



National Economic Research Associates, Inc. Study
on the Impact of Securitization on
Consumers, Investors, Financial Institutions and the Capital Markets
Summary

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I. The Impact of Securitization on the Cost of Credit

- The study analyzes the impact of securitization on the cost of credit to consumers for residential mortgage loans (including conforming loans, jumbo loans, and subprime loans), auto loans, and credit card receivables.
- Securitization lowers the cost of consumer credit. A 10% increase in the securitization rate is associated with:
 - (a) A decrease in yield spreads for subprime mortgages of between 24 and 38 basis points.
 - (b) A decrease in yield spreads for jumbo mortgages of between 4 and 12 basis points.
 - (c) A decrease in yield spreads for auto loans of between 22 and 64 basis points.
 - (d) A decrease in yield spreads for credit card loans of between 8 and 54 basis points.
- The study found that with the exception of conventional conforming mortgages and credit card receivables, there remains a negative relationship between the securitization rates and the yield spreads, highlighting how securitization lowers the cost of consumer credit.
- Much of the benefits to the conventional conforming mortgage market were identified early and have been realized with the creation of the GSEs. As such, our studies of the recent time period are inconclusive as to the effect of increased securitization on the borrowing costs of conventional conforming mortgages.

II. The Impact of Securitization on the Availability of Credit

- The study analyzes the impact of secondary market activity on mortgage financing available to consumers. It examines origination and secondary market activity in underserved areas and investigates the effects of agency and nonagency purchase activity on credit availability.

- There has been little empirical research examining the impact of non-agency purchases or securitization on the availability of credit, and the ASF study investigates this area of research.
- Increases in secondary market purchases have a positive and significant impact on the amount of mortgage credit per capita, with the non-agency sector displaying a stronger impact in recent years.
- Results of this study suggest that secondary market activities help increase credit availability to a greater extent in lower interest rate environments.
- The models in this study predict a negative impact on credit available to consumers resulting from a decline in secondary market activities.

III. The Impact of Securitization on the Dispersion of Risk

- Results of the study show that a drop in securitization activities would have a negative impact on different types of loans, not just mortgages.
- For all banks, the data analysis shows that the total loan growth has been positively affected by the securitization rate of a bank's loan portfolio and the level of liquid assets during the time period 1990-2006.
- Securitization is able to mitigate some of the negative effects of monetary policy on bank lending activities.
- As liquidity makes its way back to the markets, securitization could provide an alternative source of funding for bank's loan originations. The study predicts that, holding all other factors constant, securitization has a significant positive impact on the growth of the banks' loans.
- Without securitization to transfer the loans into securities, the results of this study show that it will be difficult and more costly for banks to maintain their current levels of loan growth, as they would have lost a key source of funding for their operations.

IV. The Impact of Securitization on Liquidity

- Delinquency rates for securitized subprime loans are not statistically different from delinquency rates of all subprime loans, even in recent years.
- Performance of securitized loans are similar to those of all mortgages for Alt A and jumbos over the period from 1997-2007.
- The results of this study suggest that securitized loans do not consistently perform worse than all loans. Recent data also suggest that the delinquency of loans which were originated in 2006, 2007, and 2008 are on a trajectory to surpass the delinquency rate of all other recent vintages.