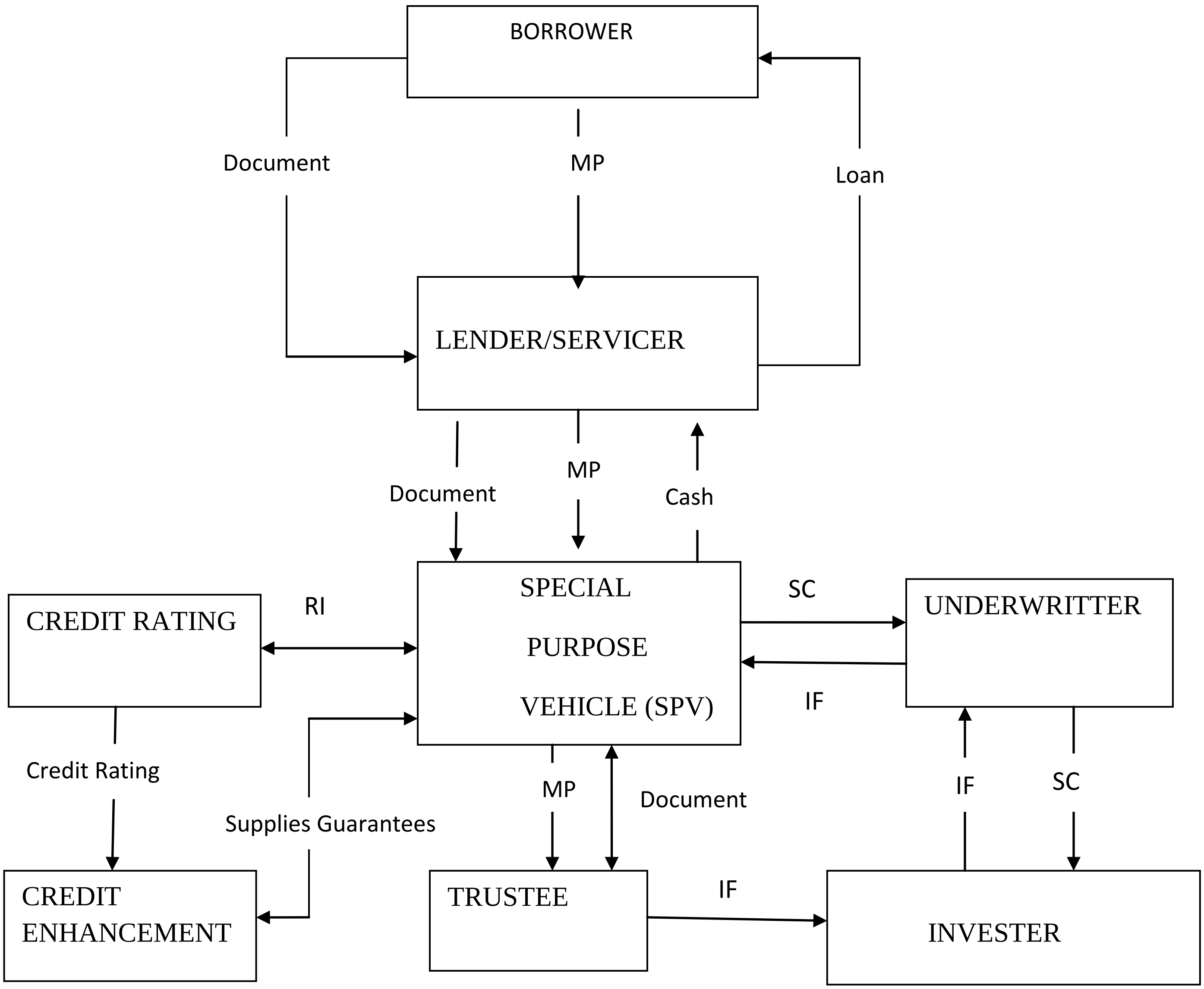
Securitization of Loans

Abstract

Securitization is the process of transformation of non-tradable assets into tradable securities. It involves the repackaging of individual guaranteed loans made by financial institutions into pools of varying maturities for resale to Special Purpose Vehicle (SPV) and investors. Each securitization contract is associated with pool of loan contracts (securitization Pool) and a SPV. Formula definition used to filter or identify the loan contracts that forms part of the securitization pool. The details and documents of a Securitization Product have gotten from the borrower and Special Purpose Vehicle. Once the contract has been signed after the legal verification, the financial institution becomes the service provider for borrowers and SPV. It transfers the monthly payments / interest / charges / Fees / Prepayment / penalty charges directly to SPV as per the agreement. The widespread securitization of mortgage loans was considered a boon to homebuyers and investors alike. Whereas traditionally a lending bank would make a loan and retain it on its balance sheet, with securitization it could sell that loan to a secondary market buyer that would issue securities backed by the loan (usually bundled in a pool with many other loans). Securitization connects the capital markets and financial markets by converting these financial assets into capital market commodities. Thus the agency and intermediation costs are thereby reduced.

Flow Chart:



SC – Security Certificates

IF – Invester Fund

RI – Rating Information

MP – Monthly Payment