Research on Operation Model of Mortgage Backed Securitization in Foreign

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**ABSTRACT:** Mortgage backed securitization is one of the most important international financial innovations since the 1970s. This paper firstly summarizes the existing four financing housing loans models in the international. Then analyzes the operation mode of mortgage backed securitization in the different countries and regions, and the variety modes are classified and compared. Finally we draw the conclusions of this study.

**KEYWORD:** Mortgage Backed Securitization; Financing Model; Operation Model

1 INTRODUCTION

Mortgage backed securitization is one of the most important international financial innovations since the 1970s. Many western countries have it as the main way to development the secondary market of housing finance. Because the background and development status of the mortgage market are different, the operational process of securitization model in countries and regions differ from each other. To study the implementation status of mortgage securitization in developed countries and regions, summary the background and advantages and disadvantages of the different mortgage securitization model, they have an important reference to further carry out large scale mortgage securitization business in our country.

2 THE SITUATION OF HOUSING MORTGAGE MARKET IN ABROAD

The organizational structure of mortgage market and the characteristics of mortgage product may affect the mode selection of the mortgage securitization. We choose America for example, the residential mortgage market in America basically represents the development direction of mortgage market under market economy conditions, many developing countries emulate the way of government regulation, market model, operation mechanism and financial tools. Now, the housing finance market in America has become the largest in the world, it has three characteristics[1]. First, government and private sector participate in mortgage insurance guarantee mechanism. Second, government promotes that the residential mortgage market has become relatively independent of the complete market system. Third, the real estate securitization has become an important trend in the development of real estate finance in modern Western.

2.1 The loan originator of the first mortgage market in America

There are three types of first mortgage market and participants in America. Supply-side in financing activities, it is namely lender. Demand-side in financing activities, it is namely borrower. Intermediaries in financing activities, it is mainly the guarantor. The borrower is basically the residents and families need to buy a house, we mainly introduce the lenders and guarantors.

2.2 The lender of the mortgage market in America

There are many kinds of financial institutions in America, there are several major financial institutions to provide mortgage services at present[2]. It includes Saving and Loan Association, Commercial Bank, Mutual Saving Bank, Credit Unions, Life Insurance Company, Mortgage Banker and Personal Loans.

2.3 The guarantor of the mortgage market in America

It includes FHA, Veterans Administration and Private Mortgage Insurers.

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2.4 The loan originator of the second mortgage market in America

The guarantee system about primary mortgage market can effectively solve the problem of mortgage default risk, but there are two problems to be solved, they are liquidity risk and interest rate risk, the interest rate risk also includes the prepayment risk which can cause refinance. So the America establishes several government and quasi-government institutions through a series of legislation, they play a role of secondary market maker for mortgage market. The participants in the secondary market include the supply side, market makers, intermediaries and investors.

2.5 The market makers of the secondary mortgage market in America[3]


2.6 The investors of the secondary mortgage market in America[4]

Similarly with the US stock market, the investors of the secondary mortgage market in America primarily are institutional investors, it includes pension funds, life insurance companies and other securities investment funds. The diversification of mortgage founding institutions has resulted in competition among lenders, it enhances the efficiency of the market and effectively reduces the financing costs of the borrowers.

3.2 Mandatory Housing Savings

The government uses public rights to force some residents which have wage income to do regular housing saving, the employers have modest proportion, it has an imputation large-scale housing loan funds. The participants can get preferential loans lower than the market interest rate, the line of credit linked with pre-existing deposits, the deposits are tax-free. The most prominent representative in this regard is the housing fund in Singapore, the housing fund in China is very similar. In addition, Brazil and other countries have similar institutional arrangement, it is the unemployment and guarantee fund.

3.4 Business Capital Market Financing

We obtain housing loan funds by imputation residents voluntary savings contract by contract. The loan amount is generally combined with pre-existing savings, but also exists the separation. Low deposit low loans, it has an internal closed operation. There is an exact match capital flows. It also generally has a variety of government incentives.

4.1 The operation mode of mortgage securitization in America

America is the birthplace of mortgage securitization, is also one of the largest market, in which the US government has played an invaluable role[6].
Corporation that specially does mortgage securitization.

4.3 The system support of mortgage securitization

The US government establishes a unified system for mortgage loans through the FHA, GNMA and other government-sponsored agencies, it forms the standardized contracts. The government provides the policy support of tax, law and transaction and so on.

4.4 The issue size of mortgage securitization

Since the late of 1990s, the scale of subprime mortgages is expanding, the proportion of subprime mortgage loans from 8.7% in 2002 increase to 20.2% in 2007, as shown in Table 1.

Table 1 The related data of mortgage in America.

<table>
<thead>
<tr>
<th>Year</th>
<th>All mortgage (billion)</th>
<th>Subprime mortgage (billion)</th>
<th>The proportion of subprime mortgage account for all mortgage (%)</th>
<th>Securitization of subprime (billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2215</td>
<td>190</td>
<td>8.6</td>
<td>95</td>
</tr>
<tr>
<td>2002</td>
<td>2885</td>
<td>231</td>
<td>8.0</td>
<td>121</td>
</tr>
<tr>
<td>2003</td>
<td>3945</td>
<td>335</td>
<td>8.5</td>
<td>202</td>
</tr>
<tr>
<td>2004</td>
<td>2920</td>
<td>540</td>
<td>18.5</td>
<td>401</td>
</tr>
<tr>
<td>2005</td>
<td>3120</td>
<td>625</td>
<td>20</td>
<td>507</td>
</tr>
<tr>
<td>2006</td>
<td>2980</td>
<td>600</td>
<td>20.1</td>
<td>483</td>
</tr>
</tbody>
</table>

The source: The 2007 Mortgage Market Statistical Annual

4.5 The operation mode of mortgage securitization in Canada[7]

In 1986, CMHC implemented the residential mortgage securitization, the macro-control of government promotes the secondary housing market to be perfection. The housing finance has a smooth development under the Canadian government’s macro-control and guidance. CMHC regulates and manages the mortgage finance market in the whole country, it is becoming the key factors for successful development of the Canadian residential mortgage finance.

4.6 The operation mode of mortgage securitization in Europe[8]

The mortgage securitization market in European mostly is the financial institutions that issue the mortgage-backed securitization based on the self-sustaining housing loans. Under the premise of no government credit guarantees, it depends on the enhancement of credit mechanisms to improve credit rating. The securities have low yields and a higher risk rate, it is difficult to win the favor of investors, so its development lags far behind the North America.

4.7 The operation mode of mortgage securitization in Asia

The housing development and housing finance system are built up in Japan which are to adapt to the background of post-war economic shortages, lack of housing and the national income level is low. Because of the restrictive of policies and lows, the mortgage securitization in Japan is slowly development.

4.8 Comparison conclusion

By examining the above typical mortgage securitization in abroad, we can draw the following conclusions.

First, the government has played a major role in the operation of the mortgage securitization[9]. In the development process of mortgage securitization, the American government has played an important role, the British government has played a major role, the Canada government has played a significant role.

Second, the development of the secondary mortgage market and the primary market is complementary and indispensable. In order to spread the risk, the development of the secondary market has come into being. The operation of the secondary market is inseparable from a rigorous transaction structure, investors have a high quality demanding on the mortgage asset in the primary market. The primary mortgage market is the driving force for the development of the secondary market.

5 THE MODEL CLASSIFICATION AND COMPARISON OF MORTGAGE SECURITIZATION IN DIFFERENT COUNTRIES AND REGIONS

Through the depth analysis of the operation mode of mortgage securitization in developed countries and regions, the above countries and regions involved are summarized as the following structure, as shown in Figure 1.
Looking at the operation mode of mortgage securitization among the countries, they can be broadly divided into the following three categories[10].

First, government-oriented mode. The feature of this model is that the government has established institutions, they play a leading role in securitization, the US as the representative. The mortgage-backed securitization as the most important financial innovations of the 20th century is coming from the United States.

Second, simi-government semi-market mode. CMHC purchases mortgage or does securitized business according to their asset position. In addition, CMHC also offers a number of specialized programs to help low-income persons. CMHC has an important government functions, but its mainly through market-oriented operation.

Third, market-oriented mode. We choose Australia for example, the mortgage securitization in this country is entirely a commercial model, it need the companies that are founded by commercial banks or investment banks to operate. The central bank of Australia has a regulation, MBS issued by commercial banks must be outside the operating table, through the establishment of SPV holding mortgage assets and the issuance of bonds, this is to ensure the commercial banks away from mortgage debt risk and protect the interests of depositors.

6 CONCLUSION

By examining the above typical foreign mortgage securitization model, we can draw the following conclusions.

6.1 The government has played a major role in the operation of the mortgage securitization

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6.2 The development of the secondary mortgage market and the primary market is complementary and indispensable

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