

A CRITICAL REVIEW OF STATISTICS ASSESSING THE SIZE AND THE RISKINESS OF THE SECURITIZATION MARKET: EVIDENCE FROM ITALY AND THE OTHER EURO AREA COUNTRIES

Giorgio Nuzzo – Bank of Italy



PARS DESTRUENS

SIZE

Entity-based measures of the securitization market, which use total assets of Financial Vehicle Corporations (FVCs) (ECB statistics available at national level) could produce an over-evaluation for two reasons:

- a) the first one is due to the presence in the assets of FVCs also of retained securitizations;
- b) the second one stems from not considering adequately an accounting evaluation problem occurring when loans (mainly nonperforming ones) are securitized at a discount price.

The two overestimating factors are not negligible and their impact may differ among jurisdictions.

RISKS

Is “one size fits all” risks measurement of all non bank financial entities correct? Securitization has some relevant peculiarities. Some risk profiles (leverage, credit intermediation and interconnectedness with the regular banking system) are not properly addressed using entity-based data on FVCs.

Leverage: holders of ABS claim on cash flows of the securitized assets or on the eventual rescue of the sponsoring bank rather than on FVCs’ capital;

Credit intermediation: indicators could be misleading when using both retained and non-retained securitized loans;

Interconnection: an higher interconnection related to a retained securitization can be interpreted as an increase in risk contagion between banks and FVCs?

Other risk profiles (complexity/opaqueness) are worth greater attention.



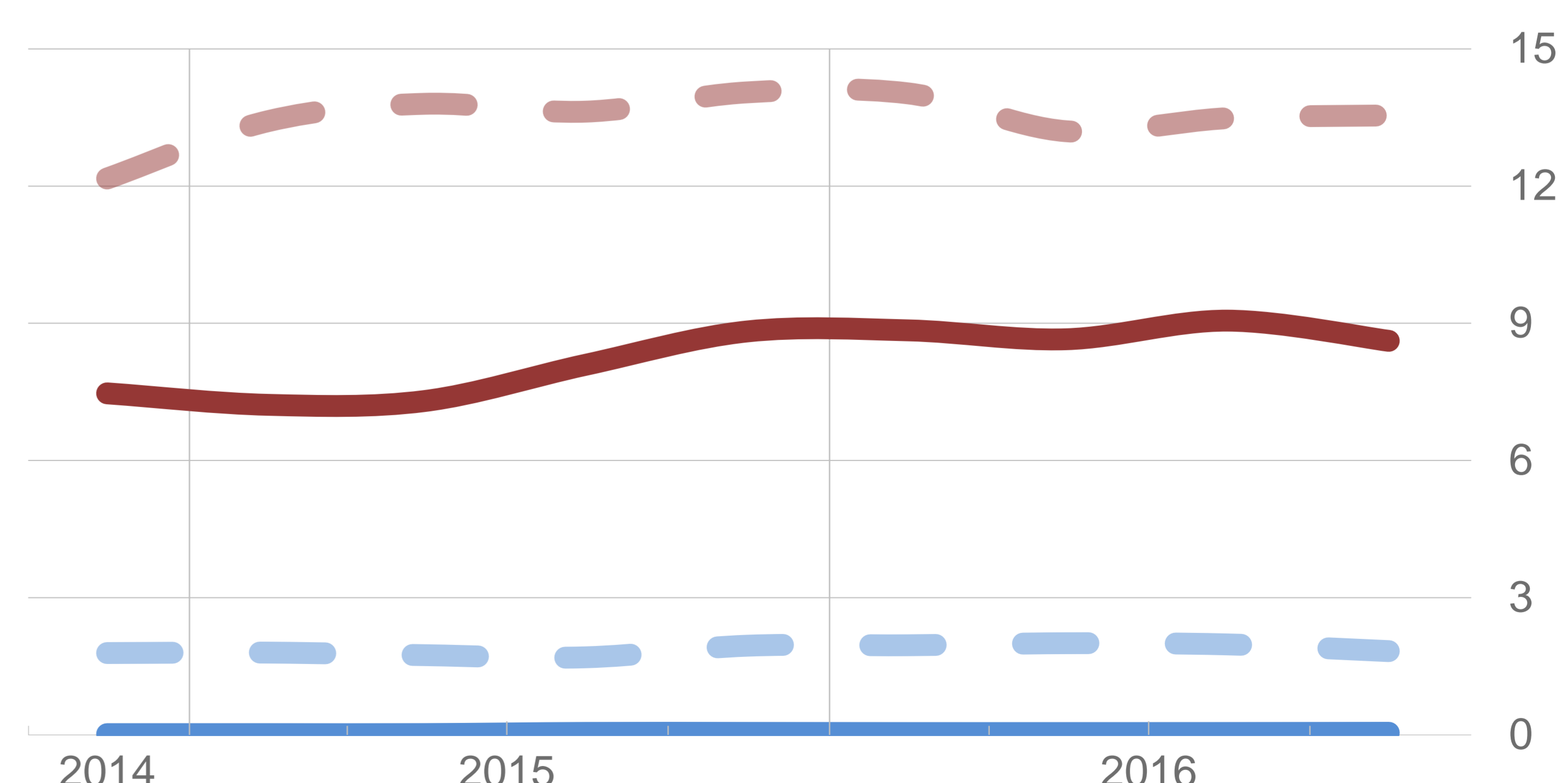
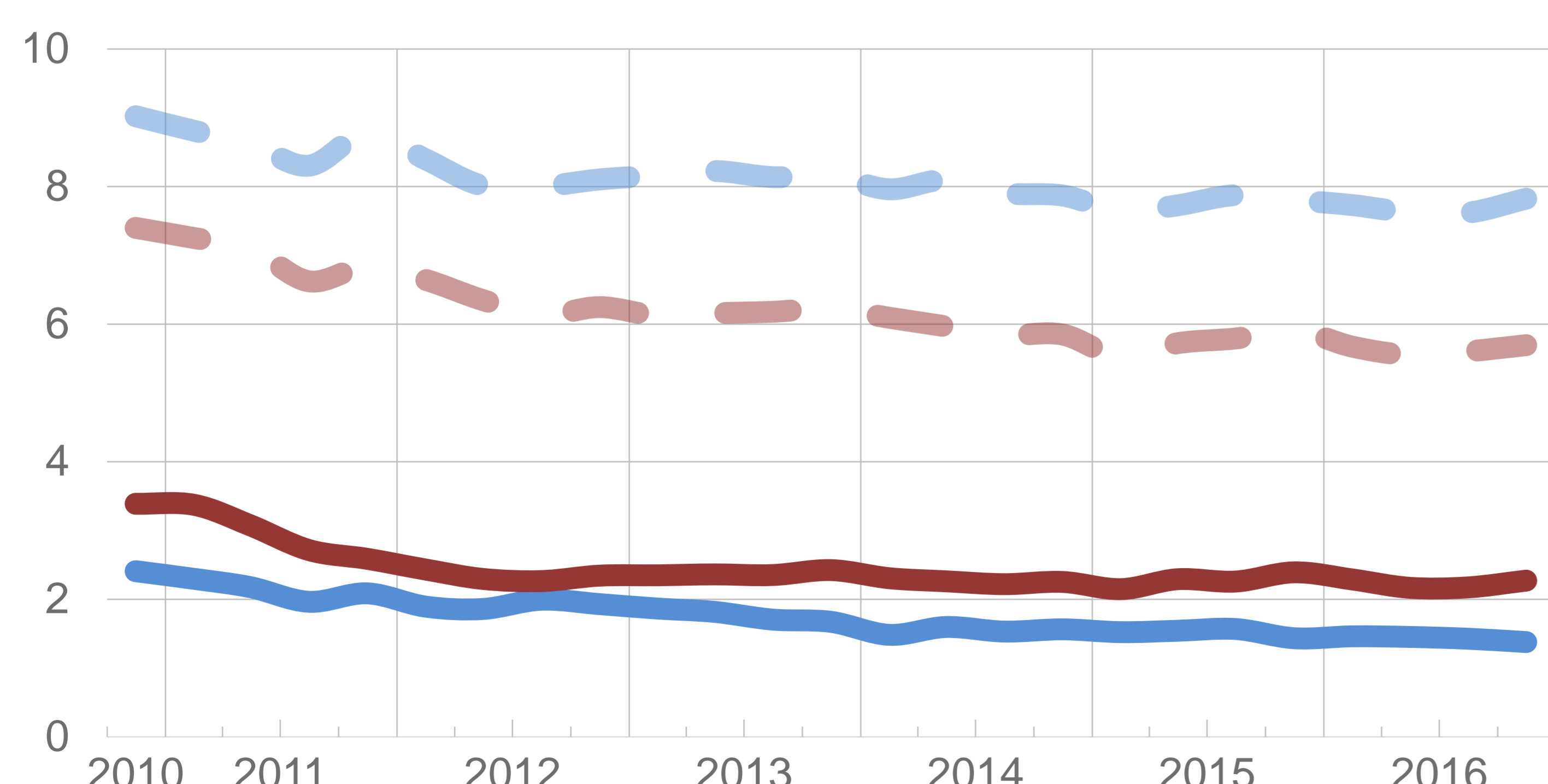
PARS COSTRUENS

SIZE

An alternative measure of the actual relevance of the securitization market may be obtained taking the difference between all debt securities issued by domestic FVCs and the FVCs’ securities bought back by banks. (see Graph below on the left side).

RISKS

Two indicators are calculated using FVCs statistics in order to measure complexity/opaqueness. The first indicator is the percentage ratio of debt securities issued by synthetic securitizations and by other non traditional FVCs to the total debt securities issued by all FVCs. The second indicator is the percentage ratio of securitized loans whose counterpart is non-domestic to the total securitized loans (see Graph below on the right side).



— IT FVC assets to banks' assets
 — Other euro area FVC assets to banks' assets
 — IT estimate of the securitization market to banks' assets
 — Other euro area estimate of the securitization market to banks' assets

— IT % debt securities issued by non traditional FVCs
 — Other euro area % debt securities issued by non traditional FVCs
 — IT % cross border securitised loans
 — Other euro area % cross border securitised loans