7.17 Fixed-Income Securitization

Question 1
Which of the following is *least likely* a benefit of securitization? Securitization provides:
A. lenders with the ability to finance more loans.
B. companies with an alternate source of funding.
C. investors with less inherent credit risk from the underlying collateral.

Question 2
A residential mortgage-backed security (RMBS) has a credit rating higher than the bonds of the seller of the securitized assets. All else being equal, this scenario *least likely* results from which of the following factors?
A. The RMBS is issued by a special purpose entity.
B. The seller's bonds are subordinate to the RMBS.
C. The RMBS may be backed by guarantees if the underlying borrowers default.

Question 3
A retailer offers loans to customers to finance purchases of high-priced merchandise. If a customer defaults on a loan, the retailer will repossess and resell the merchandise. The retailer securitizes USD 30 million of these loans by selling them to a special purpose vehicle (SPV). Subsequently, the SPV will sell asset-backed securities (ABS) to investors. Based on this information, for the ABS, which of the following descriptions is *most appropriate*?
A. The retailer is the issuer.
B. The SPV is the depositor.
C. The merchandise financing loans are the collateral.

Question 4
.A company sells ¥485 million of its receivables to a special purpose entity (SPE). Using the receivables as collateral, the SPE issues asset-backed securities (ABS) with the following structure:

Bond Class	Par Value (¥ Millions)
A (senior)	275
B (subordinate to A)	120
C (subordinate to B)	90
Total	485

If customers default on ¥120 million of the receivables owed, then bond class(es):
A. B and C realize losses of ¥60 million each.
B. A, B, and C realize losses of ¥40 million each.
C. C realizes losses of ¥90 million and B realizes losses of ¥30 million.

Question 5
Company X securitizes some of its receivables, selling them to a special purpose entity (SPE). Using the receivables as collateral, the SPE issues asset-backed securities (ABS), with one senior bond class and two subordinated bond classes. Company X files for bankruptcy after the ABS issuance, due solely to a dramatic decline in sales. All else being equal, the bankruptcy's effect on the ABS structure will *most likely* be that:
A. all of the bond classes will default.
B. none of the bond classes will default.
C. the bond classes will default according to seniority.

Question 6
In the context of securitization, describing a special-purpose entity (SPE) as "bankruptcy remote" *most likely* refers to the:
A. probability that the SPE declares bankruptcy.
B. protection of the collateral from creditors' claims against the asset seller if the seller declares bankruptcy.
C. responsibility of the SPE for principal and interest of a securitized loan if the borrower declares bankruptcy.

Question 7
An equipment manufacturer provides customer financing through loans. The manufacturer transfers the loans to a special purpose entity (SPE) that issues bonds to investors. The investors' collateral is *most likely* the:
A. loans held by the SPE.
B. cash flows of the manufacturer.
C. equipment purchased with the loan financing.

Question 8
Which of the following is *least likely* a benefit of securitization?
A. Lenders enjoy additional capital resources.
B. Lenders can relax credit standards in their lending decisions.
C. Asset-backed securities are more liquid than the collateral used to create them.