2 The Asset Securitization Activity in Italy: Current and Future Trends

Roberto Tasca and Simona Zambelli

2.1 Introduction

The main object of this chapter is to analyze the basic characteristics and the market structure of the securitization activity, especially with reference to the Italian securitization market, which has rapidly developed in recent years.

In particular, this chapter intends to answer the following questions:

1. What is meant by securitization?
2. How is the transaction structured?
3. What is the role of financial intermediaries within the securitization process, especially in Italy?
4. What are the main characteristics of the Italian securitization activity?

At this purpose, we will first explain the basic components of a securitization transaction, describing the typical structure and the main players involved. Secondly, we will analyze the Italian securitization market, emphasizing its peculiarities through an international comparative analysis.

Generally speaking, the aim of securitization is to transform illiquid assets into securities. For the purpose of this chapter, the term securitization is used to represent the process whereby assets are pooled together, with their cash flows, and converted into negotiable securities to be placed into the market. These securities are backed or secured by the original underlying assets and are generally defined as Asset Baked Securities (ABS).²

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¹ Even though this chapter is the result of a common effort by the authors, paragraphs 2.1, 2.2 and 2.3 have been written by Simona Zambelli, while paragraphs 2.4, 2.5 and 2.6 have been written by Roberto Tasca. The conclusive paragraph has been written jointly by the authors.

² An ABS represents a security backed by specific assets. This means that principal and interest repayment rely directly on the capability of the underlying assets to generate the expected cash flows. In the US it is common to distinguish between:
Theoretically, any financial assets producing cash flows (receivables, residential and commercial mortgages, credit card receivables, and other consumer and commercial loans) can be securitized. The concept of asset securitization was introduced in the US financial system in the 1970s, when the Government National Mortgage Association issued securities backed by a pool of loans, represented by residential mortgages. During the last decade, it has rapidly developed within Europe, especially in the UK. Recently, the Italian securitization market has rapidly expanded thanks to the introduction of a specific regulation (Law 130/99).

Two main types of securitization transactions exist:

1. Cash flow based (CFB) securitization. The transaction is structured as a sale of assets by a company (Originator) to a special entity (Special Purpose Vehicle, SPV), which then issues securities backed by the underlying assets. The CFB securitization is also defined as Funded Securitization, because the Originator can raise money through the asset sale, diversifying its financing sources;

2. Synthetic securitization. It is a transaction through which the credit risk, associated with a pool of assets, is transferred to a separate entity (SPV). It is not a sale of assets, so the Originator does not receive any cash flow. The SPV in this case is not the owner of a pool of assets, but only the entity that carries the associated credit risk. It is realized through the use of derivatives instruments (total return swaps and credit derivatives).

Outside the US, the definition of ABS may include deals backed by mortgages loans. For the purpose of this chapter, we will use the term of ABS to indicate all classes of securitized instruments. See: Bhattacharya and Fabozzi (1997), Saunders and Cornett (2004), Burton et al. (2003), Spotorno (2003).
