A PROJECT REPORT ON

"A STUDY OF SECURITIZATION OF DEBT"

"A Project Submitted to

University of Mumbai For Partial Completion of the Degree

Of Bachelor in Commerce (Accounting and Finance)

Under the faculty of Commerce

By

PRERANA AJIT PARAB

T.Y.B.A.F(SEMESTER-VI)

PRN NO: 2021016401600917

Under the Guidance of

'ASST. PROF. DR. KISHOR CHAUHAN'

JYAN VIKAS MANDAL'S

Mohanlal Raichand Mehta College Of Commerce

Diwali Maa College Of Science

Amritlal Raichand Mehta College Of Arts

Dr. R.T. Doshi College Of Computer Science

NAAC Re- Accredited Grade 'A+'(CGPA : 3.31) (3rd Cycle)

Sector – 19, Airoli , Navi Mumbai, Maharashtra 400708

JNAN VIKAS MANDAL'S

Mohanlal Raichand Mehta College of Commerce

Diwali Maa College of Science

Amritlal Raichand Mehta College of Arts

Dr. R.T. Doshi College of Computer Science

NAAC Re-Accredited Grade 'A+' (CGPA : 3.31) (3rd Cycle)

Sector-19, Airoli, Navi Mumbai, Maharashtra 400708

CERTIFICATE

This is to certify that MS. Prerana Ajit Parab, has worked and duly completed her project work for the Degree as Bachelor in commerce (accounting and finance) under the faculty of commerce in the subject of **Management control** and her project is entitled ,**A STUDY OF SECURITIZATION OF DEBT** under my supervision

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is her own work and fact reported by her personal finding and investigations.

Guiding Teacher

ASST.PROF.DR. KISHOR CHAUHAN.

.

Date of submission:

DECLARATION

I the undersigned **MS. PRERANA AJIT PARAB** here by, declare that the work embodied in this project work titled **"A STUDY OF SECURITIZATION OF DEBT"**,forms my own contribution to the research work carried out by me under the guidance of **ASST. PROF. DR. KISHOR CHAUHAN** is a result of my own research work and has been previously submitted to any other University for any other Degree/ Diploma to this or any other University.

Wherever reference has been made to previous works of others, it has been clearly Indicated as such and included in the bibliography.

I, here by further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct

PRERANA AJIT PARAB

Certified by

ASST . PROF. DR.KISHOR CHAUHAN.

ACKNOWLEDGEMENT

To list who all have helped me is difficult because they are so numerous and the depth is so enormous.

I would like to acknowledge the following as being idealistic channels and fresh dimensions in the completion of this project.

I take this opportunity to thank the **University of Mumbai** for giving me chance to do this project.

I would like to thank my **I/C, Principal, Dr.B.R.Deshpande Sir** for providing the necessary facilities required for completion of this project.

I take this opportunity to thank our **Coordinator** for their moral support and guidance.

I would also like to express my sincere gratitude towards my project guide **Asst. Prof. DR. Kishor Chauhan** whose guidance and care made the project successful .

I would like to thank my **College Library**, for having provided various reference books and magazines related to my project.

Lastly, I would like to thank each and every person who directly or indirectly helped me in the completion of the project especially **my Parents and Peers** who supported me throughout my project.

INDEX

CHAPTER : 1

INTRODUCTION

1.1 EXECUTIVE SUMMARY

Securitization is the method of convert a batch of debts into a profit-making security that is backed, or securitized by the original debts.

Most debt securities are made up of loans such as mortgages made by bank to their clients However, any receivable-based financial asset can support a debt security. Other forms of underlying assets include trade receivable, credit card debt, and lease.

There are always at most four parties involved in the debt securitization process, The first is the borrower, who took out a loan and promised to repay it. The second is the loan originator, which is the bank that accepted the loan.

The loan originator or bank, has the first claim to the borrower's repayments. But the bank might want to realize its profit from the loan more rapidly than the 20 year or 30 year term of the loan permits.

In the analysis I found that the securitization of debt is excellent. The bank do securitize debt because of greater leverage of funds.

I found that the debt purchasing is very profitable. The bank sell debt because of recycle cash. Stock type of Asset bank most securitize . I found that the young person are the invest more in debt security. The risk are low in debt securitization process. In debt securitization SPV (Special Purpose Vehicle) has play a role as mediator.

The bank can cash in instantly by selling this loan and other in its possession for face value or close to it to a third party. That third party is usually operating as a trust.

1.2 INTRODUCTION

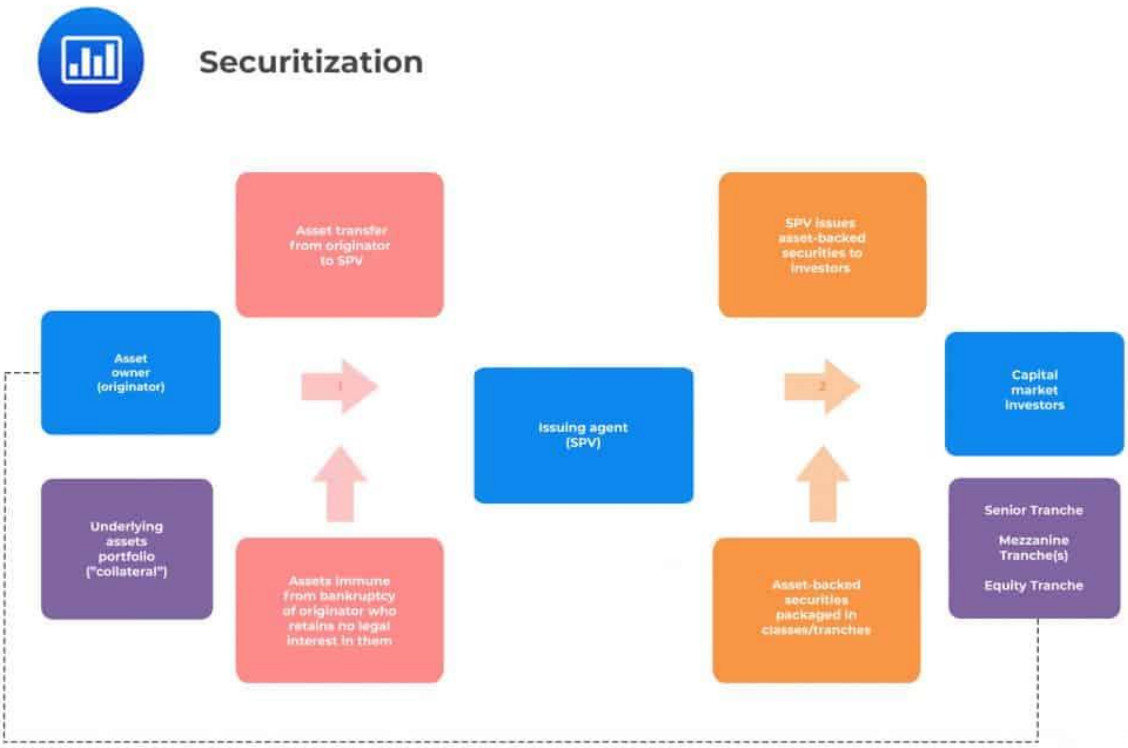
- Securitization is the financial practice of pooling different types of contractual debt such as residential mortagages, industrial mortages, auto loans or credit card debt obligation and selling said debt as bond, pass-through securities or collateralized mortages obligation (cmo) to various investor.
- The principle and interest on the debt underlying the security, is paid back to the a variety of investor frequently. Security back by mortages. Receivable are called mortages – Backed securities while those backed by other types of receivable are Asset – backed securities.
- Securitization has evolved from its unsure beginnings in the late 1970 to a vital funding source with an estimated outstanding of $ 10.24 trillion in the United State and $ 2.25 trillion in Europe as the 2nd quarter of 2008.
- Securitization is the method in which the underlying pool of Asset are structured or packed and sell as financial instrument to investor also directly or through as special purpose vehicle (SPV).

- Naturally in India, the originator or seller are banks NBFC , HFC and other the underlying asset are mainly secure loans like home loans, auto loans, industrial vehicle loan.
- The SPV is farmed in the form of faith, settled and manage by the trustee the trust buy the pool for a consideration also at par or premium. The depositor subscribe to the pass through certificate (PTC) issued by the trust. These PTC are backed by the underlying loan receivable and the beneficial interest lie with investor.
- The servicer (originator in India) is selected by the trust to service the loans. Servicer approved on the periodic collection from the underlying borrower to the trust which is further passed on the investor as per scheduled payout.

Securitization can be broadly defined as the sale of assets, which generate cash flows, from the organization that own them, to one more company that has been particularly set up for the purpose, and the issuing of currency by this second company. These currency are backed by cash flows from the original assets sell.

Securitization is a perfect model of innovation in financial markets. On the one hand, it allows institutions to convert assets that are not readily marketable into rated securities that are tradable in the secondary market. Such securities include residential mortgages, credit card receivables, or car loans. On the other, securitization offers investors an opportunity to increase exposure to assets that would or else be impossible to access.

Securitization results in the formation of asset-backed bonds. These are debt instruments formed after pooling loan assets on which interest is payable, also on a permanent otherwise floating basis. It is these interest payments that service the new bond issue. It is general market practice to use the terms *mortgage-backed securities* to refer to bonds backed by mortgages, and *asset-backed securities* to refer to bonds backed by a range of other assets for example credit card receivables.



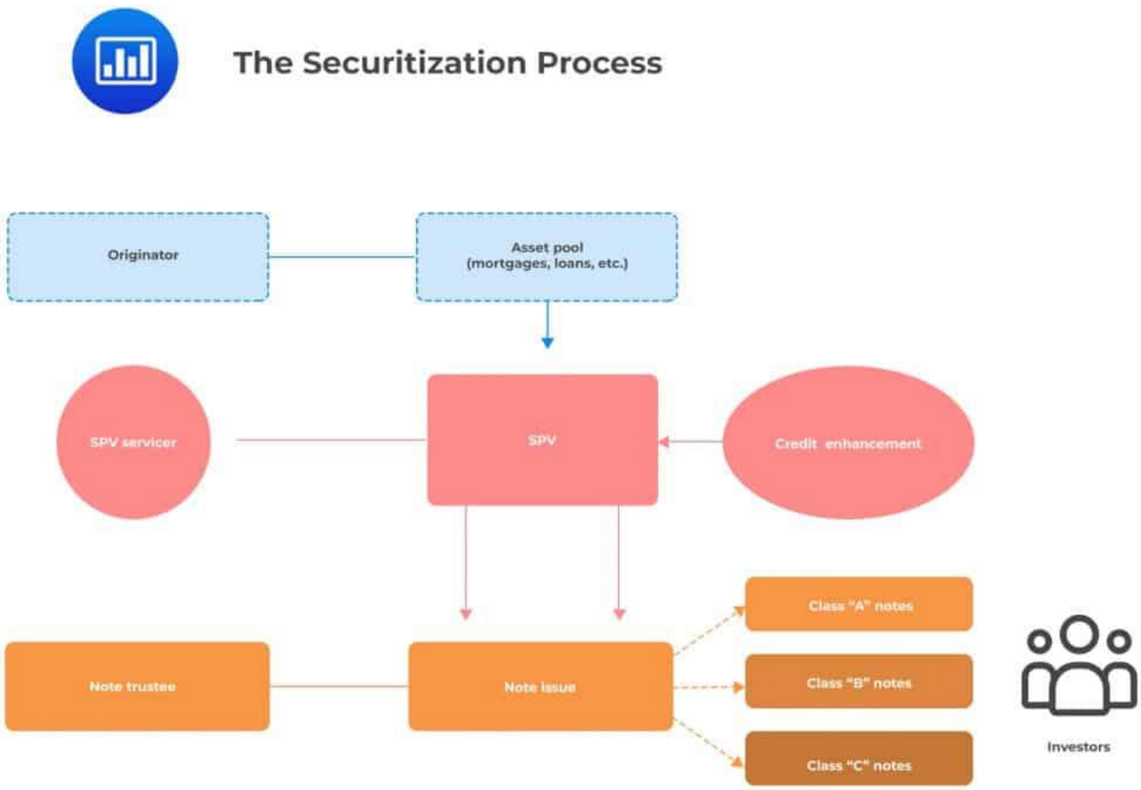
Benefits of Securitization to Financial Institutions

Funding

Securitization helps banks to diversify their funding mix up and decrease the cost of funding. Banks typically rely on a mix of retail, interbank, and wholesale funding avenues. No single bank wants to be too reliant on a single or a few sources of funding because such a condition exposes the bank to high risk in times of market difficulty. How accurately does securitization help reduce funding costs?

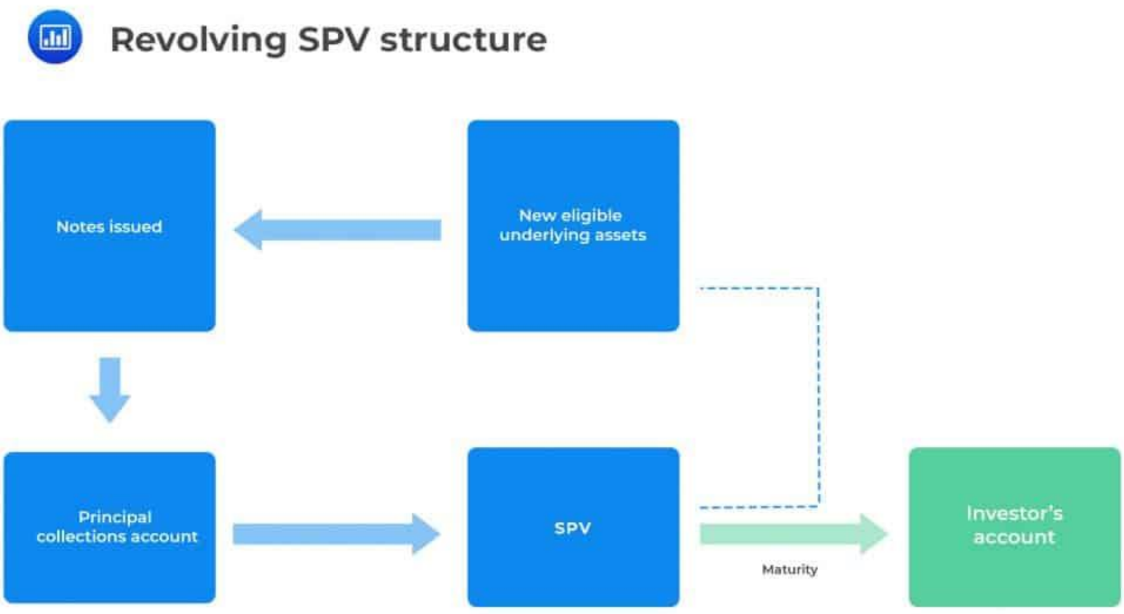
The securitization process results in distinct credit ratings for the originate bank and the credit rating of the entity set up to issue notes. It de-links the credit ratings of the two. The entity set up to issue notes to investors (SPV/SIV/trust) is often bankruptcy-remote but may also retain crisis credit support lines to the originating bank. For this reason, the entity enjoys a credit rating that's superior to that of the originating bank.

As such, largely of the notes issued by SPVs will have a higher rating than bonds issued directly by the originating bank. That means investors in notes will be ready to admit to return that's a bit lower than they or else would if the bank were to issue securities directly. In practice, the secondary ABS market tends to be less liquid compare to the commercial bond market, and investors often incorporate a premium for that. However, the cost to the originating organization of issuing debt is still lower in the ABS market because of the SPV's higher rating.



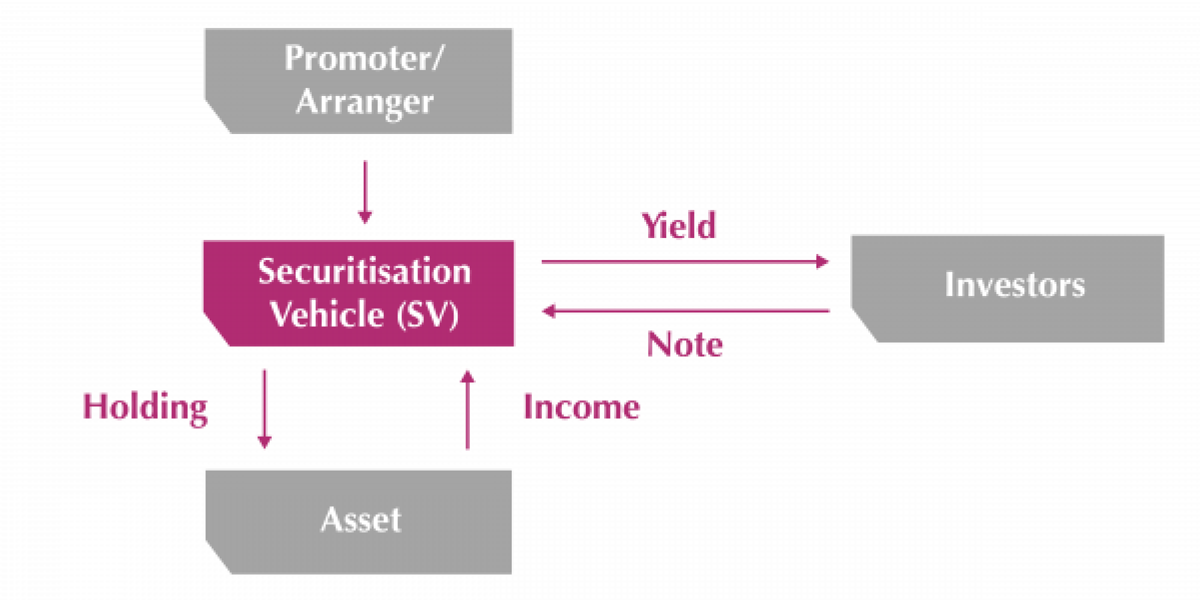
Benefits of Securitization to Investors

- Securitization helps institutional investors to access assets that would or else not be open to them, e.g., credit card receivables. They are able to gain exposure to actual customer and commercial assets without having to develop in-house origination and servicing capability.
- Securitization offer investors unique savings opportunities and attractive risk-return profiles compared to other asset programme such as government and commercial bonds.
- Securitization creates competition among banks in offering loans to borrowers. This competition lead to all sorts of advantages borrowers, for example more competitive rates, favourable collateral terms, and quicker processing times.



In a revolving organization, the principal collections are plowed back into the SPV to funding the purchase of new assets that fulfil the necessary condition. (as different to being used to refund the investor). This category is typically approve when the accounts included in the securitization pool have balances that raise or else decline over the life of the ABS. Accounts that show this feature are often build upon short-dated assets such as credit card receivables and auto loans.

The revolving stage usually terminates prior to the maturity of the ABS after which principal payments are repay in an amortizing manner. In some structure, the principal might also be paid as a lump sum.



The Advantages of Securitization

Maybe the greatest advantage of securitization is that it create liquidity in the marketplace for the assets being securitized. This helps a corporation with debt on its books eliminate that debt from its balance sheet and acquire new financial support in place of that debt. This is done by transforming that debt into securities throughout the process described above. As a result, the corporation would have received liquid funds in switch over for the debt that it has moved into securities. Even more attractively, removing that debt of its balance sheets may help to raise that company's credit rating, thus allowing it to raise funds more cheaply than if that debt had remained on its balance sheets. However, transforming that debt into securities need not mean remove the account connected with that debt. Hence, these companies remove the risk of the debt, turn it liquid, but still earn income through the maintenance of that account.

One more advantage is that these debts can be layered into different tranches among different risks. These offer huge choice to investors as through these tranches investors have access to profits and risk that more closely match their appetites. Such as an ultra-cautious investor may choose to invest in securities rated at AAA, meaning that they will be the first to receive a return on earnings, but with the smallest rate of that income. An investor that has a higher risk appetite may decide to invest in BBB securities, meaning that they will have to wait until the investors in higher rated securities have been paid off, but in return they will get a higher rate of profits of their securities.

Securitization also has advantages for borrowers. Given that securitization allow companies to efficiently use the debt on their books and make it liquid, while giving investors a range of attractive options for investment, securitization means that these debt assets are priceless and attractive. Therefore, company compete in offering loan to borrowers and this competition lead to all sorts of advantages for these borrowers, as well as more competitive rates, cheaper financing, more choice and faster processing times. Essentially, with securitization, companies compete for the custom of borrowers, whose loans they can convert into securities to enjoy the profit outlined above.

Disadvantages and Risks

Maybe the major disadvantage, most important to the biggest risks, that securitization brings is complexity. The method of securitization is remarkably complex.

The method can become even more difficult when there is significant government intervention involved, possibly in loans that have social and political implication. By the end of such a method, all the problems and complexity that have gone into it would have produced securities so enormously difficult that it is all but impossible to assess correctly their level of risk. Thus, the tranches of such a securitization might extremely well finish up with risk ratings that do not accurately reflect their true level of risk.

Unnecessary to say incorrect risk ratings are of severe peril to investor. As long as the financial system is going well, such securities will create income as expected. However, once an economy stalls otherwise contracts, repayments will be predictably missed, and if the tranches have been incorrectly assessed than this will hit not just those investors who invest their money into higher risk tranches, but even those investors who invested in the lowest risk ones. This can place off a concatenation of panic that spreads far away from these securities, and can end up affecting a whole market. In effect, this is what happened in the 2007 financial calamity.


Debt

1.3 Historical background of the Securitization of Debt

The subprime mortgage calamity that begins in 2007 has given the decades-old model of securitization a bad name. Securitization is the process in which definite types of assets are pooled so as to they can be repackaged into interest-bearing securities. The interest and principal payments from the assets are passed during to the purchaser of the securities.

Securitization gets its start in the 1970s, when house mortgages were pooled by U.S. government-backed agency. Starting in the 1980s, other income-producing assets begin to be securitized, and in current years the market has grown-up dramatically. In several markets, such as those for securities backed by uncertain subprime mortgages in the United States, the surprising deterioration in the quality of some of the underlying assets undermined investor confidence. Both the scale and persistence of the attendant credit crisis seem to suggest that securitization—together with unfortunate credit origination, inadequate valuation method, and insufficient regulatory oversight—could severely hurt financial constancy.

Growing numbers of financial institution employ securitization to shift the credit risk of the assets they create from their balance sheets to those of other financial institution, for example banks, insurance companies, and hedge funds. They do it for a various reasons. It is often cheaper to increase money from side to side securitization, and securitized assets were then not as much of costly for banks to hold for the reason that financial regulators had different standards for them than for the assets that underpinned them. Within principle, this “originate and distribute” move towards bring broad financial benefits too—spreading out credit exposure, thereby diffuse risk concentration and dropping systemic vulnerabilities.

Until the subprime emergency unfolded, the impact of securitization appeared mostly to be positive and benign. Except securitization also has been indicted by some for compromising the incentive for originators to ensure least standards of prudent lending, risk management, and savings, at a time when short returns on conventional debt products, default rates below the historical experience, along with the wide availability of hedging tools were encouraging investors to take more risk to achieve a higher yield. Most of the loans were not kept back on the balance sheets of those who securitized them, maybe encourage originators to cut back on screening and monitor borrowers, resulting probably in a systematic deterioration of lending and collateral standards.

History of securitization:

Securitization in its current form originated in the mortgage markets in USA. It was promoted through the active support of the management. The government wanted to support secondary markets in mortgages to allow liquidity for mortgage economics companies. GNMA was the first one to obtain mortgages from mortgage companies and to transfer them into pass through securities – this was 1970.

Other US government agency, FNMA and Freddie Mac jumped in later.

The primary securitization of receivables outside the mortgage markets happened in 1975 when Sperry Corporation securitised its PC lease receivables.

The European model: pfandbriefe and mortgage bonds:

One more mortgage funding device, a little different from the US-type pass through, has existed in Europe for approximately two centuries in the past.

In Denmark, for in case, mortgage bonds are above 200 years old. Germany also has a long history of pfandbriefes along with it is stated that there have been no default on these instruments for all these years!

The allure of securitizing

Securitization taking place as a way for financial institution and corporations to discover new sources of funding—also by moving assets off their balance sheets or by borrowing against them to refinance their initiation at a fair market rate. It reduced their borrowing costs and, in the case of banks, lower regulatory least capital requirements. In case, assume a leasing company necessary to raise cash. Under standard procedures, the corporation would take out a loan or sell bonds. Its capability to do so, and the cost, would depend on its on the whole monetary health and credit rating. If it might find buyers, it could sell some of the leases directly, successfully converting a future income stream to cash. The problem is that there is practically no secondary market for individual leases. Although by pooling those leases, the corporation can increase cash by selling the package to an issuer, which in turn convert the pool of leases into a tradable security.

1.4 Brief Profile of the Study Area of securitization of debt

Securitization is the monetary practice of pooling different types of contractual debt such as suburban mortgages, commercial mortgages, auto loans or credit card debt obligation (or else other non-debt assets which produce receivables) and exchange their related cash flows to third party investor as securities, which possibly describe as bonds, go through securities, or collateralized debt obligation (CDOs). Investors are repay from the principal and interest cash flows collected from the underlying debt and redistribute through the capital formation of the recent financing. Securities backed by finance receivables are called mortgage-backed securities (MBS), while those backed by other type of receivables are asset-backed securities (ABS).

The granularity of pool of securitized assets can moderate the credit risk of individual borrowers. Unlike general corporate debt, the credit quality of securitized debt is non-stationary due to change in unpredictability that are time- and structure-reliant. If the contract is properly structured along with the pool performs as usual, the credit risk of all tranches of structured debt improve; if improperly planned, the affected tranches may incident dramatic credit deterioration and loss.[1]

Securitization has evolved from its initial stages in the late 18th century to an estimated outstanding of $10.24 trillion in the United States and $2.25 trillion in Europe as of the 2nd quarter of 2008. In 2007, ABS issuance amounted to $3.455 trillion in the US and $652 billion in Europe.[2] WBS (Whole Business Securitization) schedule first appear in the United Kingdom in the 1990s, and become common in different Commonwealth authorized systems where higher-ranking creditors of an insolvent business effectively expand the right to control the company.[3]

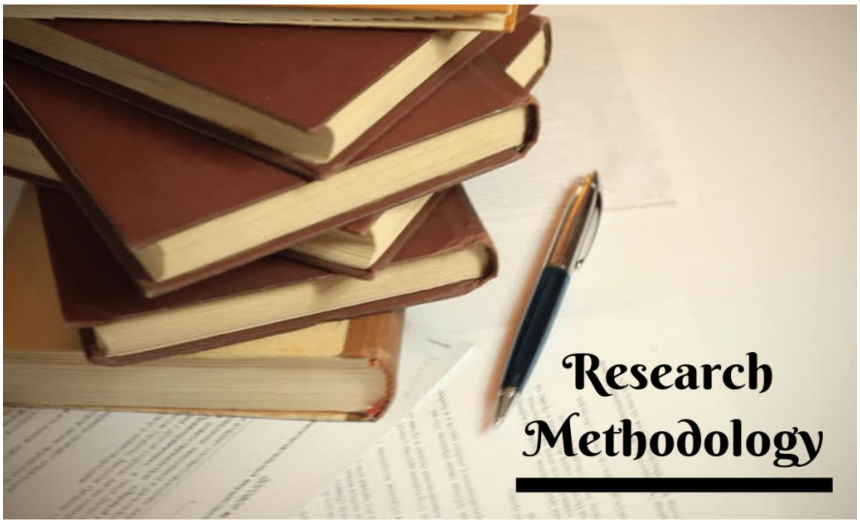
The **originator** in the beginning owns the assets engaged in the deal. This is naturally a company looking to increase capital, restructure debt or or else adjust its capital (but as well include businesses established specially to create marketable debt (customer or otherwise) for the reason of subsequent securitization). Under traditional company finance concept, such a corporation would have three option to increase new capital: a loan, bond issue, otherwise issuance of stock. However, stock offerings dilute the ownership and control of the business, while loan or bond financing is often prohibitively costly due to the credit rating of the company and the connected rise in interest rates.

The consistently income-generate part of the business may have a much high credit rating than the company as a entire. For instance, a leasing company may have provided $10m nominal value of leases, and it will obtain a cash flow above the next five years from these. It cannot demand early on refund on the leases and so cannot obtain its money back early if necessary. If it could put up for sale the rights to the cash flows from the leases to someone else, it could transform that profits stream into a lump sum today (in effect, receiving at present the present value of a future cash flow). Where the originator is a bank or other association that must meet up capital sufficiency requirements, the structure is usually more difficult because a separate business is set up to buy the assets.

A suitably huge portfolio of assets is "mutual" and transferred to a "**special purpose vehicle**" or "**SPV**" (the **issuer**), a tax-let off firm or trust formed for the specific reason of funding the assets. Once the assets are transfer to the issuer, there is generally no option to the originator. The issuer is "bankruptcy remote", meaning that if the originator goes into insolvency the assets of the issuer will not be distributed to the creditors of the originator. In order to reach this, the governing papers of the issuer restrict its activities to only those required to complete the issuance of securities. A lot of issuers are in general "orphaned". In the case of certain assets, such as credit card debt, where the portfolio is made up of a regularly changing pool of receivables, a faith in favour of the SPV may be declared in place of traditional transfer by assignment (see the outline of the master trust structure below).

CHAPTER: 2

RESEARCH METHODOLOGY



2.1 Objective of Securitization of Debt

1. The goal of securitization of debt is to create available to enforcement of security interest which is to take control of asset that have been given as security for the loan.
2. Acquisition of financial asset from any originator (bank).
3. Raising of funds in any prescribed manner.

4. Securitization is the process of pooling and repacking of financial asset into marketable securities.
5. A classification used by financial institution that refers to loan that are in jeopardy of default.

2.2 Scope of securitization of Debt

1. The study is based on questionnaire survey, data calculation, people's opinion, our perception and knowledge.
2. The survey is confined to people living in Navi Mumbai and Mumbai. So, all the estimation have been ready based on the town area

3. The study covers the information about

- The level of awareness of people towards availing insurance claims
- How would they rate various insurance companies, reasons for not taking policy, likes and preferences, important statistics, demographics etc.
- Sample size is 100.

2.3 LIMITATIONS OF THE STUDY

1. The study is confined only to people living in Mumbai and Navi Mumbai. Any suggestion given by analyzing data collected may not be accurate for other locations because people's need, and preferences differ from one place to another.

2. The sampling technique was non probability convenience sampling which could lead to possible inaccurate, non- reliable and biased responses.
3. Many people were not interested.
4. For the sake of official secrecy, the concerned officials did not provide enough information.

RESEARCH DESIGN

WHAT IS RESEARCH ?

Research embraces of essential and redefining complications, stating hypothesis or recommended solutions; collecting, organizing and evaluating data; making deductions and accomplishment conclusions; and at last carefully testing the assumptions to determine whether they fit the formulating hypothesis”. Research in modest terms means penetrating for the facts searching for the replies to the various queries and also for the solutions to the various problems. Research is a review or an examination with a specific purpose to fulfil, it helps in clearing the numerous unsure concepts and tries to solve or explain the various unexplained events.

IMPORTANCE OF RESEARCH

1. Research includes scientific and inductive thoughts and it promote the growth of logical habits of opinion and organization.

2. The fragment of research in certain several fields of practical economics, whether connected to business or to the economy as a whole, has greatly increased in modern times.

3. Research provides the basic for nearly all government policies in our economic system.

4. Research has its special significance in solving various operational and planning problems of the business and the industry.

5. Research with regard to demand and market factors has great utility in business

6. In several ways, operations research, market research and motivational research are vital and their results assistance in taking business decisions.

7. Research is equally important for social scientists in studying social relationships and in seeking answers to various social problems.

8. It gives intellectual satisfaction of knowing things for the sake of knowledge.

9. It also retains the practical utility for the social scientist to gain knowledge so as to be able to do something better or in a more efficient manner.

10. Research is, thus, an original contribution to the existing stock of knowledge making for its advancement

2.4 TYPES OF RESEARCH

1. Basic Research:

- Basic research is mostly conducted to improve knowledge.

- It covers fundamental aspects of research.
- The main impulse of this research is knowledge expansion.
- It is a non-commercial research and doesn’t facilitate in creating or creating anything.
- The purpose of basic research is basically to gather additional information to further be aware of existing phenomena especially in the field of natural sciences.

2. Applied Research:

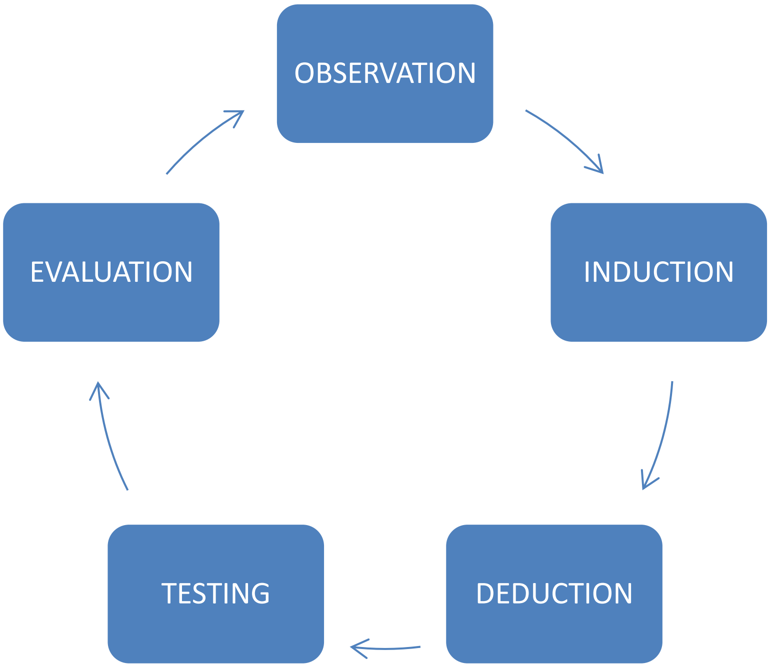
- Applied research focus on analyse and solve real-life trouble.
- This type of research refers to the study that helps solve real-world problems using scientific methods.
- This research plays an important role in solving issues that influence the overall well-being of humans.
- The purpose of applied research is to know more about a certain real-world problem and take steps to solve it.
- It focuses on the application of natural science principles on practical problems with enhancing innovations.
- Such studies are often associated with the fields of business, economics, health, and politics.

3. EMPIRICAL RESEARCH

Empirical research is based on observed and measured marvels and derives knowledge from actual experience rather than from theory or belief.

A. Observation: The observation of a phenomenon and inquiry regarding its causes.
B. Induction: The creation of hypotheses - generalized explanations for the phenomenon.

C. Deduction: The formulation of experiments that will test the hypotheses (i.e. confirm them if true, refute them if false).
D. Testing: The procedures by which the hypotheses are tested, and data are collected.
E. Evaluation: The understanding of the data and the formulation of a theory



Research showed for the purpose of causative towards science by the orderly collection, clarification and evaluation of data and that, too, in a planned manner is called scientific research: a researcher is the one who conducts this research.

4. <u>Descriptive Research:</u>

- Descriptive research is research used to “describe” a situation, subject, behaviour, or occurrence.

• It is used to answer questions of who, what, when, where, and how associated with a specific research question or problem.

• Descriptive studies are often described as studies that are anxious with finding out "what is".

5. Casual Research:

• Causal Research explores the effect of one thing on another and more exactly, the effect of one variable on another.

• The learning is used to portion what result a specific change will have on current standards and allows market researchers to predict hypothetical scenarios upon which a company can base its business plan.

• To recap, causal research is a way of seeing how actions now will affect a commercial in the future.

6. Exploratory Research:

•Exploratory research is the innovative research into a hypothetical or theoretic suggestion. This type of research isn't about making final decision, but rather assembly general evidence about a topic.

• Often in marketing conditions, exploratory research is used at the start of a marketing plan or else long-term business plan to see if a plan is viable in any way.

• Informal approach can be used for exploratory research.

• Typical source are casual conference with customers or company stakeholders. A survey conducted amongst present customers about future product ideas is also exploring the concept of new services or goods.

• Exploratory research in marketing is continuously being conducted by company as ideas, concept, and innovation come to light.

2.5 RESEARCH METHOD

MEANING

"Research Design is the design for collection, quantity and analysis of data"

Features of a research design:

1. Research design is parallel to a construction plan/blueprint.

2. Research design facilitate orderly finishing of research project

3. It acts as a reference document.

4. Research design is plan, formation and strategy

5. Helps researcher to arrive a meaningful conclusion

In this project I had used Descriptive type of Research

Descriptive research.

Descriptive Research does not fit neatly into the meaning of either quantitative or qualitative research methodologies, other than instead it utilizes element of both, often within the same study. The term descriptive research refers to the type of research question, design, data analysis that will be applied to a given topic.

2.6 Type of data:

The sources of data include both primary and secondary data.

- **PRIMARY DATA:**

  Primary data is collected with specific objective, especially to address the research problem. The data is gathered by distributing a questionnaire to the People in the Rural Area.

- **SECONDARY DATA:**

  Secondary data is the data which is already collected by someone. Secondary data was collected so as to have accurate results. Books, Journal & Internet.

2.7 Sample size:

The sample size taken for the study is 100.

2.8 Sampling Method:

To obtain the representative sample, a non-probability sample can be drawn. In this study the method of selecting sample is random i.e. it is non probable. Non-probability sampling is a sampling technique where the samples are gathered in a process that does not give all the individuals in the population equal chances of being selected.

2.9 Data Collection Method:

The tools used for analyzing data are rating method; graphs, pie chart etc. Questionnaire is distributed to the individual respondent and special care has been taken to make him/ her feel comfortable so that, he/she could answer all the questions. This method is followed to get unbiased answers.

CHAPTER: 3

REVIEW OF LITERATURE

Gary Gorton, Andrew Metrick, in Handbook of the Economics of Finance, 2013

Prior to the financial calamity of 2007–2008, securitization was a extremely huge part of US capital markets. It played a central role in the current financial calamity. Yet it is mainly unregulated and it is not well understood. There is small research on this topic. In this document, we investigation the literature on securitization and sum up the outstanding questions.

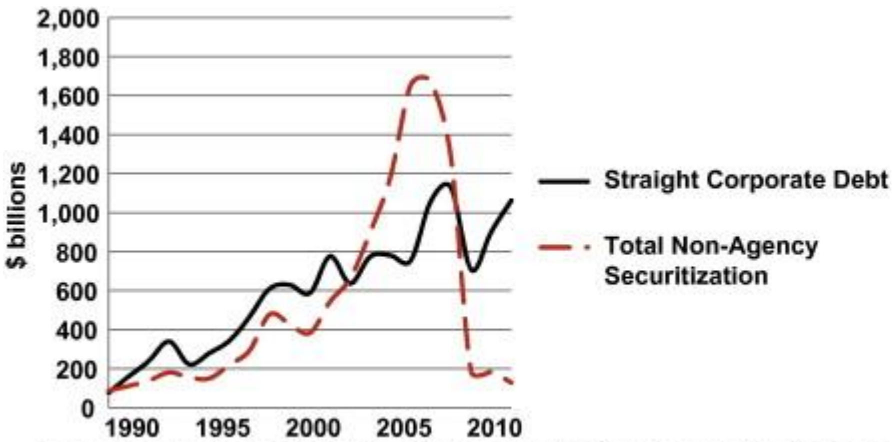
Usually, financial intermediaries originate loans that they then held on their balance sheets until maturity. This is no longer the case. Initial around 1990, pools of loans begin to be sell in capital markets, by selling securities linked to pools of loans held by legal entity called "special purpose vehicles" (SPVs). These securities, known as asset-backed securities (ABS) (or mortgage-backed securities (MBS), in the case where the loans are mortgages) are claim

To the cash flows since the pool of loans held by the SPV. Such securities can be issue with various seniorities, known as tranches. Securitization has basically altered capital markets, the performance of financial intermediation, and challenges a lot of theories of the role of financial intermediaries.

Securitization has a significant role in the US economy. As of April 2011, there was $11 trillion of outstanding securitized assets, including residential mortgage-backed securities (RMBS), other ABS, and asset-backed commercial paper (ABCP). This is substantially more than the size of all outstanding marketable US Treasury securities—bonds, bills, notes, and TIPS combined.[1] A large fraction of consumer credit in the US is financed via securitization. It is estimated that securitization has funded between 30% and 75% of lending in various consumer lending markets, and about 64% of outstanding home mortgages.[2] In total, securitization has provided over 25% of outstanding US consumer credit.[3]

Figure 1 shows the US issuance amounts of private securitization and corporate bonds. In 2002 the amounts of securitized bonds issued ($662.4 billion) exceeded corporate bond issuance ($636.7 billion) for the first

time, and continued to be larger until the financial crisis. Figure 1 includes non-agency, i.e. private, mortgage securitizations. But, even when this very large category is removed, securitization is very significant, as shown in Figure 2. The main categories of loans securitized, aside from mortgages, are credit card receivables, automobile loans, and student loans. US non-mortgage securitization issuance exceeded US corporate bond issuance in 2005, and then plummets during the financial crisis. Figure 3 shows US mortgage-related securitization, including agency bonds, residential-mortgage-backed securities (RMBS), and commercial-mortgage-backed securitization (CMBS).
Securitization has grown significantly in other countries, as well. The total European securitization issuance grew from $302 million in 1992 to a peak of $1.1 billion in 2008, falling to $512 million after the crisis. Figure 4 shows the amounts of European issuance of some of the major categories of non-mortgage securitization.



Sources : Bloomberg, Dealogic, Fitch Ratings, Moody's, prospectus filings, Standard and Poor's, Thomson Reuters, compiled by the Securities Industry and Financial Markets Association.

S.L. Schwarcz, in Handbook of Key Global Financial Markets, Institutions, and Infrastructure, 2013

Securitization always provides the originator with new money in the form of cash received for the sale of financial assets. Thus it merely substitutes for one type of asset, financial assets, another type, cash. As a result, absent overinvestment (the originator investing or otherwise using that cash proceeds in a manner that reduces its value), unsecured creditors have the same amount of unencumbered assets to levy against after as before the securitization.
In fact, the sale of financial assets may actually benefit the originator and its creditors by transferring the risk on those assets. Unlike a secured loan, where

any collateral shortfall gives rise to an unsecured deficiency claim in that amount, in a securitization the SPV and its investors only have recourse against the financial assets purchased, and not against the originator or its other assets. Accordingly, the SPV and its investors – and not the originator or its unsecured creditors – bear the risk that those financial assets may be insufficient to repay the investors. If it turns out in retrospect that the overcollateralization was too small, only the SPV and its investors take that risk. On the other hand, if, in retrospect, the overcollateralization was too big, most securitization deals permit the originator, at deal's end, to recover the surplus value from the SPV. Overinvestment of securitization proceeds can, and undoubtedly sometimes does, occur. But the risk of overinvestment does not necessarily make securitization inefficient. Overinvestment is a normal business risk of any financing, not just securitization. In fact, given the scrutiny imposed by rating agencies, securitization may present fewer opportunities for intentional overinvestment than other financing methods.

To the limited extent overinvestment occurs, it only harms unsecured creditors if the originator becomes insolvent, since unsecured creditors of a solvent company are eventually repaid. Because securitization is rarely used for originators on the brink of insolvency and, as discussed, the risk of overinvestment itself is limited, there should be relatively few cases where unsecured creditors are harmed by overinvestment of securitization proceeds.

Securitization is not only important because it is quantitatively significant. It also challenges theoretical notions of the role of financial intermediation. Financial intermediaries make loans to customers, loans that traditionally were held on their balance sheets until maturity. They did this to ensure themselves an incentive, so the theory goes, to screen borrowers and to monitor them during the course of the loan. The logic of the argument is that, were banks not to hold the loans, then they would not screen or monitor. Providing the banks with these incentives explained the nonmarketability of bank loans. Many firms, however, issue bonds, which do not involve banks and the associated screening and monitoring, so somehow it is possible for banks to be successfully avoided. Securitization blurs the line between bonds and loans, suggesting that the traditional arguments about screening and monitoring were not correct, or that the world has changed in some important way.

Despite the quantitative and theoretical importance of securitization, there is relatively little research on the subject. In addition, the recent financial crisis centered on securitization, so the imperative to understand it is paramount. The central motivations for securitization are often driven by institutional details in law, accounting, and regulation, so it is necessary to start with some of these details. Section 2 provides an overview of the legal structure of securitization and a brief example of a specific securitization. Section 3 gives summary statistics on the growth and performance of various types of securitized vehicles, illustrating the rapid transformation of financial intermediation in the last 25 years.

CHAPTER: 4

CLASSIFICATION & TABULATION OF DATA

CLASSIFICATION & TABULATION OF DATA

1. Gender:

Male	62.5%
Female	37.5%
Total	100%

2. What is your age Group?

15 to 20	25%
20 to 30	45%
30 to 40	25%
40 above	5%
Total	100%

3. Maritial status

Married	**7.5%**
Unmarried	**92.5%**

4. Qualification

Undergraduate	33%
Graduate	37%
Postgraduate	24%
Other	6%

Total	100%

5. The securitization of debt is good ?

Agree	67.5%
Strongly Agree	22.5%
Disagree	10%
Strongly Disagree	0%
Total	100%

6. Why do bank securitize debt

Balance sheet issue	**28.2%**
Greater leverage of capital	**35.9%**
Making more profit	**35.9%**
Total	**100%**

7. Is debt buying profitable ?

Yes	**82.5%**
No	**17.5%**
Total	**100%**

8. Why do bank sell debt ?

Profit to bank	**32.5%**
Recycle the cash	**17.5%**
Income generate	**37.5%**
Balance sheet Management	**12.5%**
Total	**100%**

9. What type of asset bank securitize

Liquid	**23.1%**
In liquid	**17.9%**
Stock	**59%**
Total	**100%**

10. In what type of people invest more in debt security

Student	**25%**
Youngster	**60%**
Old People	**15%**
Total	**100%**

11. The most of people prefer invest in financial securities

Equity Share	**35.9%**
Preference Share	**41%**
Debts	**23.1%**
Total	**100%**

12. How many risk are in debt securitization

Low	**30%**

Medium	**50%**
High	**15%**
Very High	**5%**
Total	**100%**

13. In debt securitization SPV (special purpose vehicle) has play a role as mediator

Agree	**62.5%**
Strongly Agree	**22.5%**
Disagree	**15%**
Strongly Disagree	**0%**
Total	**100%**

14. Debt securitization is a process of converting in liquid Asset to liquid asset

Agree	**51.3%**
Strongly Agree	**33.3%**
Disagree	**15.4%**
Strongly Disagree	**0%**
Total	**100%**

15. Debt securitization is means art of balance sheet management

Agree	**42.5%**
Strongly Agree	**27.5%**
Disagree	**27.5%**
Strongly Disagree	**2.5%**
Total	**100%**

16. In help of SPV (special purpose vehicle) bank is securitization used for risk transfer

Yes	**70%**
No	**30%**
Total	**100%**

17. What are example of off balance sheet item ?

Loan Commitment	**28.9%**
Letter of Credit	**44.7%**
Revolving underwriting facilities	**26.3%**
Total	**100%**

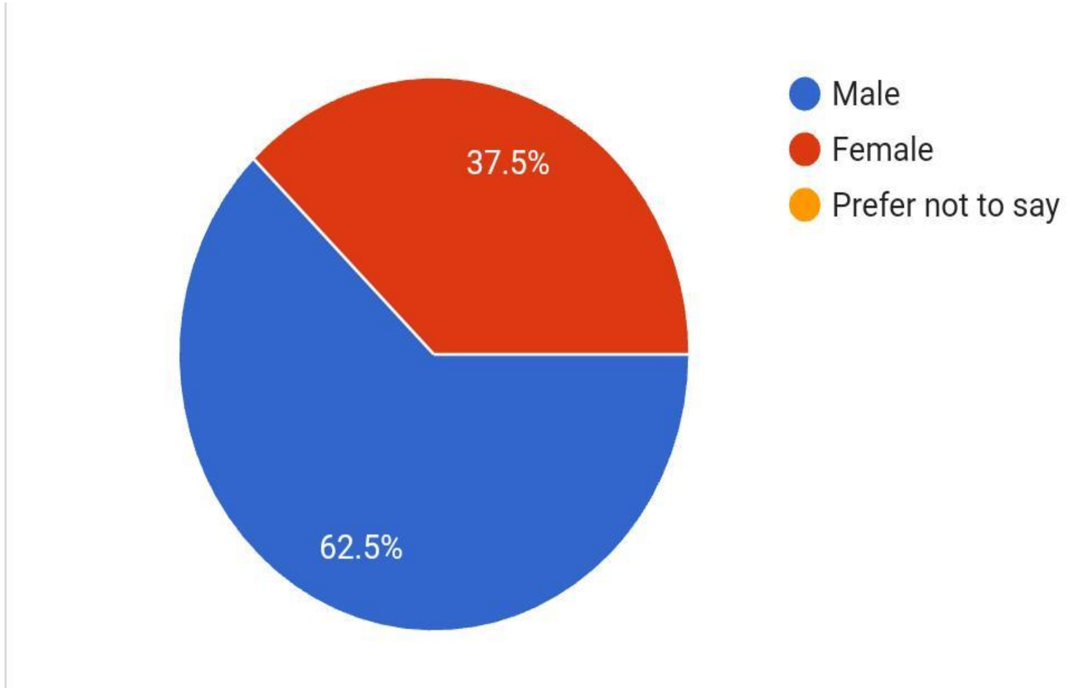
18. Securitising of debt is one way in which a bank can

Improve its risk capital ratio	**32.5%**
Increase its asset	**30%**
Increase its income	**35%**
Avoid cash withdrawal	**2.5%**
Total	**100%**

CHAPTER: 5

DATA ANALYSIS AND INTERPRETATION

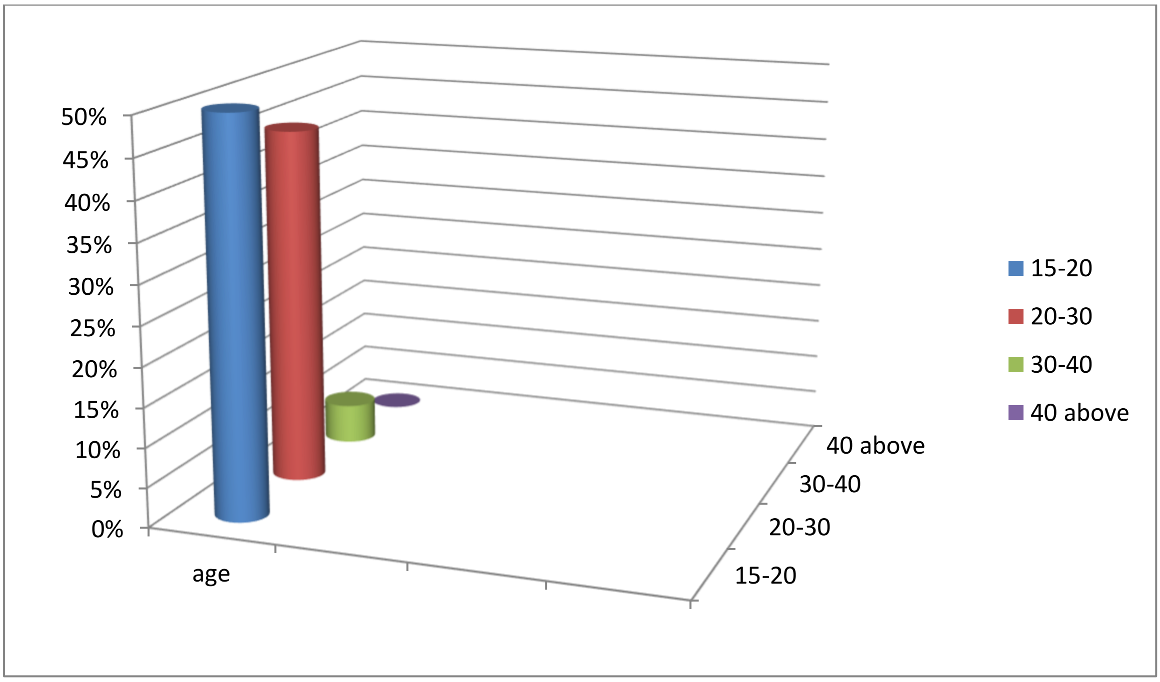
1. Gender:



INTERPRETATION:

From the above graph we can see that, majority (62.5%) of the respondents are ‘Male’, and the remaining (37.5%) are ‘Female’.

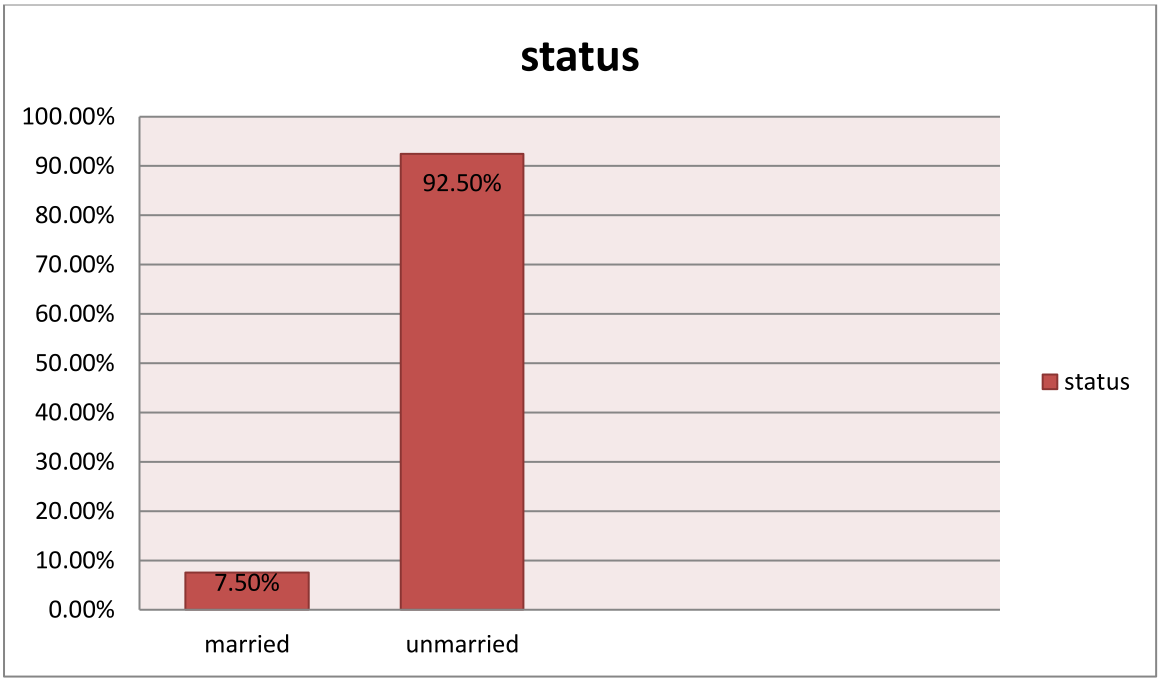
2. What is your age Group?



INTERPRETATION:

From the above graph, we can see that ,a Majority of respondent that is 50% are between ’15- - 20’, followed by 45% ’20– 30’, 5%’ 30 – 40’, and 0% are above were the smallest group that is 40 & above.

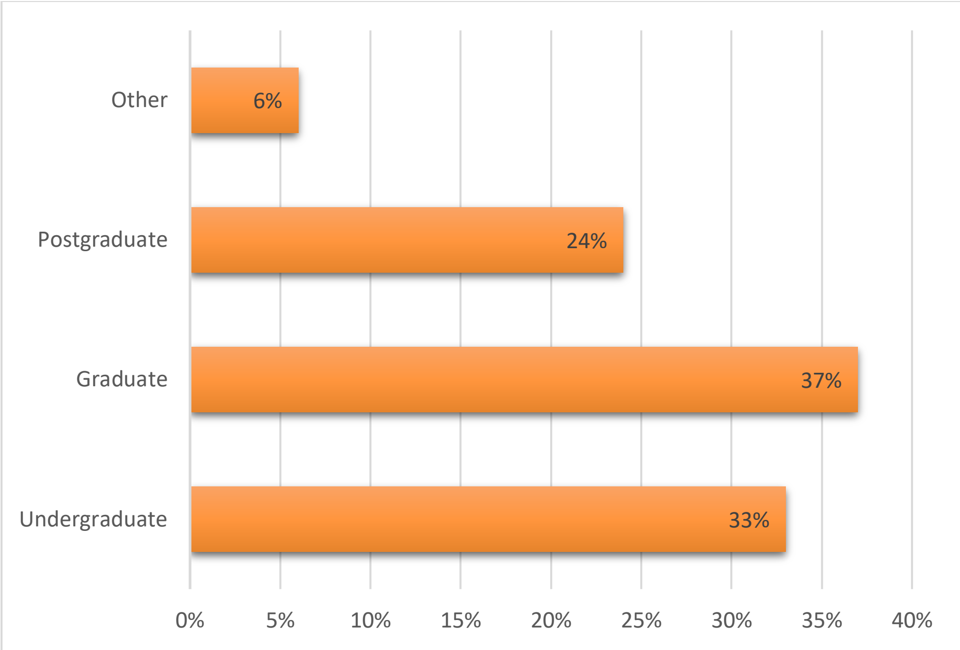
3.Status



<u>INTERPRETATION:</u>

In the Above Graph, out of 100 Respondent, 7.5% are ‘married’’, and Remaining 92.5 % are ‘Unmarried’.

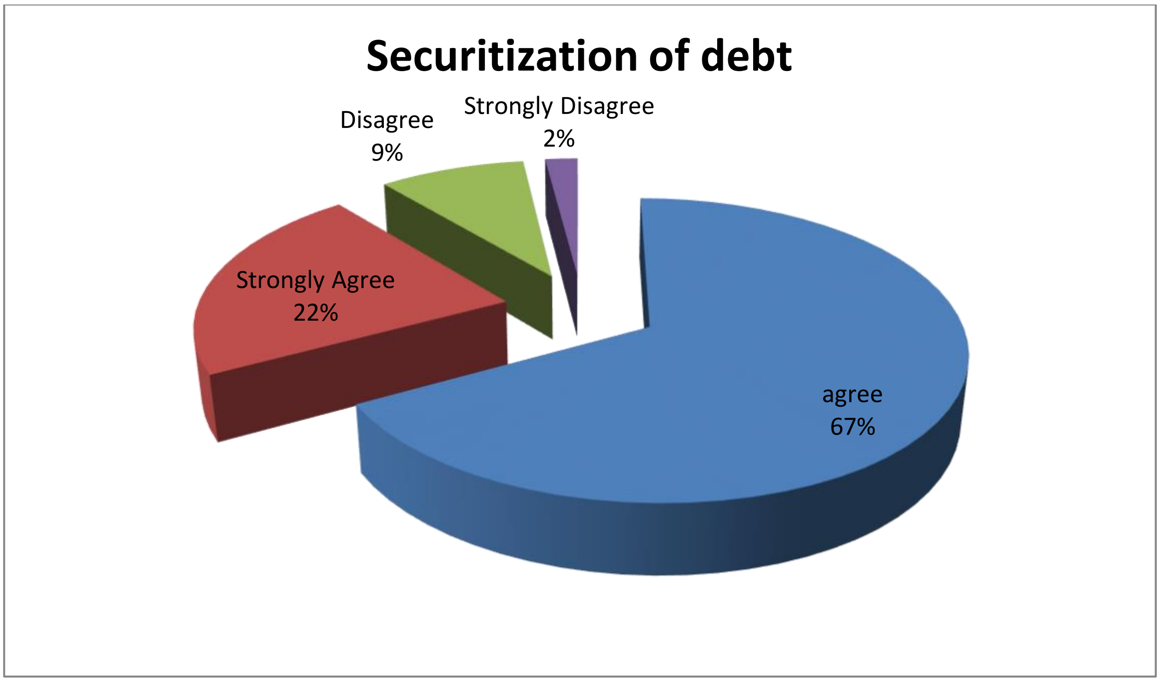
4. Qualification:



<u>INTERPRETATION:</u>

In the above-mentioned graph, out of 100 Respondents, we can see that 33% of people are 'Undergraduate',37% of people are 'Graduate', 24% of people are 'Postgraduate' and Remaining 6% of people are ''Other'.

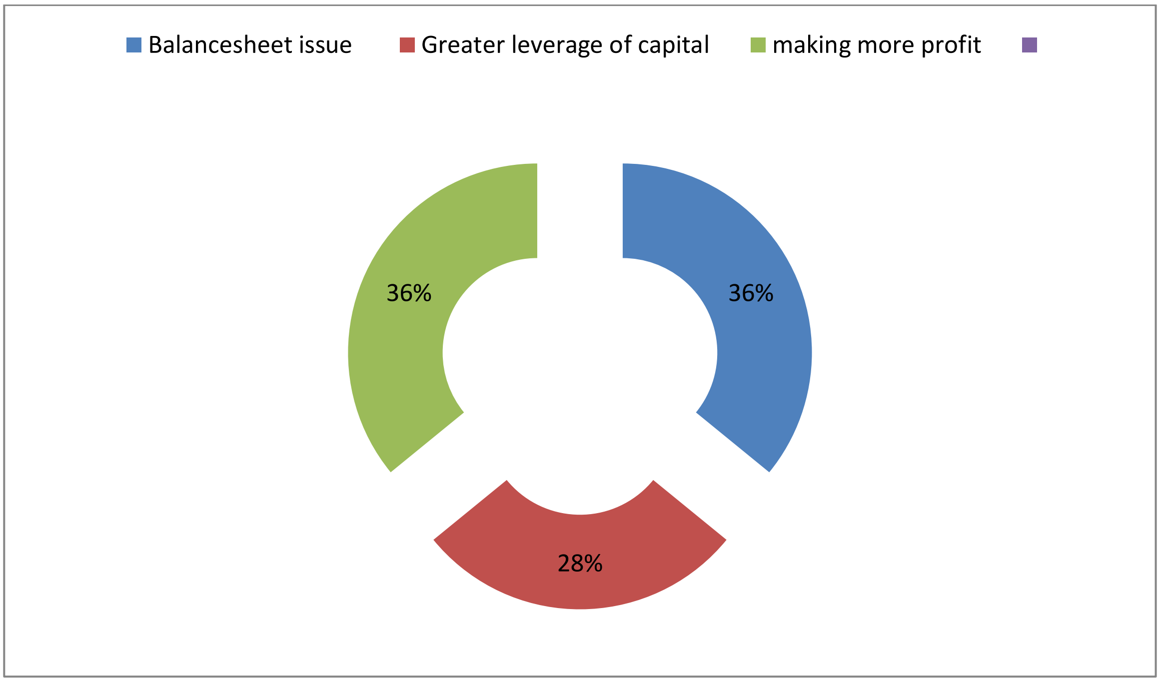
5. The securitization of debt is good ?



INTERPRETATION:

"In the above-mentioned graph, out of 100 Respondents, we can analysis that 67% of people has agree to securitized of debt is good ,22% of people have Strongly agree to securitized of debt is good ', 9% of people have and Remaining 2% of people have Strongly Disagree to securitized of debt is good."

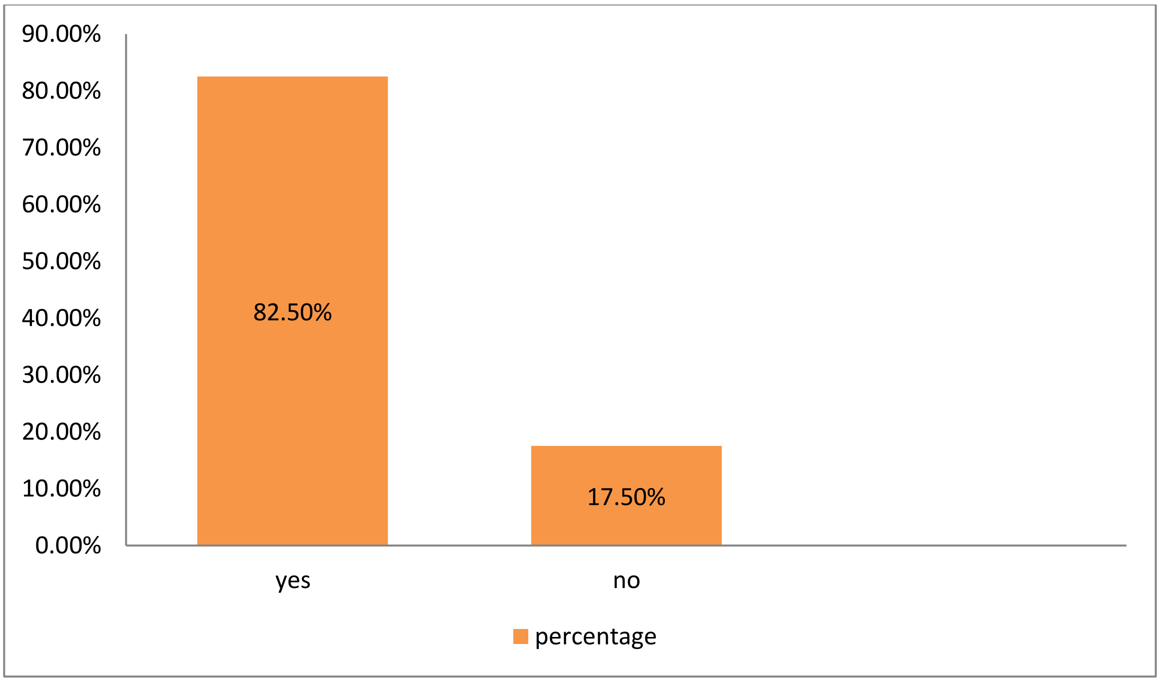
6. Why do bank securitize debt ?



INTERPRETATION:

"In the above-mentioned graph, out of 100 Respondents, we can analysis that 36% of people has agree to bank do securitize debt because of balance sheet issue, 36% of people have agree to bank do securitize debt because of making more profit', and Remaining 28% of people have agree to bank do securitized of debt because of Greater leverage of capital."

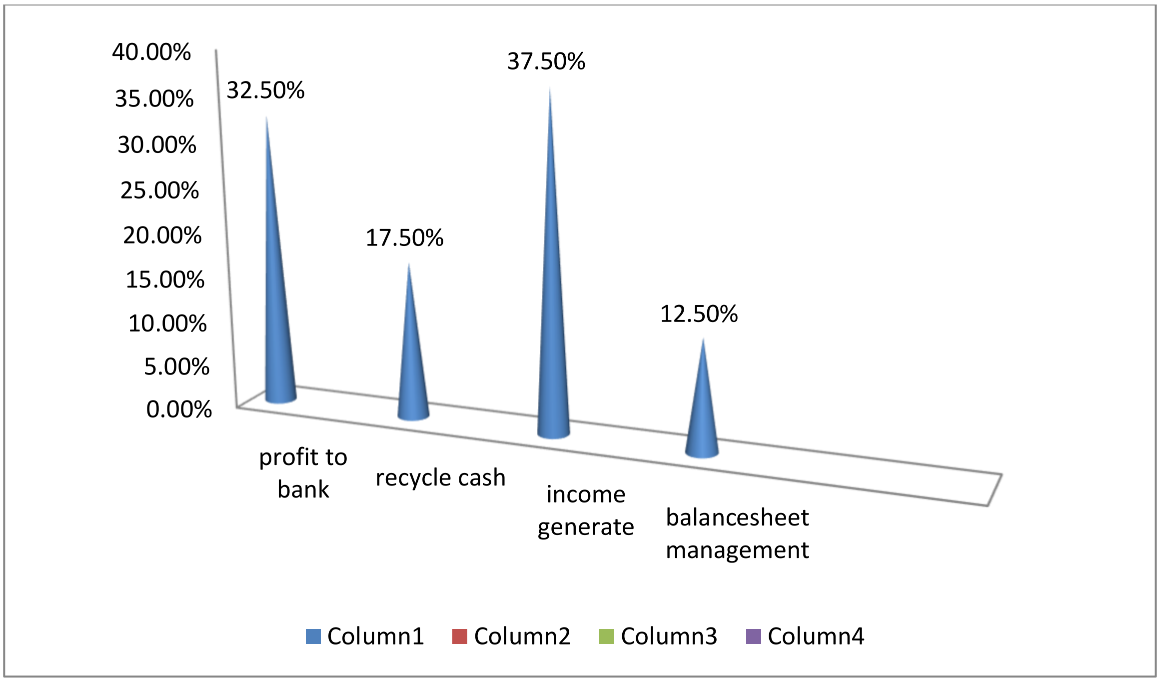
7. Is debt buying profitable ?



INTERPRETATION:

In the above-mentioned graph, out of 100 Respondents, we can see that 82.5% of people are 'agree to buying debt is profitable' and Remaining 17.5% of people are ''agree to buying debt is not profitable'.

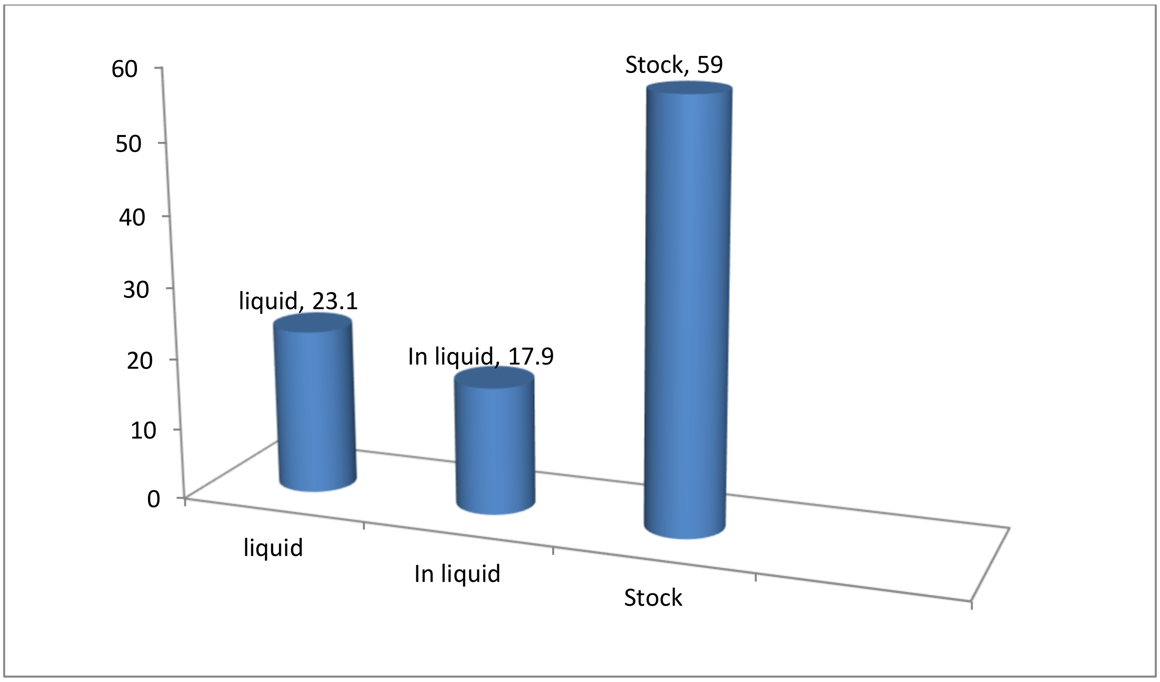
8. Why do bank sell debt ?



<u>INTERPRETATION:</u>

In the above-mentioned graph, out of 100 Respondents, we can see that 32.5% of people are 'agree to bank sell debt because of profit making' and 17.5% of people are agree to bank sell debt because of recycle cash. And 37.5% of people are agree to sell debt because of income generate. And Remaining 12.5% of people are ''agree to bank sell debt because of balance sheet Management.

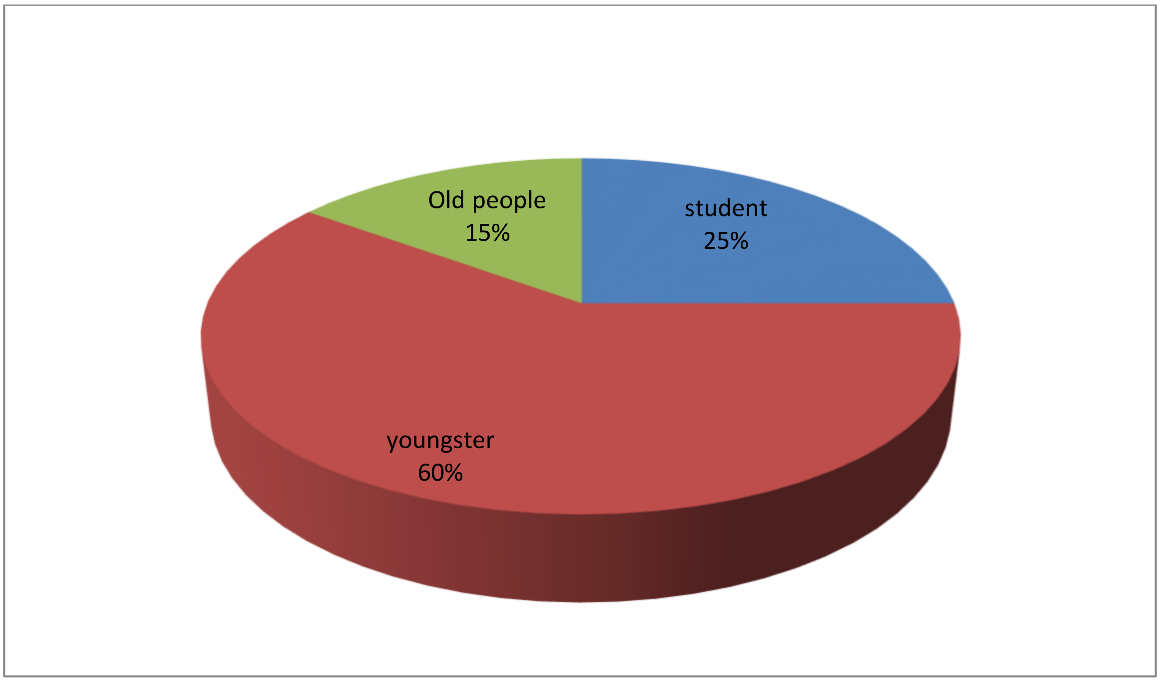
9. What type of asset bank securitize ?



INTERPRETATION:

In the above-mentioned graph, out of 100 Respondents, we can see that 59% of people are 'accepet the stock type of asset bank securitize' and 23.1% of the people are accepet the liquid type of asset bank securitize. Remaining 17.9% of people are 'accepet the In liquid type of asset bank securitize'.

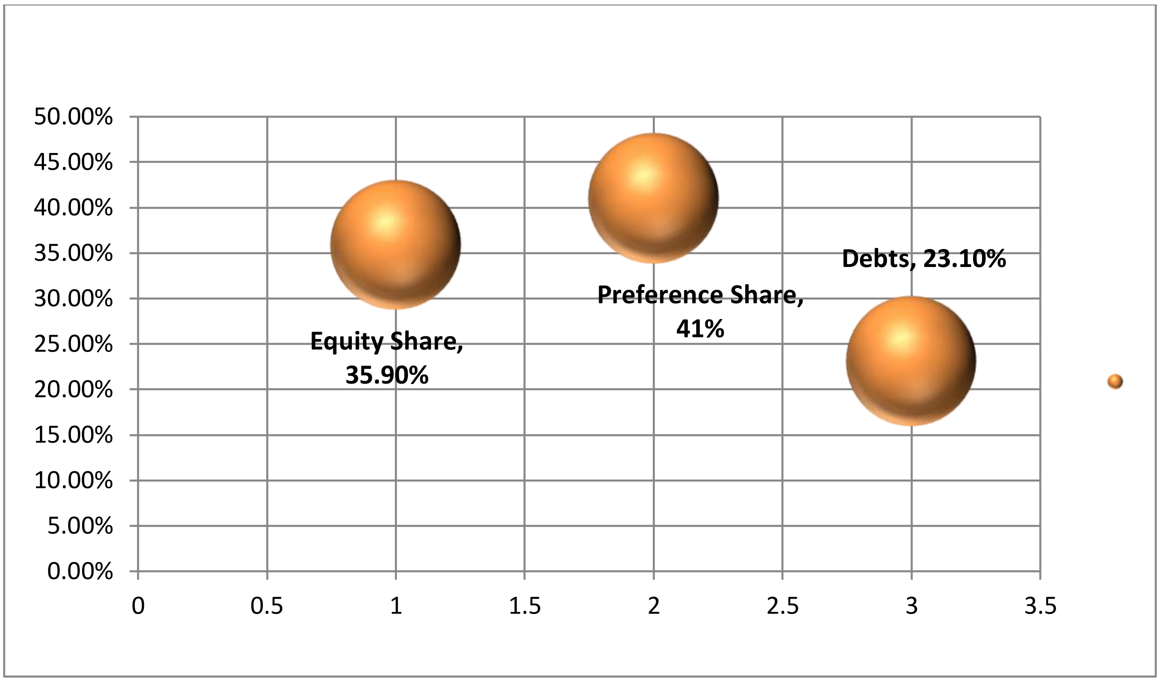
10. In what type of people invest more in debt security ?



INTERPRETATION:

In the above-mentioned graph, out of 100 Respondents, we can see that 60% of people are 'agree to Youngster type of the people invest more in debt security. ' and 25% of people are agree to Student type of the people invest more in debt security. Remaining 15% of people are " agree to Old type of the people invest more in debt security."

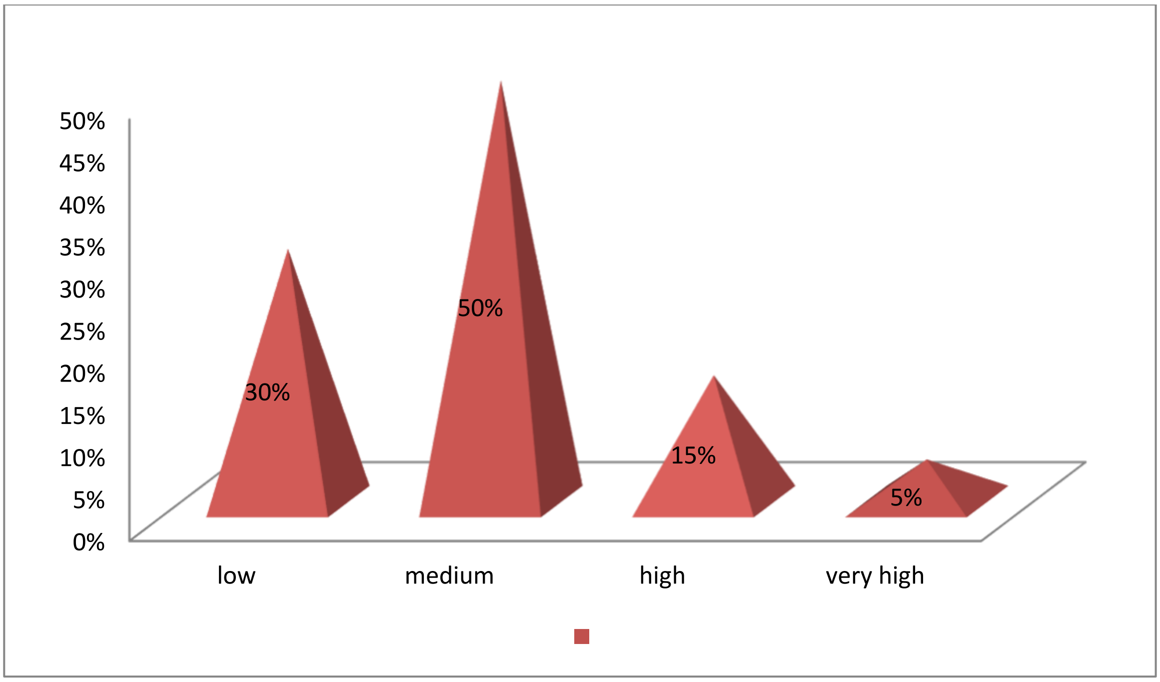
11. The most of people prefer invest in financial securities ?



INTERPRETATION:

In the above-mentioned graph, out of 100 Respondents, we can see that 41% of people are 'accepet the preference Share are the most of people prefer invest in financial securities.' and 35.9% of the people are accepet the Equity Share are most of people prefer invest in financial securities. Remaining 23.1% of people are 'accepet the Debts are most of people prefer invest in financial securities'.

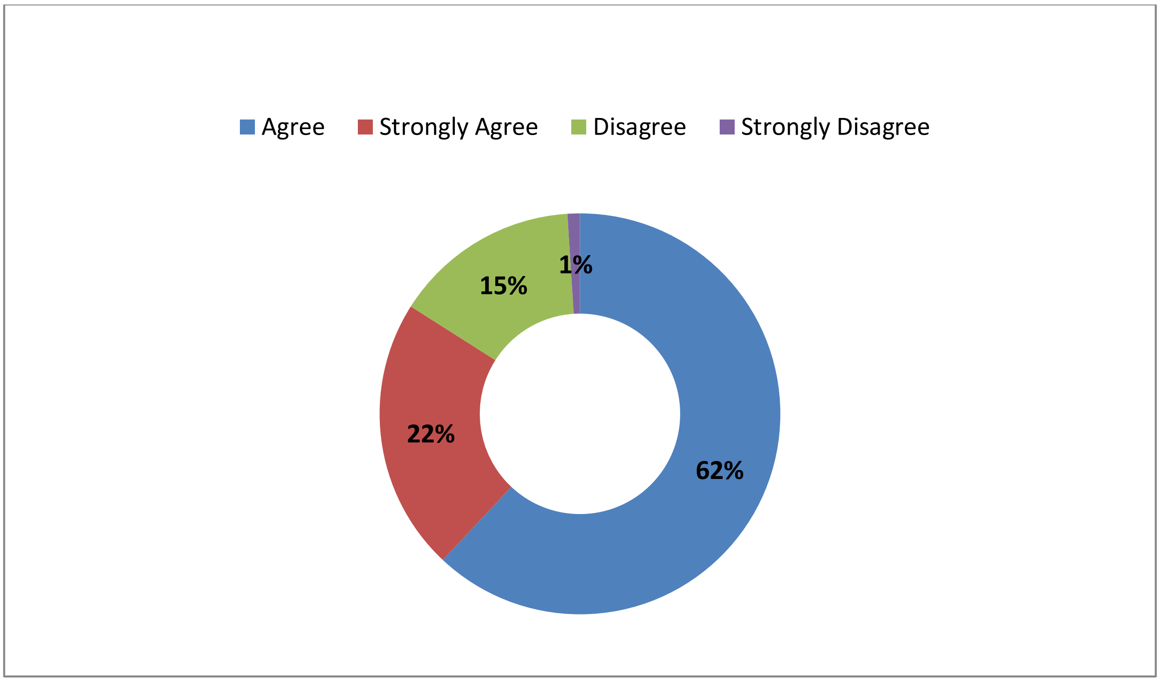
12. How many risk are in debt securitization ?



<u>INTERPRETATION:</u>

In the above-mentioned graph, out of 100 Respondents, we can see that 50% of people are ‘agree to Medium type of risk are in debt securitization. ’ and 30% of people are agree to Low type of risk are in debt securitization. And 15% of people agree to High type of risk are in debt securitization. Remaining 5% of people are “ agree to Very high type of risk are in debt securitization.”

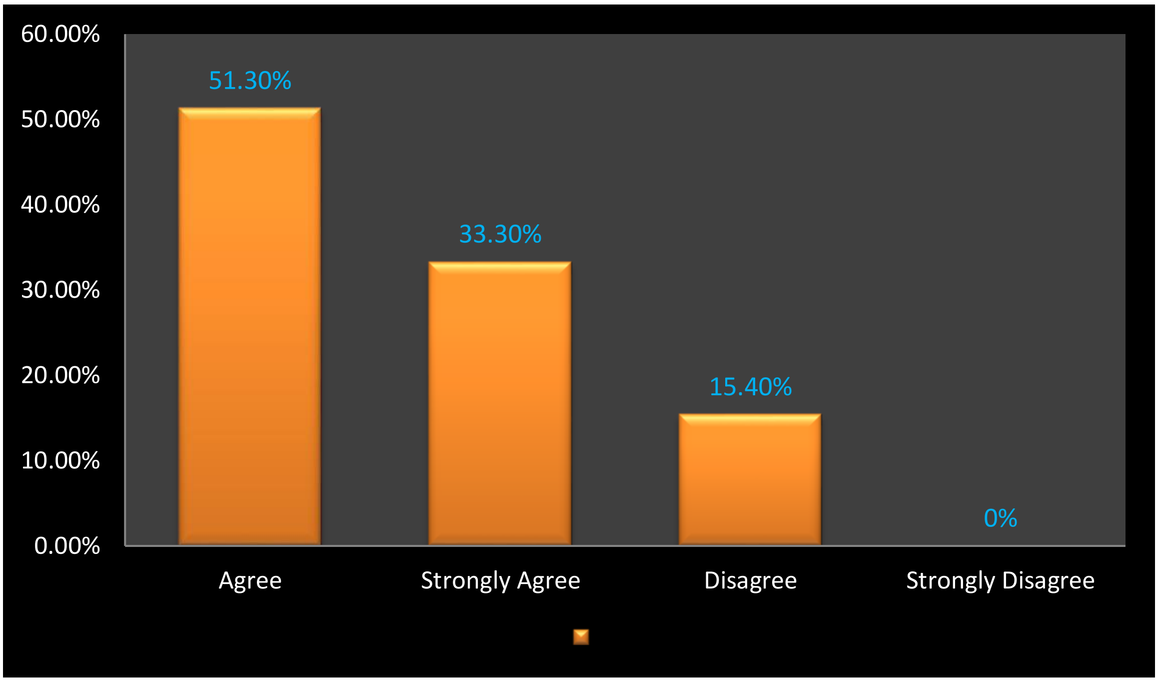
13. In debt securitization SPV (special purpose vehicle) has play role as mediator.



INTERPRETATION:

In the above-mentioned graph, out of 100 Respondents, we can see that 62% of people are 'agree to in debt securitization SPV has play a role as mediator. and 22% of people are strongly agree to in debt securitization SPV has play a role as mediator. And 15% of people Disagree to in debt securitization SPV has play a role as mediator. Remaining 1% of people are "Strongly disagree to in debt securitization SPV has play a role as mediator".

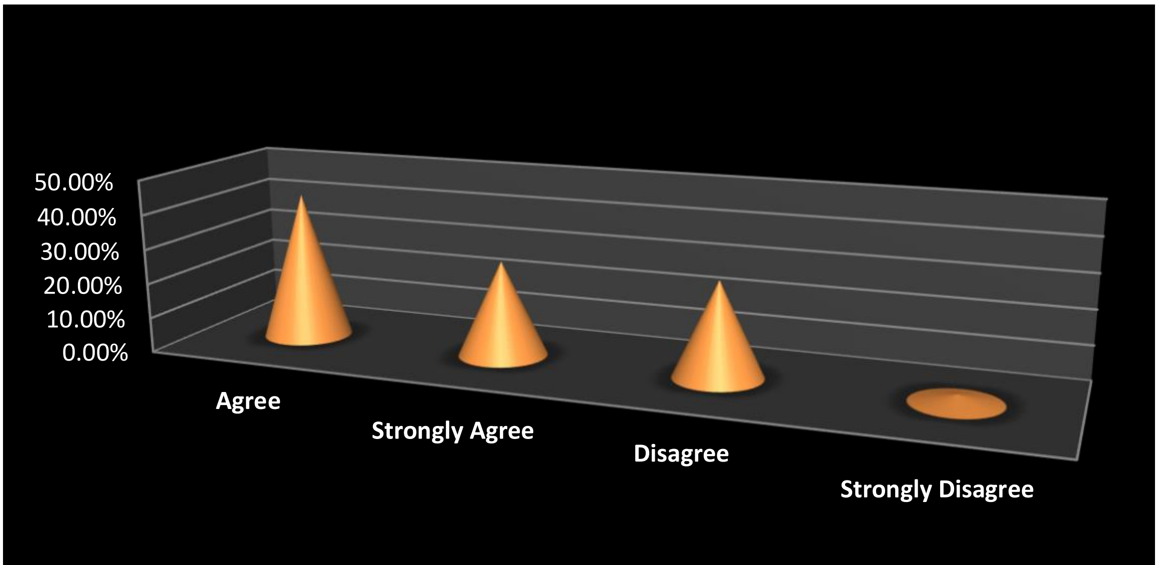
14. Debt securitization is process of converting in liquid asset to liquid asset.



INTERPRETATION:

In the above-mentioned graph, out of 100 Respondents, we can see that 51.3% of people are 'agree to debt securitization is process of converting in liquid asset to liquid asset. and 33.3% of people are strongly agree to debt securitization is process of converting in liquid asset to liquid asset. And 15.4% of people Disagree to debt securitization is process of converting in liquid asset to liquid asset. Remaining 0% of people are "Strongly disagree to debt securitization is process of converting in liquid asset to liquid asset".

15. Debt securitization is means art of balaancesheet management.

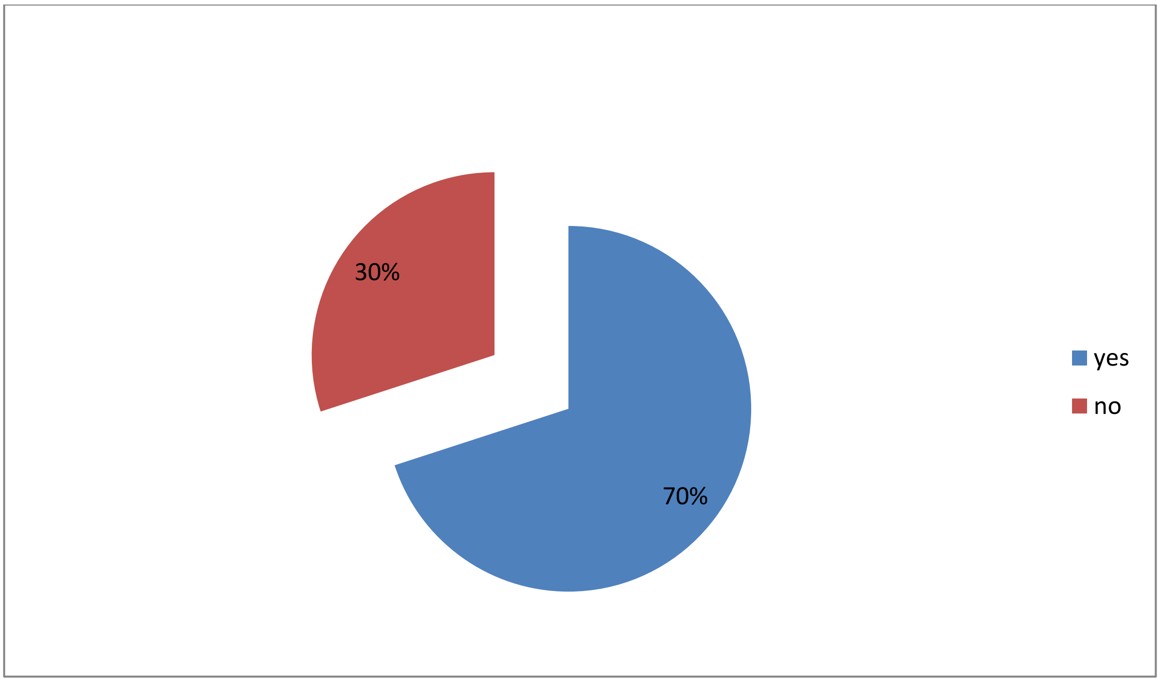


	Agree	Strongly Agree	Disagree	Strongly Disagree
	42.50%	27.50%	27.50%	2.50%

INTERPRETATION:

In the above-mentioned graph, out of 100 Respondents, we can see that 42.5% of people are ‘agree to debt securitization is means art of balance sheet management. and 27.5% of people are strongly agree to debt securitization is means art of balance sheet management And 27.5% of people Disagree to debt securitization is means art of balance sheet management. Remaining 2.5% of people are “Strongly disagree to debt securitization is means art of balance sheet management”.

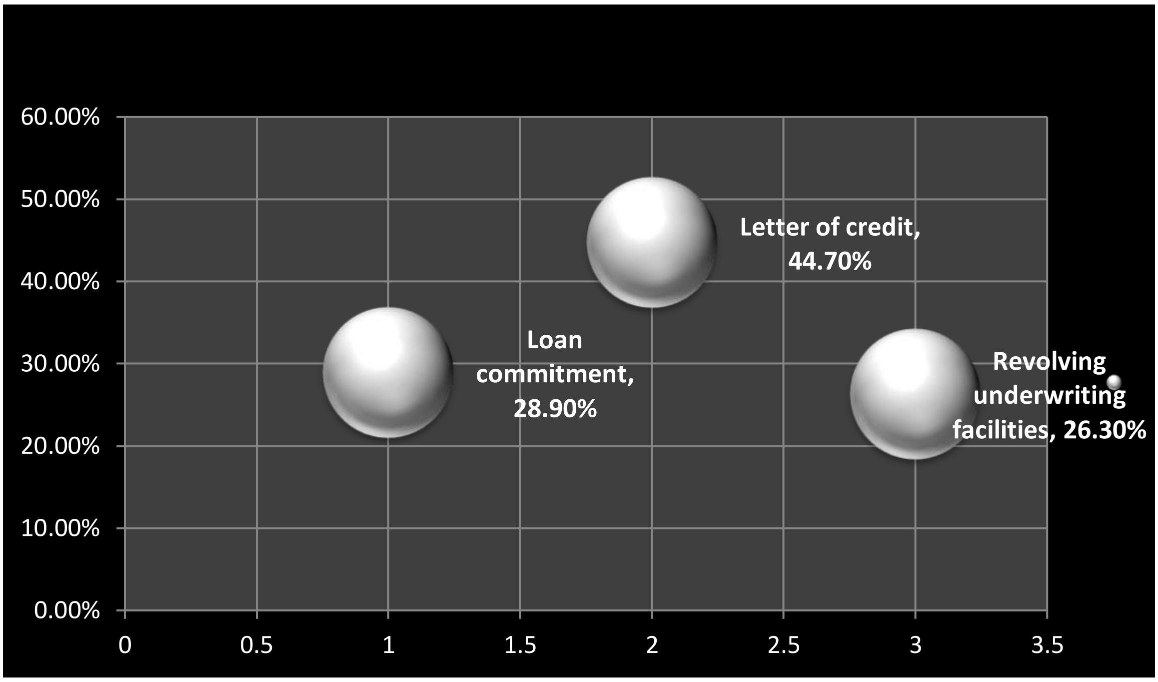
16. In help of SPV (special purpose vehicle) bank is securitization used for risk transfer.



INTERPRETATION:

In the above-mentioned graph, out of 100 Respondents, we can see that 70% of people are 'agree to in help of SPV bank is securitization used for risk transfer. And Remaining 30% of people are " not agree to in help of SPV bank is securitization used for risk transfer ".

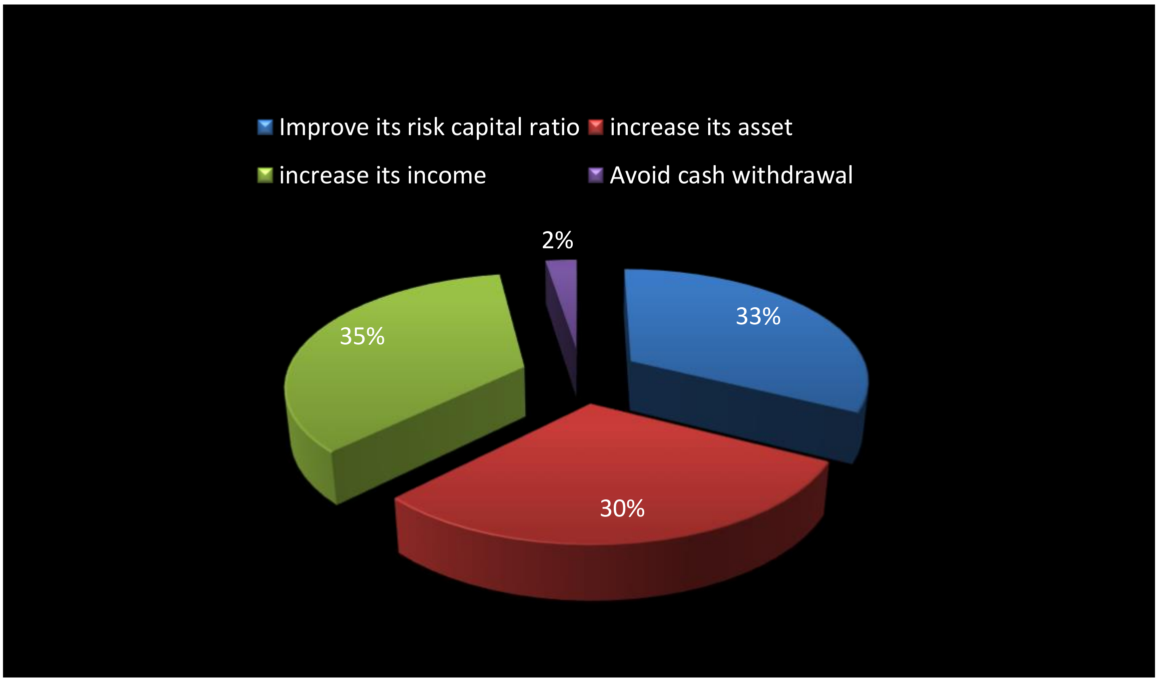
17. What are example of off balance sheet item ?



INTERPRETATION:

In the above-mentioned graph, out of 100 Respondents, we can see that 44.7% of people are 'agree to letter of credit is example of off balance sheet item. and 28.9% of people are agree to loan commitment is a example of off balance sheet item. And Remaining 26.3% of people are "agree revolving underwriting facilities are the example of off balance sheet item."

18. Securitising of debt is one way in which a bank can ,



INTERPRETATION:

In the above-mentioned graph, out of 100 Respondents, we can see that 35% of people are ‘agree to securitising of debt is one way in which a bank can increase its income. and 32% of people are agree to securitising of debt is one way in which a bank can improve its risk capital ratio. And 30% of people agree to securitising of debt is one way in which a bank can increase its asset. And Remaining 3% of people are “agree to securitising of debt is one way in which a bank can avoid cash withdrawal”.

CHAPTER 6

CONCLUSION AND SUGGESTIONS

FINDINGS

1. Majority of the responded (67.5%) agree that securitization of debt is good.

2. Majority of the responded (35.9%) agree that the bank do securitize debt because of balance sheet issue or making more profit.

3. 82.5% are the responded are agree to debt buying profitable.

4. Majority of the responded (37.5%) agree that bank sell debt because of income generate.

5. Most of responded (59%) agree that stock type of asset bank securitize.

6. 60% are the responded are agree that youngster type of people invest more in debt security.

7. Majority of the responded (41%) agree that the most of people prefer invest in preference share financial security.

8. Half of responded (50%) agree that Medium type of risk are in debt securitization.

9. Most of responded (62.5%) agree that in debt securitization SPV (special purpose vehicle) has play a role as mediator.

10. Majority of the responded (51.3%) agree that debt securitization is a process of converting in liquid asset to liquid asset.

11. 42.5% are the responded agree that debt securitization is means art of balance sheet management.

12. Most of responded (70%) agree that in help of SPV (special purpose vehicle) bank is securitization used for risk transfer.

SUGGESTIONS

Securitization is a economic innovation that experience a boom-bust phase, as many other innovations before. This document analyzes probable reasons for the breakdown of primary and secondary securitization markets, and argues that misaligned incentive along the importance chain are the primary cause of the difficulty.

- We highlight the importance of equity piece preservation for the long-term quality of the underlying asset pool.

- On a micro level, responsibility of managers can be enhanced by compensation packages aiming at long term incentive, and disciplining policies with destabilizing effects on monetary markets.

- On a macro level, enlarged transparency relating to effective risk transfer, risk-related management compensation, and credible dimension of rating performance stabilize the valuation of financial assets and, therefore, improve the solvency of financial intermediaries.

- Economic intermediaries, whose risk is unclear, may be subjected to advanced capital requirements

- Not be subject matter to exchange risk, as the receivables are in foreign exchange.

- Not be subject to ruler risk as the receivables have been assigned by way of a true sale external the country of the originator.

- Does it allocate the originator to borrow more than under traditional funding method.

- Does it agree to the inventor to borrow at lesser cost than under traditional funding methods.

CONCLUSION

The securitization market in India, although in its infancy, holds huge promise particularly in the MBS area.

While more compound securitization transaction and public issuance of securitize document are still a distant dream, suitable legislation and investor learning can give the securitization market in India a much-necessary thrust.

In debt securitization SPV (special purpose vehicle) has play a role as mediator.

Debt securitization is procedure of converting in liquid asset to liquid asset.

Debt securitization is means Art of balance sheet management.

In help of SPV (Special purpose vehicle) bank is securitization used for risk transfer.

Maybe the biggest disadvantage, leading to the major risks, that securitization brings is difficulty. The process of securitization is remarkably compound.

By the end of such a procedure, all the problems and complexities that have gone into it would have created securities so enormously complicated that it is all but not possible to assess correctly their level of risk.

Possibly the maximum advantage of securitization is that it create liquidity in the marketplace for the assets being securitized.

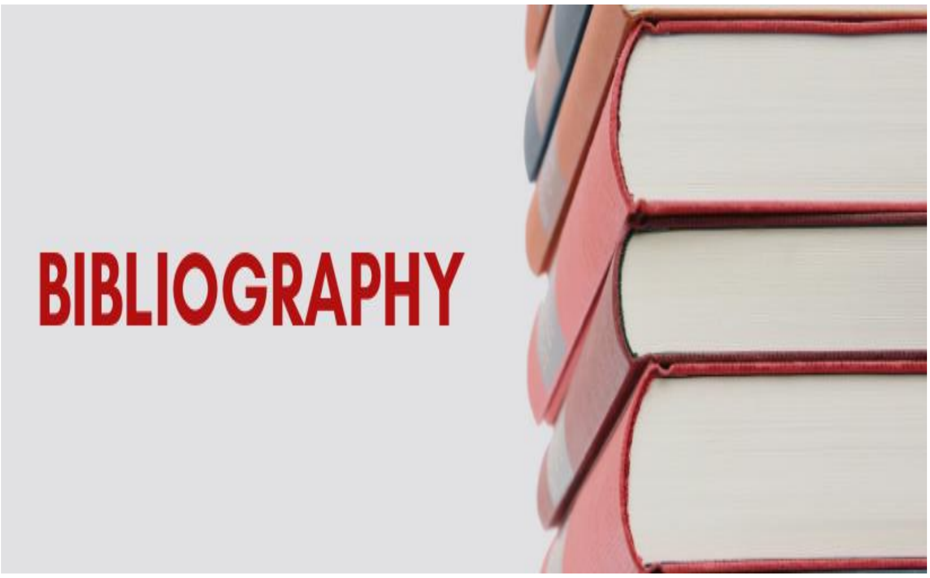
This helps a corporation with debt on its books take away that debt from its balance sheet and obtain new funding in place of that debt.

One more advantage is that these debts can be layered into different tranches with different risks.

Securitization more over has advantages for borrowers. Given that securitization allow company to economically use the debt on their books and make it liquid, while giving investors a range of attractive option for savings, securitization means that these debt assets are costly and attractive.

CHAPTER :7

BIBLIOGRAPHY



BIBLIOGRAPHY

A] Printed Sources

1. Research Papers

- **A study on customer awareness on e-banking services at union bank of India, Mangalore.**
- **International Journal of Science and Research (IJSR).**
- Global journal of business research.
- Service quality of banking services at bank of Baroda-A study in Erode city.
- International Journal of Business Economic & Management Research.
- **Validation of a Scale for Measuring Problems in Internet Banking and their Effect on Customer Satisfaction.**

2. Others

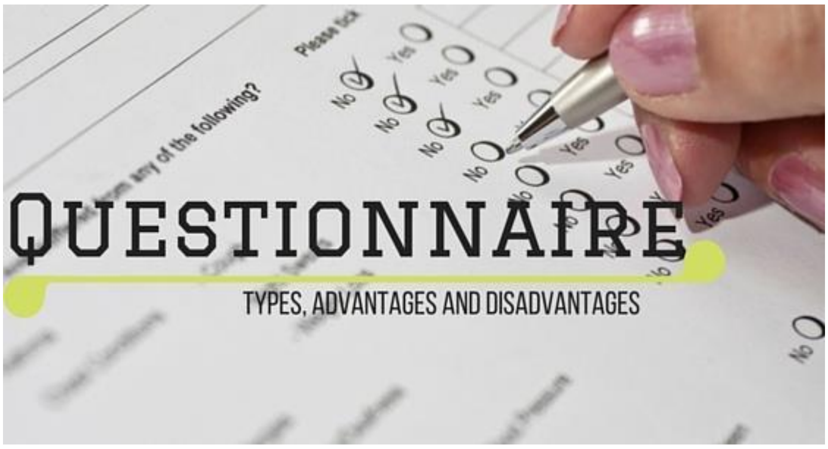
- Journal articles,
- New paper articles
- Government publications.

B] From Online Sources

- www.shodhgaga.inflibnet.ac.in
- http://pocketsense.com
- www.economicsdiscussion.net
- www.indianjournal.com
- http://journals.sagepub.com
- www.slideshare.net
- www.toppr.com

CHAPTER :8

APPENDIX-QUESTIONNAIRE



APPENDIX-QUESTIONNAIRE

1. Gender

   A. Male

B. Female

2. What is your age Group?

   A. 15 to 20
   B. 20 to 30
   C. 30 to 40
   D. 40 above

3. Qualification

   A. Undergraduate
   B. Graduate
   C. Postgraduate
   D. Other

4. Status

   A. Married
   B. Unmarried

5. The securitization of debt is good ?

   A. Agree
   B. Strongly Agree
   C. Disagree
   D. Strongly Disagree

6. Why do bank securitize debt

   A. Balance sheet issue
   B. Greater leverage of capital
   C. Making more profit

7. Is debt buying profitable?

   A. Yes
   B. No

8. Why do bank sell debt ?

   A. Profit to bank
   B. Recycle cash
   C. Income generate

D. Balance sheet management

9. What type of asset bank securitize
   A. Liquid
   B. In liquid
   C. Stock

10. In what type of people invest more in debt security
   A. Student
   B. Youngster
   C. Old people

11. The most of people prefer invest in financial securities
   A. Equity Share]
   B. Preference share
   C. Debts

12. How many risk are in debt securitization
   A. Low
   B. Medium
   C. High
   D. Very high

13. In debt securitization SPV (special purpose vehicle) has play a role as mediator
   A. Agree
   B. Strongly agree
   C. Disagree
   D. Strongly disagree

14. Debt securitization is a process of converting in liquid asset to liquid asset
   A. Agree
   B. Strongly agree
   C. Disagree
   D. Strongly disagree

15. Debt securitization is means Art of balance sheet management
   A. Agree
   B. Strongly agree
   C. Disagree

D. Strongly disagree

16. In help of SPV (special purpose vehicle) bank is securitization used for risk transfer.
    A. Yes
    B. No

17. What are example of off balance sheet item?
    A. Loan commitment
    B. Letter of credit
    C. Revolving underwriting facilities.

18. Securitising of debt is one way in which a bank can
    A. Improve its risk-capital ratio
    B. Increase its asset
    C. Increase its income
    D. Avoid cash withdrawal