



Chinese Credit Asset Securitization: Development Status, Problems and Suggestions

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Abstract

Credit asset securitization refers to banking institutions as originating institution, trust the credit assets to the trustee, and issue a beneficiary security to investment institutions in the form of asset backed securities by the trustee, then pay the proceeds of asset-backed securities structured finance business in cash generated by the property. In recent years, Chinese commercial banks to force the credit asset securitization issuance scale growth, achieved rapid development in previous years. However, China's credit asset securitization problems still exist, the legal system, supervision, accounting standards, tax regulations, and credit rating system for the financial markets infrastructure, and so on behalf of the still incomplete. In the current Chinese regulatory authorities to encourage the favorable opportunity to speed up the development of asset securitization, the securitization of credit assets to achieve breakthrough development, we must strive to break the constraints of the development of securitization for credit assets multifaceted problem, and clear objective for the business development environment obstacle.

Key words: Credit asset securitization; Commercial bank; Special purpose vehicle; Suggestion

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INTRODUCTION

Asset securitization refers to illiquid loans or other debt

assets through a Special Purpose Vehicle (SPV) carried out a series of combinations, packaging, So that the group of assets to generate relatively stable cash flow in the foreseeable future, and to improve their quality or credit rating on this basis, through credit enhancement, the final group of assets expected cash flow income right into technologies and processes that can be traded on the financial market bonds (Jiang, 2004).

Since the late 1970s the United States to carry out mortgage securitization, credit asset securitization rapid development in the world, We can say that the credit asset securitization has become the most dynamic financial markets mature product. China's credit asset securitization since the 1990s and gradually explore, in 2005 began a pilot in the guide and regulate the regulators, since the pilot experienced a tortuous development process twists and turns, the total achieved a considerable development, But it is still in the pilot and the initial stage, and have a long way to go in the future.

1. CHINESE CREDIT ASSET SECURITIZATION DEVELOPMENTS

1.1 Development Stage of the Credit Assets Securitization

Chinese credit asset securitization since the pilot in 2005, roughly experienced a pilot, stagnation, restart, and promote several stages of development. First, the pilot phase. 2005 People's Bank and the China Banking Regulatory Commission jointly issued the "credit asset securitization pilot management approach", marking the beginning of the pilot securitization of credit assets. Second, the stagnation. 2008-2011 In July, affected by the financial crisis, the regulatory body for prudential considerations and concerns about the risks of securitization, credit asset securitization process basically stagnant. Third, the restart period. August 2011, the State Council approved the securitization of credit assets to continue to expand the pilot study the expansion of the People's Bank SME credit

asset securitization implementation. In May 2012 the People’s Bank, China Banking Regulatory Commission, the Ministry of Finance jointly issued “on the further

expansion of credit asset securitization pilot related matters notice”, the pilot amount of 50 billion yuan, and asset securitization icebreaking restart.

Table 1
Securitization of Credit Assets Since the Resumption of Major Policy Changes

Date	File Name	Organization	Main Point
2012.05	On further expand the pilot securitization of credit assets related matters	The people’s bank of China, China banking regulatory commission and the ministry of finance	Restart the securitization of credit assets
2013.07	Financial support for economic restructuring and transformation and upgrading of guidance	The state council general office	Clear promote the development of credit asset securitization routinization
2013.12	About the specification of a securitization of credit assets risk retention ratio of files	The people’s bank of China, China banking regulatory commission	Can adopt the mode of vertical retention risk retention
2014.11	Work on credit asset securitization for the record registration process	China banking regulatory commission	The China banking regulatory commission in charge of credit asset securitization business records
2015.04	The people’s bank of China announcement No. 7 [2015]	The people’s bank of China	Credit asset securitization project registration system

1.2 Chinese Credit Asset Securitization Business Processes

The first step, the sponsor (i.e., the demand side of the capital) is clear that it will implement the securitization of assets, if necessary, can also be a variety of similar assets to be stripped, the integration of the formation into a pool of assets; The second step, to establish a special purpose vehicle (SPV), as issuers of securities, and to ensure its ability to achieve and bankruptcy isolation between promoters; The third step, the promoters will want to transfer their assets or securitized pool of assets to the SPV, and the transfer must constitute a true sale; The fourth step, the sponsor or a third party have been assigned to the SPV’s assets or asset pool credit enhancement; The fifth step, the asset-backed securities

neutral credit rating agencies SPV credit rating to be issued; The sixth step, SPV in a particular asset or pool of assets as the basis for structured reorganization, issuance of securities by way of public offering or private placement by underwriter; Seventh step, SPV issued securities income-based, asset transfer payments to its original promoters; The eighth step, by the SPV or other institution as a service provider for the asset or asset pool daily management, collect the cash flow it generates, and is responsible for the transfer of funds between accounts and related tax and administrative matters; The ninth step, SPV aforementioned cash flow basis, to hold asset-backed securities investors debt service, if paid after all there is a surplus, the remaining cash will be returned to the originator.

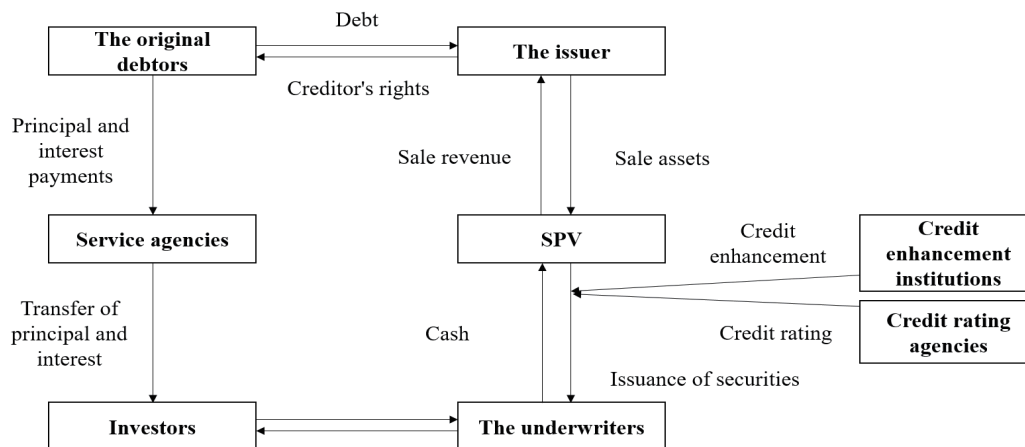


Figure 1
Asset Securitization Process

Credit asset securitization throughout the process, there are several key points to note: First, the cash flow

of the underlying assets of the analysis is the core asset securitization technology. Securitization of credit assets

is assets with a stable future cash flow to support, issue securities for financing. Secondly, the reorganization of assets, credit enhancement and risk isolation is the securitization of credit assets of the three elements (Guo, 2015). Any one successful asset securitization must restructure the underlying assets and then formation of asset pool, and implement risk asset pool and other assets isolation. At the same time the need for asset pool credit enhancement to enhance the credit rating of assets, so that securitized products have higher prices and lower financing costs.

1.3 Development Status of Credit Asset Securitization

1.3.1 Regulators Frequent New Initiatives, the Rapid Development of Securitization of Credit Assets

Since the asset securitization pilot restart, it showed sound regulatory policy changes. December 31, 2013, the central bank and the China Banking Regulatory Commission issued the “document on regulating credit asset securitization risk retention ratio of the originating institution,” allowing the originating institution vertical manner retained risk retention is no longer a mandatory requirement originating institution must be preserved every single credit asset-backed securities at least 5% of the entire issue size of the secondary securities. The new regulations give way to greater risk retention flexibility, strengthening the role of the capital asset securitization sustained pressure, and enhance the power of financial institutions to carry out asset securitization business. November 2014, the CBRC issued “on credit asset securitization workflow registration notice”, officially change approval system for the filing system, the CBRC no longer be individually approved. In April 2015, issued under the People’s Bank announcement has been made regulatory qualification, issued over credit and asset-backed securities can be required to disclose the information entrusted institution and sponsoring organizations may apply to the People’s Bank to apply for registration, independent asset-backed credit issued in installments Securities, And by the market and the issuer way choice interbank market or exchange market as the credit asset-backed securities trading venue, In addition, the introduction of credit asset backed securities market making arrangements.

1.3.2 A substantial Increase Issue Size

The bond interest for the initial statistics, in 2014 issued a total of 67 single credit asset securitization project, total issuance reached 285 billion 120 million yuan, more than the sum of the years 2005-2013 issuance. Enter 2015, the

first eight months, the credit asset securitization products issued a total of 169.92 billion yuan. From Chinese asset securitization business overall situation, the credit asset securitization products scale asset securitization products accounted for about 80% of the total size, in an absolutely dominant position in asset securitization four business areas.

1.3.3 Type Asset Base Increasingly Diversified

Credit asset-backed securities issued by the inter-bank market, involving a total of six categories of assets, outside the traditional corporate loans, personal auto loan, personal housing mortgage loans, in addition to restructuring loans, since 2014, the new financial leasing asset securitization. At the same time, some of the participating agencies are also exploring securitization of credit card receivables, commercial mortgage-backed securities and other new products. In general, the type of underlying asset securitization has been expanded, but corporate loans still accounted for the majority of the underlying assets securitized proportion. From the asset quality perspective, the last two year of release products are normal loans, it does not involve non-performing loans.

2. CREDIT ASSET SECURITIZATION PROBLEMS

From the perspective of financial markets and the development of commercial banks, the securitization of credit assets in favor of the additional pressure to resolve the banks’ capital, changes in bank profitability model, optimize the structure of social financing, the development of multi-level capital market, abundant market investment products, and actively promote the credit assets securitization is the inevitable choice for development of financial market development and commercial bank reform transition (Jiang, 2004). Judging from the situation in China, the end of 2014, China’s stock of assets to support the stock size of \$46 billion 400 million, accounting for less than 1% of the size of the domestic bond market, the stock of assets securitization of GDP share of less than 0.5%, The securitization of credit assets scale bank loans accounted for only 0.3%, there is a considerable gap compared to securitization of credit assets and the degree of development of countries. In fact, after these years of development, China’s credit asset securitization is still in the initial stage, credit asset securitization market is still facing a lot of problems, which restrict the development of securitization of credit assets. Overall, the Chinese credit asset securitization major problem in the following aspects.

Table 2
Issued the Underlying Asset of Credit Asset Backed Securities (by the end of 2014)

Underlying asset	Business loans	Mortgage loans	Car loans	Lease rent	Small consumer loans	Micro-finance	Credit card receivables	Bad loans
Issuance of singular	73	3	11	2	1	1	1	4

Note. Adapted from Wind website at www.wind.com.cn

2.1 Legal System Construction is Still Not Perfect

After many years of pilot, the current legal environment of credit asset securitization in China is not mature, the existing asset securitization rules and regulations system, a lot of it can not fully meet the needs of innovation and development, the main performance in: First, the lack of high professional level of the law to standardized asset securitization; Second, the legal status of the SPV does not give a clear definition and authorization, while subject to the existing “Company Law” provisions, SPV difficult to really play a “bankruptcy remote” key role; Third, the accounting of the assets out of the table to identify the lack of uniform, clear standards; Fourth, according to the current tax law, securitization of credit assets will generate double taxation problems, and common international asset securitization of tax neutrality principle has not been fully reflected, tax rules need to be further improved.

2.2 Rating System Should be Strengthened, the Rating Agencies the Ability to be Improved

Credit rating plays an irreplaceable role in the securitization of credit assets, and is an important basis to achieve product information disclosure specialization important prerequisite, but also the pricing of credit asset-backed securities and investors an important reference for investment decisions. Although China currently offers credit rating agencies ratings are third-party rating agencies, better able to avoid “moral hazard” problem credit rating, However, due to a shorter development time rating system, mostly based on foreign data to establish the basis of calculation model, which directly sets the credit rating for domestic assets, there are no clear criteria, rating methodology and measurement standards and other issues opaque, low investor acceptance (Cai & Yu, 2012). Meanwhile, as the credit asset securitization large-scale development, the number of credit rating agencies, professional standards, quality of service is also a higher demand.

2.3 Secondary Market Trading is Not Active, Banking Institutions Mutual Holding Serious

Wide and diverse investors are the key to the successful issuance of securities products, the current domestic credit asset backed securities investors are insufficient and the type is single, which limits the further development of the market. For the secondary market, investors securitized products is limited to institutional investors, individual investors do not allow direct investment securitized products. Regulatory asset-backed securities can only transfer between the subscribers, and since product design complexity, high technology content, because many investors are not familiar with the product and on the sidelines, is also an important cause of a narrow range of investors (Wu & Chen, 2014). By the end of 2014, 80% of credit asset-backed securities as held each other banking institutions, and a few well-funded large-scale interactive hold prominent phenomenon, investors focused on credit risk and does not lead to an efficient transfer through asset securitization, dispersed outside the banking system, most of the credit risks remain in the banking system.

3. POLICY RECOMMENDATIONS TO PROMOTE THE DEVELOPMENT OF SECURITIZATION OF CREDIT ASSETS

Compared with developed countries, the overall level is low, facing many problems and obstacles. In the current regulatory encouragement to accelerate the development of the favorable opportunity of asset securitization, the securitization of credit assets to achieve breakthrough development, these problems must be solved as soon as possible, in particular, to really solve the legal system restricting the development of securitization of credit assets, supervision, accounting standards issue, tax rules, credit rating system and other legal and financial infrastructure and other “soft environment”, and constantly improve the environmental development of securitization of credit assets. In addition, policy and regulatory adhere to market-oriented under the premise of the development of ideas, but also pay attention to sparse block simultaneously, strengthening the role of regulation. Especially in the current market-oriented reform regulators decentralization gained affirmation of the community, but the market-oriented reform more necessary between innovation and risk to find the optimal balance.

3.1 Development of Special Laws and Regulations, Build a Unified Specialized Asset Securitization Legal System

China currently existing asset securitization lower-level laws and regulations, existing legislation, though already exist for the development of asset securitization requirements, but are also more fragmented, not systematically regulate the entire process of asset securitization, even if each of the revised law does not fit the development of asset securitization provisions and additional legal gap adjustment is not feasible, but it is difficult with the development of innovative services and get good applicable (Li, 2014). Therefore, the proposed National People’s Congress or the State Council to promote the development of specialized, special legal unified asset securitization, such as “Asset Securitization Law” on the existing legislation hinder the development of securitization reasonable adjustment provisions and breakthroughs, establishing uniform assets securitization issuance, listing and trading rules, to provide a reasonable standard of legal regulatory framework for the development of China’s asset securitization. In addition, in order to reduce transaction costs promoters to enhance recognition of investors proposed to improve the asset securitization of debt so that the notification system, and asset securitization in the collateral registry system change (Wei, 2012).

3.2 Improve the Credit Asset Securitization of Tax System, and Give More Tax Incentives

The problem is that the tax credit asset securitization in a very important issue. Since the asset securitization process many links, the participating institutions more, if every aspect of tax, double taxation is likely to occur, increase

the tax burden, the impact of business start-up. Therefore, it should give credit asset securitization transactions for more tax incentives to attract more investors to participate in the securitization market. First, the implementation of the “tax neutral” policy on the credit assets of interest income in the trust level of full collection of business tax, the intermediary service agencies to recommend the service fee income exempt from business tax; Second, the sale to investors of credit asset-backed securities temporarily exempt from capital gains tax, in order to improve trading activity of the product; Third, proposed to maintain the provision “to spread income investors traded non-financial institutions credit asset-backed securities, does not charge sales tax”, while trading income investors trading spreads of financial institutions to obtain credit asset-backed securities also temporarily exempt from sales tax.

3.3 Improve the Credit Rating and Credit Enhancement System, Standardize Information Disclosure Mechanism

Credit ratings are an assessment of credit risk, asset-backed securities credit rating is an assessment of the credit risk of asset-backed securities. After the US subprime mortgage crisis, the US administration in securitization ratings existence of many loopholes, is an important factor in subprime loans can be normal credit rating issue securitization. China must make securitization rating management, the credit rating really become an effective tool for prompt risk. In addition, disclosure of information is an important task to strengthen market supervision for asset securitization business, but also an essential measure to protect investors. Disclosure should implement the request directly to the underlying asset level information on risk factors that may reveal the existence of an internal asset pool to enhance transparency in the securitization market, At the same time, the information disclosure requirements for the registration and issuance of the assets securitization products and the duration of the information disclosure requirements, and provide sufficient and effective decision-making information for investors and other market participants (Long & Su, 2012).

3.4 Enrich the Structure of Investors, Foster and Introduce Secondary Investors

Asset securitization market in China is actually similar to private placement between institutions, although risk does not expansion but market efficiency is not high, to improve the efficiency of the market will focus on promoting diversified investment subject come true. Under the current circumstances should expand non-bank institutional investors’ team, supporting measures, creating conditions and make all kinds of funds—including the social security fund—and insurance funds, pension, housing accumulation fund, institutional investors such as foreign investors access asset securitization market, reduce insurance institution investment threshold. On this basis, introducing public funds gradually, guide the

many kinds of monetary fund invest asset securitization products, form a good mutual promoting business development situation.

At the same time, we should cultivate and development the subprime investors actively. From the point of investment subject, the success of asset securitization lies in products’ risk of different levels whether or not approved by different risk preference investors. At present the key problem of Chinese asset securitization investor’s structure is lack of secondary investors who marketed, and secondary products basically form the non-market distribution ways. We suggest that foster subprime investors (similar to American hedge fund special agencies) who have strong abilities of risk identification and risk pricing can endure high risk of asset securitization products, endure secondary products of high income. Transactional institutional investors (private equity fund, trust plan, hedge funds, etc.) and PE management institution can endure relatively higher risk, and they relatively more interested in the high yield of products and also expected to become the asset securitization of subprime investors.

4. MEASURES FOR FURTHER DEVELOPMENT OF CREDIT ASSET SECURITIZATION IN COMMERCIAL BANKS

4.1 Establish the Normal Idea of Development of Credit Asset Securitization.

As an important part of the bank credit business development strategy, the credit asset securitization business combines with the development of credit business plan and the condition of market’ development, from the scale of business, choosing basic asset, industry and regional distribution, risk retention ratio of the overall planning and other integrated planning, to study and formulate the development strategy of the credit assets securitization business. Credit asset securitization should be as a means of active management of the total amount and structure of the credit assets (Dai & Wang, 2007).

4.2 Improve Business Organization and Promotion Mechanism

In business organizations and promote mechanism, the following points should be pay attention to:

Firstly, we should make detailed business operational procedures, so that each business link provides clear, clear boundaries, convergence closely. At the same time, according to the capital assessment, credit scale management, capital cost calculation and income reduction and so on, we should develop practical incentive and restraint mechanisms to realize the total interests between branches and departments sharing and cost sharing, so that it would improve the enthusiasm of the whole participation.

Secondly, with the development of the normalization of business, the scope of the underlying assets will

continue to expand, and the transaction structure and product characteristics will become increasingly rich. Therefore, we should establish the business model and operation process, which is suitable for various kinds of basic assets and transaction structure.

Thirdly, we should break the pilot phase which considers the project as the main unit of the business organization model, establish the normalized alternative assets organization and normalized intermediary organization to meet the requirements of multi-projects' parallel operation and continuous rolling. On the basis of asset selection, we can improve the credit assets' organization size of the small and medium enterprise with good quality. The level of higher interest rates on the basis of credit assets set aside a more ample space for securities pricing. In terms of the size of a single project issue, the project's approval time will be greatly shortened after the introduction of regulatory policies. Commercial banks can consider the advantages of their own credit business to develop small and refined credit asset securitization products.

Fourthly, we should break the traditional ideas. Securitization should be considered as one of the direction of the new credit business. According to the traditional management ideas, banks tend to focus on lending at the beginning of the year and tighten up the monetary at the end of the year. Therefore, enterprises are often faced with the problem of financing difficulties in the fourth quarter. After the credit asset securitization on the road to the conventional development, commercial banks can consider to adjust the direction of the business part of the new loans for securitization. The bank credit space released can not only solve the immediate needs of the enterprise funds, but also can improve the flexibility of control and deployment of bank funds.

Fifthly, the time window should be flexibly chosen to issue. The issue price of credit asset securitization products largely depends on the level of market interest rate, the situation of capital, supply and demand of market, and the expected rate of interest rate and so on. The timing of the issue of the final issue price has a considerable influence, if you choose the wrong time to issue, even if the product design is perfect, the institution issued will also face a lot of pricing pressure. Therefore, commercial bank product design team should negotiate the issue of appropriate time window with issue sales organization to achieve sales in the favorable opportunity and maximize the product yield.

4.3 Strengthen System Construction to Improve Business Efficiency and Management Level

Normalization development requires commercial banks to gradually establish the whole process of the securities business management system, to achieve the basic asset selection, project measurement and program design, duration of loan management and service and other aspects of the system management. Replacing manual means to

conduct business through a systematic way is to improve work efficiency while strengthening systems is in order to monitor, prevent operational error in the process of business, to enhance the level of risk prevention and control.

4.4 Strengthen Professional Staffing

Asset securitization business involves a wide range of professional and strong. Commercial banks must establish an understanding of both the Bank's credit management situation, and familiar with the requirements of asset securitization business securitization product design and distribution of professional teams, to ensure sustained and healthy development of credit asset securitization business from the human foundations.

CONCLUSION

The development of credit asset securitization is promising, and has a brilliant future. For commercial Banks, credit asset securitization is seen as a promising business blue ocean. Under the background of the current policy, commercial bank should seize the opportunity to actively promote the development of business ideas and organizations, establish the normal development of ideas. At the same time, It should constantly promote the system in the organization and system construction, so that credit asset securitization has become a powerful weapon for the reform and sustainable development of banks.

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