

Analysis on the Current Situation of Asset Securitization Business in China

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Abstract: Since the restart of asset securitization in 2012, with the encouragement of a series of policies and the promotion of the market, the scale of China's asset securitization market has been expanding, the types of products have been enriched, and the issuing interest rate has shown a downward trend. Looking forward to the future, China should solve the obstacles to the issuance of asset securitization products by small and medium-sized enterprises and accelerate the issuance of real estate investment trusts (REITs) in the field of infrastructure and the introduction of trading rules.

Keywords: Asset Securitization; Issuance Scale; Product Category; Issuing Interest Rate

1. Introduction

China began to pilot asset securitization business in 2005^[1], but it was interrupted after the subprime mortgage crisis broke out in the United States in 2008. Subsequently, in May 2012, the People's Bank of China, the China Banking Regulatory Commission and the Ministry of Finance jointly issued the notice on matters related to further expanding the pilot of credit asset securitization, which means that the asset securitization business that has been suspended for many years is restarted. As of May 2022, China has issued 8960 asset securitization products since the restart, with a scale of 14.58 trillion yuan. Since 2016, the asset securitization business has accelerated the blowout since it was restarted. From January 2016 to May 2022, 8525 asset securitization products were issued, with a scale of 13.59 trillion yuan, accounting for more than 93% of the total since the restart.

Therefore, combing the current situation of China's asset securitization business, including product scale, interest rate characteristics, issuance types and other current elements, will help us better grasp and understand the asset securitization business as an important financial means to serve the transformation of the real economy and deepen the reform of the financial market.

2. Current Situation of Asset Securitization Business in China

China's financial market has the characteristics of separate supervision. As the main initiator of credit asset securitization products, banks also issue and trade products in the inter-bank bond market. Therefore, this kind of asset securities business belongs to the scope of supervision by China Banking and Insurance Regulatory Commission. We call it credit asset securitization (hereinafter referred to as "credit ABS"); Non bank institutions such as enterprises, as initiators of asset securitization products, are divided into two categories. One category is that the issuance and trading of products in the exchange are supervised by the China Securities Regulatory Commission (CSRC), which we call enterprise asset securitization (hereinafter referred to as "enterprise ABS"); The other is that the products issued and traded in the inter-bank bond market are supervised by the dealers' Association, which we call asset-backed notes (abbreviated as "ABN").

It can be seen that there are different asset securitization products in China's asset securitization market due to the differences between the underlying assets and the regulatory authorities. Combing and counting these different types of asset securitization products will enable us to have a clearer understanding of the current situation and future development trend of China's asset securitization market.

2.1 Issuance Scale

Since the restart of asset securitization business in 2012, credit ABS has achieved a breakthrough issuance scale in 2014, reaching RMB 281.980 billion, and then maintained a growth trend, reaching a high of RMB 963.459 billion in 2019. The issuance scale fell back in 2020 and 2021, reaching RMB 823.048 billion and RMB 882.798 billion respectively; The number of credit ABS issued continued to maintain a sustained growth momentum, from 5 in 2012 to 204 in 2021. In 2016, the issuance scale of enterprise ABS exploded, reaching 481.2 billion yuan, which exceeded the issuance scale of credit ABS in the same period. Since then, it has maintained growth. In 2021, the issuance scale reached 1.58 trillion yuan, far exceeding the issuance scale of credit ABS in the same period. Compared with the former two, ABN's issuance scale and quantity are far from each other. In 2018, it only achieved a relatively obvious issuance scale of 125.698 billion yuan, and the issuance scale in 2021 was 644.607 billion yuan(The data is shown in Figure 1).

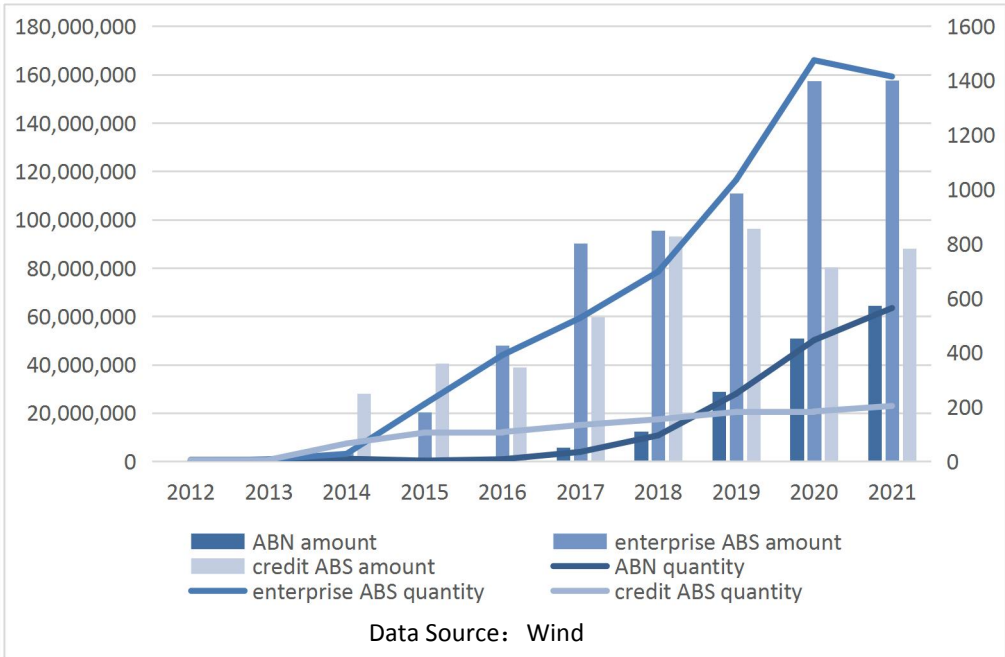


Figure 1 Issuance Scale of Asset Securitization Products in China Over the Years

In general, credit ABS has gained the first mover advantage due to the standardization of underlying assets and mature technology. Both the issuance scale and the survival scale occupy a major position before 2016; In recent years, with the relaxation of regulation and the encouragement of policies, enterprise ABS has developed rapidly. Especially in 2021, both the issuance scale and the issuance quantity far exceeded the credit ABS and ABN in the same period. Compared with the former two, the development of ABN is relatively slow, but it has also maintained a steady upward momentum in recent years.

2.2 Product Category

In addition to the growing scale and quantity of asset securitization business, the types of products issued are also constantly enriched. By the end of 2021, according to the statistics of the infrastructure asset structure issued by credit ABS in history, it was found that housing mortgage loans and personal automobile loans accounted for the majority, accounting for 91.87% in total(The data is shown in Figure 2).

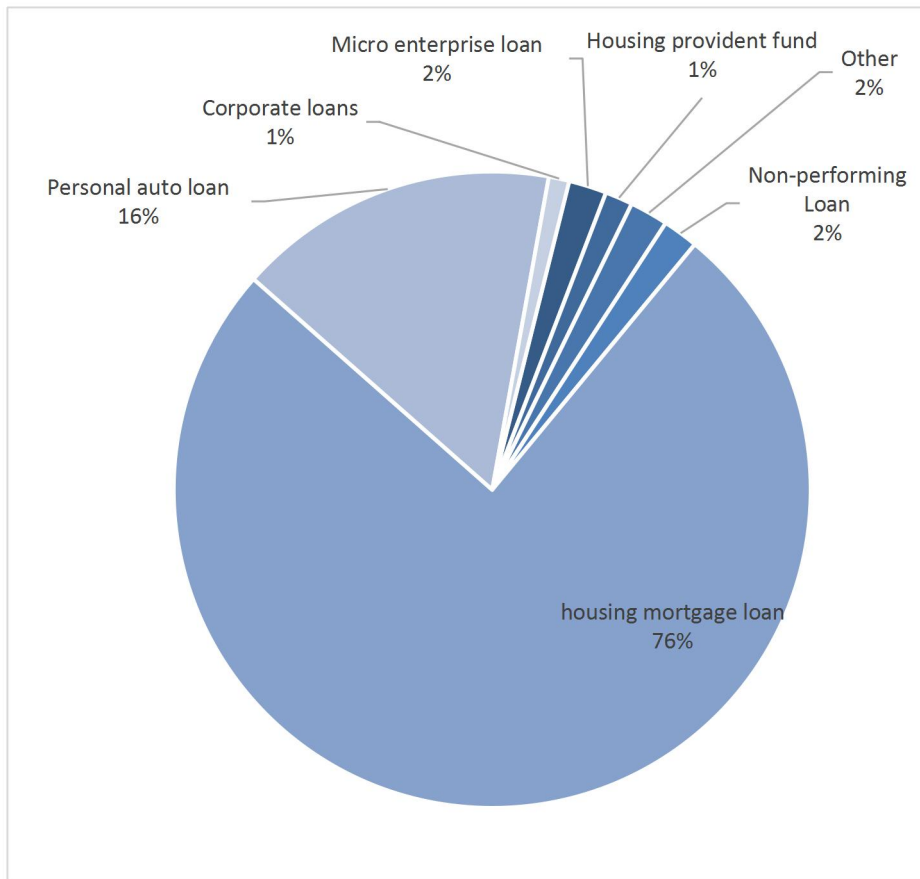


Figure 2 Infrastructure of credit ABS

Data Source: Wind

In contrast, non-performing loans, corporate loans and housing provident fund loans accounted for a relatively small proportion. By the end of 2021, according to the statistics of the infrastructure asset structure issued by ABS in the history of enterprises, it is found that financial lease claims, cmbs/cmbn, enterprise accounts receivable, supply chain accounts payable and small loan claims account for the majority, accounting for 61.90% in total(The data is shown in Figure 3), while specific non-financial funds, bank / Internet consumer loans, infrastructure charges and trust beneficiary rights account for a relatively small proportion.

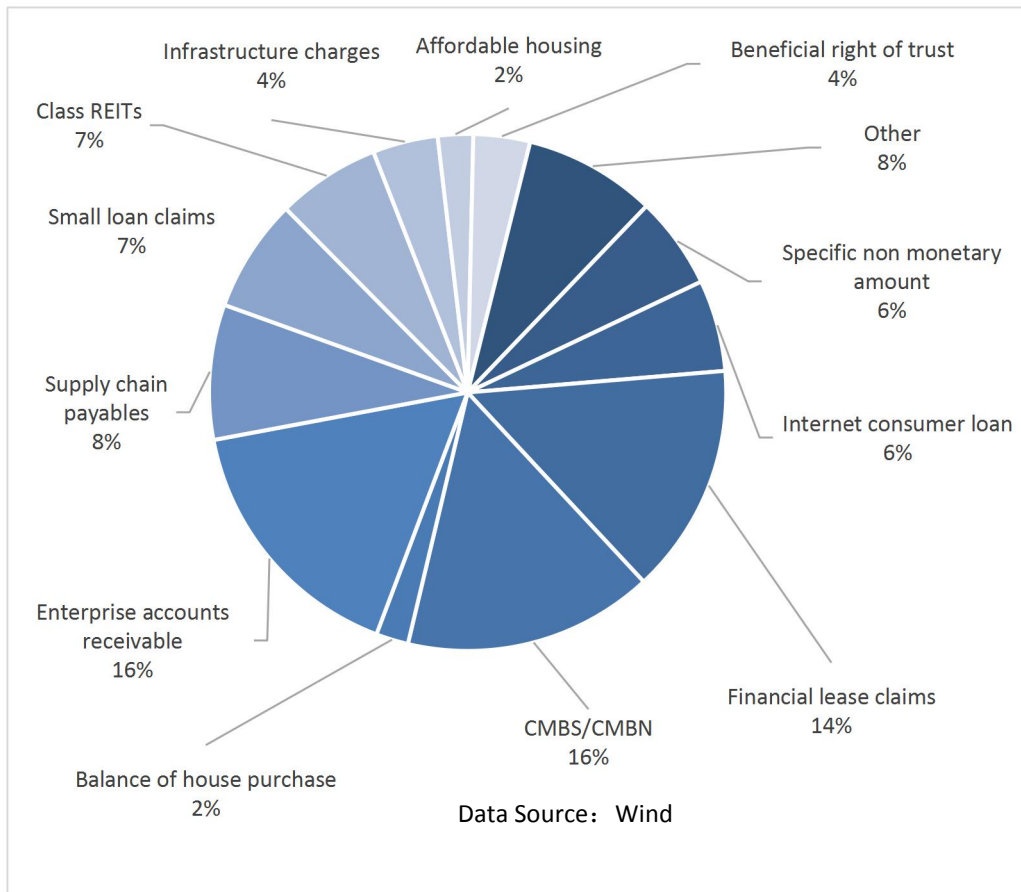


Figure 3 Infrastructure of enterprise ABS

By the end of 2021, according to the statistics of the infrastructure asset structure issued by ABN in history, it is found that the usufruct of notes accounts for 62.34% (The data is shown in Figure 4), while the preferred limited partnership shares, financial lease claims and enterprise accounts receivable account for a relatively small proportion.

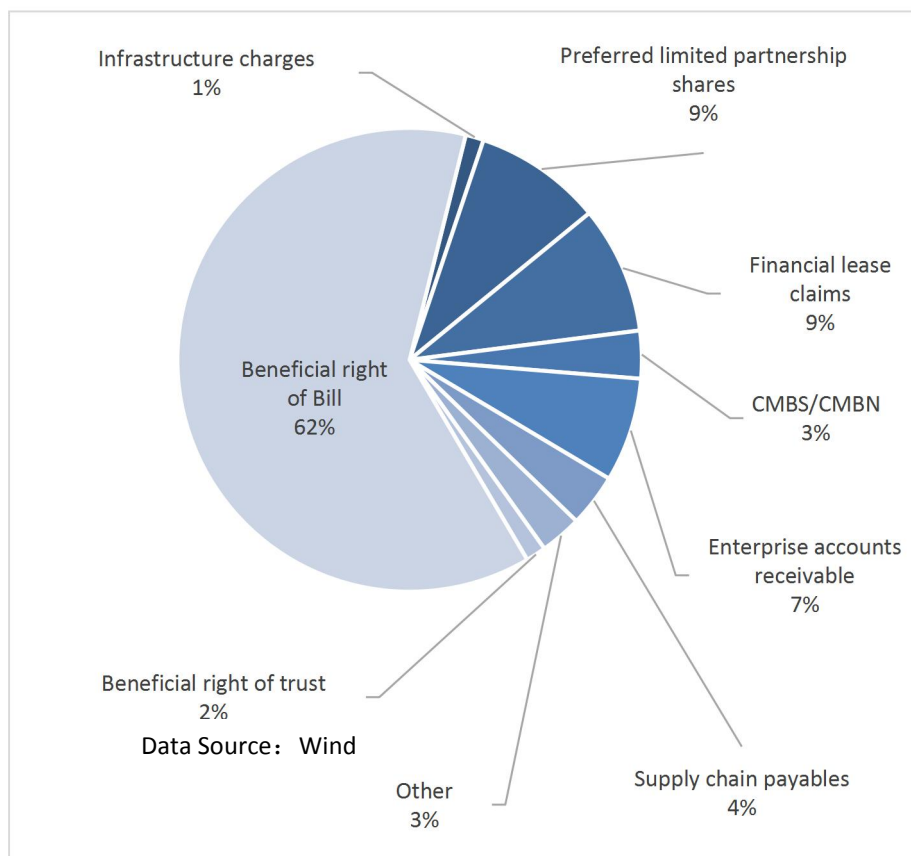


Figure 4 Infrastructure of ABN

To sum up, we find that the types of underlying assets of credit ABS and ABN are relatively single, and the types of transactions are relatively concentrated; In contrast, ABS has a rich variety of underlying assets, which also reflects the characteristics of different trading markets in China, that is, the stock exchange has more flexible policies and looser supervision than the inter-bank market.

2.3 Issuing Interest Rate

Generally speaking, the issuing interest rate of asset securitization products shows two basic characteristics: first, the market issuing interest rate shows a downward trend; Second, the interest rate of products issued by the exchange is higher than that of products issued by the inter-bank market.

Specifically, the issuing interest rates of credit ABS, corporate ABS and ABN were all at a high level in 2014, which was mainly due to the high interest rates and the low market acceptance of asset securitization products at that time; With the favorable policies and the increase in investors' recognition of asset securitization products, the issuance interest rate of asset securitization products showed a downward trend in 2015 and 2016; In 2017, in order to achieve the purpose of deleveraging at the macro level, under the background of stricter supervision, the issuance interest rate of asset securitization products increased compared with the previous year; In 2018, with the phased completion of the deleveraging target, the interest rate of asset securitization products continued to decline. By the end of 2021, the product issuance interest rate of both credit ABS, corporate ABS and ABN was in a historical position. From a structural point of view, the issuing interest rates of asset securitization products are ranked as the highest in enterprise ABS, the second in ABN and the lowest in credit ABS. This is mainly because the capital cost of the inter-bank market is lower than that of the exchange. At the same time, credit ABS is a public offering product, and ABN and enterprise ABS are private offerings. Therefore, the issuing interest rates of credit ABS are the lowest(The data is shown in Table 1).

Table 1 Average issuing interest rate of asset securitization products over the years.

Year / grade		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
ABN	Priority A gear	5.99	6.16	7.27	6.74	3.74	5.44	5.62	4.80	4.07	3.80
ABN	Priority B gear					5.10	6.48	6.67	4.76	4.46	4.45
Enterprise ABS	Priority A gear	6.34	5.81	7.04	5.74	5.01	5.67	5.89	5.00	4.30	4.09
Enterprise ABS	Priority B gear			11.4	7.40	5.75	6.20	6.53	5.86	5.44	5.54
Credit ABS	Priority A gear			5.80	3.99	3.44	5.03	4.56	3.62	3.47	3.32
Credit ABS	Priority B gear			6.79	5.13	4.41	5.52	4.97	4.13	4.03	3.71

3. Conclusion

As one of the important means to help the national supply side structural reform and deepen the development of the financial market, asset securitization business needs to make breakthroughs in the following two aspects: first, to solve the obstacles for small and medium-sized enterprises to issue asset securitization products; Small and medium-sized enterprises (SMEs) are the main force to absorb labor force in China. However, due to their small scale and high risk, financing is difficult and expensive. In the future, government departments can learn from the experience of developed countries to provide credit enhancement for asset securitization products of SMEs, so as to improve the financing problems of SMEs^[2]. Second, accelerate the issuance of real estate investment trusts (REITs) in the field of infrastructure and the introduction of trading rules^[3]; Infrastructure investment has the characteristics of long payback period and stable cash flow. Asset securitization can stimulate China's huge infrastructure investment stock and promote its liquidity, so as to reduce local government liabilities and promote China's urbanization process.

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