

## ABSTRACT

Securitization means pooling and packaging of the loans or assets of the originators (institutions which provide loans) and issuing securities backed by these loans or assets. Securitization has attracted more attention recently during the current economic crisis in Thailand. Securitization of mortgages is considered to be one of the solutions to the non-performing loans of Thai financial institutions. However, only a few Thai originators securitized their assets. One of the reasons for the hesitance is their lack of understanding on the benefit and cost of securitization at the operational level.

This thesis analyses the benefits and costs of securitization from the perspective of the originators in Thailand and develops a generalized model for the feasibility study of a securitization plan.

The theoretical framework of the model is based on the literature on the benefits and costs of securitization. The benefit and cost items based on the experience in other countries are evaluated in the Thai context to reflect the current market practices and regulatory framework.

There are four benefit items and three cost items in the model. The four benefit items are net proceed from the asset backed securities issue, saving on capital requirement, net servicing fee income, and periodical residual cash flow. The three cost items are upfront cost, ongoing cost, and opportunity cost of reserve fund. All benefit and cost items are measured quantitatively. They are converted in a set of equations to their future values in Thai baht by assuming an interest rate.

The model yields a benefit to cost ratio through comparison between the sum of the values of all benefit items and all cost items. This ratio can then be used to assess the feasibility of securitization from the originator's perspective. For instance, if the ratio is greater than one, it is feasible to securitize the assets because the benefits are greater than the costs, and vice versa.

This model incorporates the important issues that affect the benefits and costs of securitization to the Thai originators (e.g. differences in tax treatment on different forms of asset transfer and different risk weight assigned to different types of assets). These issues, which are based on the research on real securitization transactions and legal and regulatory framework in Thailand, help the model to be more accurate.

The robustness of the model is tested through simulations under various scenarios based on certain assumptions of the independent variables and application to a real securitization case in Thailand (Sitcars case). The simulations of the model are performed under eighteen different scenarios based on certain assumptions of the independent variables. The results from simulations are then checked to see if they agree with the economic rationale. The result of the model in the Sitcars case agrees with the actual business decision.

The application of the model to the Sitcars case also demonstrates how the originators can use the model for the feasibility study of a securitization plan. The application of

the model involves preparing a list of the necessary data and inputting the data into the spreadsheet model.

The model also gives a prediction in general as whether it is feasible to securitize the mortgage loans in Thailand under four main scenarios. The four scenarios are the best, average, worst, and current scenarios, which are based on different assumptions of the independent variables in the model. The findings indicate that it is feasible under the best and average scenarios and infeasible under the worst and current scenarios.

Finally, the model is applied in the Government Housing Bank case. The feasibility of securitizing the Government Housing Bank's mortgage loans is now under consideration. The model is used to help predict whether it is feasible to securitize its loans under the current scenario or in the future. It is found it is feasible to securitize its mortgage loans under the current scenario as the benefit to cost ratio is 1.07. However, the bank will have more benefits if it securitizes them in the future when some variables have more favorable value, such as stronger Thai baht and low swap cost.

