Application of Securitization on the Financial Markets

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On some financial markets commercial bank loan capacity is largely dependent upon foreign funding, which is quite expensive, and it diminishes liquidity of the overall economy and hinders the development of the country's flagging economy. Based on the assumption that securitization is one of possible methods for solving this problem, this paper discusses the possibilities of its implementation into the financial markets and advantages of that process. Some financial analysts declared the securitization as one of the main culprits for the development of the global economic crisis. However, the fact that the causes of the crisis are much more complex supports the thesis that securitization still be considered a very valuable tool for the development of financial markets, noting that its misuse can have far reaching negative consequences. Bearing in mind the appropriate features of loan portfolio and Basel II regulations, it points to the conclusion that the possibilities of implementing this process into the some financial market is welcomed and that it may have positive effect on increasing the level of liquidity and the overall economic development. Synergistic effects of Basel II and securitization of receivables, could lead to many positive effects. The process of securitization creates a wide variety of securities covered by assets, which are most characteristic of the securities covered by the mortgage (Mortgage Back Securities) and the securities covered by assets in the narrow sense (Asset Back Securities). Financial institutions that put their assets into process of securitization could obtain alternative sources of funding, increased financial flexibility, lower cost of capital, strong balance sheet, reduce credit exposure, etc. The initiation of securitization would allow cheaper sources of financing to banks, which would lessen dependence on expensive foreign sources of capital. The aim of this paper is to describe the process of securitization of receivables and the effects of introducing a specific financial market, with elements of the classification.

Keywords: securitization of receivables, loan portfolio, credit risk, ABS, MBS, banking system, Basel II standards