asset securitization products.

On the other hand, commercial banks should do a good job of information disclosure and risk control in all aspects of credit asset securitization, learn from the lessons of the subprime mortgage crisis, and enhance the level of risk mitigation. For example, with high-quality bank credit assets as the basic assets, commercial banks must strictly establish and standardize marketing SPV, strengthen rating management, increase effective guarantee, strictly control various risk conduction paths, and save capital costs.

6.2 Macro level

On the one hand, the state strengthens the short board of the direct financing market, promotes the integration of the direct and indirect financing markets, and creates a benign development space for the credit asset securitization of commercial banks. For example, it accelerates the formation of the credit card asset securitization multi participation and interconnection market. It provides a reasonable policy guide for credit asset securitization of commercial banks with different asset size and business orientation.

On the other hand, the state strengthens the macro prudential supervision of the credit asset securitization of commercial banks, controls the inducement of its stability risk, credit risk and even systemic financial risks. For example, the state

establishes and improves the laws and regulations in various aspects such as product issuance, credit rating, information disclosure, accounting and tax treatment, transaction circulation and so on. It promotes healthy competition among commercial banks, market participation and supervision of investors, and self-discipline in financial industry.

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