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SECURITIZATION AND ITS RELATIONSHIP WITH REAL ESTATE GROWTH – AN ANALYSIS

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ABSTRACT

The purpose of this article is to examine the mechanics of securitization process and the concerning issues in a residential mortgage or any other associated real-estate related loan being part of a securitization program. The paper focus upon the relationship between a modern financial process and tool called securitization and the growth of real estate markets. Securitization process helps financial institutions as well banks to cover their liquidity positions by converting their illiquid assets into liquid assets along with providing a safe-guard against bankruptcy of a debtor or a client who has taken mortgage from the bank. The paper tries to bring out the relationship that exist between securitization process as well as Real-estate growth seen in the past along with analyzing the impact of securitization on mortgage market's functioning.

KEYWORDS
Credit Enhancement, Financial Services, Mortgage Securitization, Residential Mortgage-Backed Securities (RMBS), Special Purpose Vehicle (SPV).

JEL CLASSIFICATION CODE
G1; G2; Y2; Z00

INTRODUCTION
Real Estate markets world over are growing at a phenomenal rate. Starting from the year 2004 the world market has seen the growth of 248% cumulatively. The breaks to this multifold growth was applied in March 2008, though some pre-cursors were visible in 2007, when in USA the mortgage market became stagnant and the impact was later sensed through the collapse of world's real estate investment. The impact was so sudden and deep that almost all international and domestic markets saw nosedive in prices of realty. Studying the same therefore is bound to be the interest of academic community. Use of a modern day financial tools called securitization would have saved some financial institutions from burning their fingers. On the other hand the recent dramatic increase in mortgage default rates, particularly for subprime loans, has led many to blame securitization.

Simply put, the argument is that since the majority of subprime loans were securitized, issuers had less incentive to screen those loans, and this encouraged a decline in lending standards. This argument has featured significantly in the press especially in business dailies along with national newspapers and has also been echoed by several policymakers along with executive bodies' world over.

Securitization helped in the boom of real estate markets world over as major banks and financial institutions thought that by securitizing their assets especially mortgages, they will be able to survive sub-prime risks but there is no denying the fact that securitization as well has helped lot of financial institutions in enhancing their non fee-based revenue along with providing them with an opportunity to expand their investment portfolio which otherwise due to illiquidity would not have been possible.

For the equity investors in these real estate companies the time-frame of 2008-2010 was not good as the current share price lies 25% and more, in some instances even almost 50% under the Net Asset Value. Some stocks have no takers and others have not seen any major movement or activity on trading terminals. This low valuation reflects not only the hesitance of institutional investors along with skeptical retail investor to place their stake in real estate companies; but also highly capitalized real estate companies experience regularly undervaluation, as the property prices world over are falling or becoming stagnant after falling great height.

Both set of theorists, for or against securitization have their logics and research outcomes to support the claims but none can deny the importance of this modern financial tool called securitization, as it is with any other diagnostic or analytic financial tool the efficiency or accuracy depends upon the user and the objectives for which it is being used and how cautiously the tools has been used by the humans and the attitude of the user. All of the discussed variables or elements decide the outcome or accuracy of the tool, a tool alone is incapacitated to attain any results, same applies to securitization.

Looking at the major discussion going world over about securitization and its implications along with the role it played in recent global economic melt down it became imperative or mandatory to introduce the term securitization as a tool of finance to everyone especially to the body of intellectuals, investors, mortgage seekers and academia.

WHAT IS SECURITIZATION?
Securitization as we see it today began in the 1970s with Originators pooling home mortgages ("*mortgage pools*") and selling those mortgage pools to certain government sponsored entities. The government-sponsored entities, in turn, guaranteed the cash flow from the mortgage pools and sold securities (called "*mortgage-backed securities*" or "*MBS*") backed by the guaranteed cash flow from the mortgage pools. The role of government sponsored entities of yesteryears is now played by independent Special Purpose Vehicles (SPVs) created by originators.

Securitization is a process whereby a company bundles its assets into securities and sells them to investors. The concept is popular among housing finance companies (HFCs), Apex Housing Institutions, Banks and other NBFCs dealing with real-estate loans in the West; the home loan-assets are bundled into securities and sold to investors, such securities are called mortgage-backed securities (MBS) because each security is derived from the mortgaged home-loan. MBS helps HFCs and other financial institutions to convert their loan-assets (low on liquidity) into cash for further loan disbursals.

Besides, it is an easy way for the HFCs to reduce their re-investment risk; the risk of earning a lower rate of return on the cash flows from prepayments of home-loans. How do the HFCs reduce this risk? The MBS is structured in such a way that the HFCs simply pass on the cash flows from prepayments to the investors. Holders of MBS, thus, run the re-investment risk. In a typical MBS program, a mortgage lender or originator (financial institution or a bank), which seeks to raise cash, identifies suitable mortgaged loans that can be used as the basis for issuing mortgage-backed bonds to the institutional investor market. These loans represent borrowers' payment obligations, or interest income, to the bank or originator.

UNDERSTANDING MORTGAGE
Very few of us can buy a house with our own cash. We need a bank to help us buy it; and that's done with a mortgage - i.e. a loan from the bank. We put a fraction of the house price down (for the seller) and have the bank pay him the balance. The balance is the principal mortgage loan amount which we pay back typically over 25 or 30 years in monthly payments.

Each monthly mortgage payment includes a portion for interest with the balance of the payment going toward paying off the principal of the loan. The principal payment portion eventually kills off (amortizes) the loan. For a 25-year mortgage, early payments are mostly all for interest payments; ending payments are

mostly all for principal. At about year 18, the interest and principal portions of each payment are equal. So it takes 10 years or more before you're reducing the principal you owe significantly.
To understand the mortgage procedure clearly, we need to understand how assets under mortgage are created or how a mortgage book is being built. This mortgage book will facilitate the process of finding out assets for securitization process.

FIGURE 1: CREATING ASSETS FOR SECURITIZATION PROCESS (CREATING MORTGAGE).

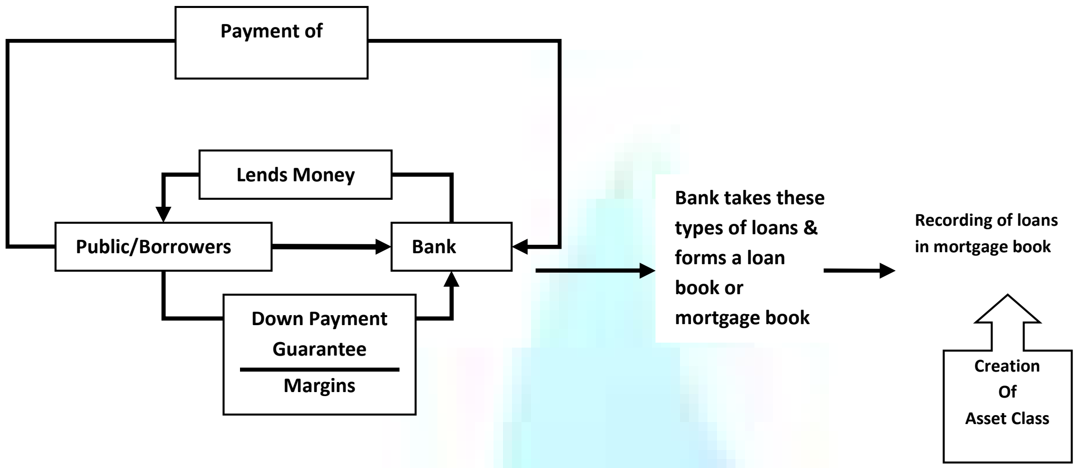


Figure 1 above clearly indicates the process of creating an asset for the securitization process, Public or borrowers who wants to buy a house and for the purpose approaches their local bank for a loan and the local bank lends them money against the security of title of the house, the bank depending upon national legislation, though differing from one country to another, may demand for some down-payment guarantee or may ask the borrowers or the public to bring in some margin money. Only after down payment guarantee or seeing the availability of margin money the bank or the financial institution will initiate the process of loan appraisal.
Once the financial enquiry is over and everything including the credit score and credit worthiness of the borrowing party the loan will be sanctioned and later disbursed, with the help of bank's loan the borrower buys a house but ownership title stays with the bank and a mortgage relationship between a bank and the customer gets started. Against the loan received from the bank to repay the loan a borrower has to pay an installment, usually monthly payment is preferred and the term used for these payments are known as Equated Monthly Installment (EMI). All the loans passed or mortgages made are recorded by a bank in loan book or a mortgage book, this helps in creation of separate but identical asset class.
Now the question arises what is a mortgage? Answer is simple, a 'mortgage' is a loan secured against your home. 'Secured' means that if you do not keep up the payments, the lender can sell your home to get its money back. Similar to the process shown above in figure 1, lot of other customer's must have approached bank for mortgage and some of them were even granted the loan, the process has converted the liquid asset cash of the bank into an illiquid asset of ownership to the title of a property but before passing a loan or before approval for disbursement is given the underwriting process is undertaken which consists of a wide range of appraisals and assessment of several qualitative and quantitative factors so as to make a mortgage secured.
The underwriting of a commercial mortgage loan assesses, among other things, real estate risk, borrower quality, tenant quality, existing lease terms, property condition, and potential for environmental liability in order to determine whether to originate a loan on the subject property, and if so, the appropriate loan amount and terms. The underwriter will analyze whether the proposed loan-to-value is prudent, as well as whether the debt-service coverage ratio is acceptable, given the anticipated cash flows. It is the quality of the initial underwriting that will in large part; drive the rest of the securitization process, for the quality of the underlying loans will dictate the amount of necessary credit enhancement and the ultimate pricing of the Certificates.
Bank for its daily activity along with the necessary requirement of maintaining liquidity (mandatory requirements imposed by regulators) to carry out its daily operations smoothly, needs cash or liquidity, which is shrinking as mortgages are growing so in order to generate liquidity the Bank of X takes and evaluate all the available loans and creates a loan book or a mortgage book which will be then passed on to a special unit created to convert illiquid assets into a more fungible and beneficial asset or asset class called Mortgage Backed Security (MBS) that will help the Bank of X to generate cash by offering newly generated securities for sell to interested investors.
So, what is in it for the investors? Typically, an investment in MBS is guaranteed by a third party. In the US, for instance, MBS is guaranteed by organizations such as Ginni Mae and Freddie Mac. Besides, MBS offers a good yield to compensate for the re-investment risk. The guarantee and the yield make MBS an attractive investment.

HOW IS A MBS STRUCTURED?

The HFCs, typically, bundle loans of like maturities but differing credit-risk for securitization. A company can, for instance, bundle 500 individual loans with an average maturity of 10 years but varying credit risk into 10-year MBS. Such loans are actually transferred to a special purpose vehicle (SPV) created for this purpose. It is the SPV that issues the securities to the investors.
By the mid 1980s, securitization techniques had developed into the isolation of pools of otherwise illiquid, assets, the transfer of these pools to specially formed, limited-purpose entities also called Special Purpose Entity ("*SPEs*") or a Special Purpose Vehicle ("SPV") and the issuance and sale by the SPEs of securities backed by those assets and types of assets involved in securitizations had expanded to include non-mortgage assets such as automobile loans, credit card receivables and various trade receivables.
Similarly, the variety of securities issued and sold had grown and now ranged from certificates of participation to long- and medium-term notes to short-term commercial paper. This was the beginning of asset-backed securities or "ABS."
Today, "asset securitization" typically refers to the securitization of non-mortgage assets, but may include the securitization of home equity loans.

OTHER ASSET CLASSES THAT CAN BE SECURITIZED

At present, almost every asset that has a cash flow connected with it can be securitized. The success of many securitizations of marginal assets is questionable, however, some of the asset types that have been securitized consists of residential and nonresidential mortgage loans, credit card receivables, trade receivables, automobile, boat, motorcycle and other consumer loans, automobile leases, heavy truck plus equipment loans as well as leases, equipment leases, oil and gas receivables, trademark and patent receivables, royalty payments, film and television distribution rights, airline ticket receivables, small business loans, tax liens along with health care receivables.

ADVANTAGES AND DISADVANTAGES OF SECURITIZATION

The reasons for not introducing MBS world over or specifically in low development countries though it is beneficial to the companies and investors are simple. The reasons are two: First, lack of stringent foreclosure laws. At present, if home loan borrowers default on payments, the HFCs cannot sell the property easily and realize the money due. This defeats the very concept of securitization -- of backing the MBS with credible loan-assets. Moreover, second, the conversion of assets into securities attracts high stamp duty, making it difficult for companies to offer attractive yields.

Securitization offers several advantages to Originators, including balance sheet management, lower cost of funds and access to additional funding sources. Flexibility of tax characterization is another benefit of securitization. A securitization can be structured as a sale for income tax purposes. Alternatively, a securitization can be structured to provide the Originator both with a sale of the assets under generally accepted accounting principles ("*GAAP*"), 3 as well as a debt issuance for tax purposes. Since the bankruptcy of Enron, achieving accounting sale treatment for any securitization has become more difficult. Originators gain another benefit from securitizing assets by retaining servicing rights relating to the assets. Under GAAP, Originators generally can book servicing rights as a new asset. Moreover, retention of servicing rights by an Originator enables the Originator to maintain its business relationship with its customers and to receive additional revenue through the collection of a servicing fee.

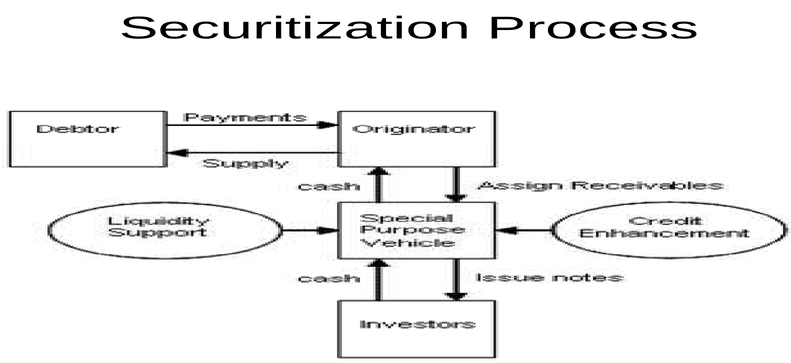
Securitization also has some disadvantages for Originators, including significant initial transaction and on-going compliance costs and reduced control by the Originator of the assets sold to the SPE. Costs with respect to a securitization transaction are generated by a variety of professionals required to complete and maintain such transactions, including attorneys for the Originator and the other parties, trustees (in many cases), rating agencies, accountants and investment banks, placement agents or financial advisers. Compliance with regulation has been uniformly acknowledged to require the generation and filing of new data and, thereby, has increased the costs associated with drafting and creating provision of initial disclosure, due-diligence along with other corporate governance norms and on-going reports for decision-making and information purposes.

Another disadvantage of securitization for Originators is that securitizations often require Originators to surrender a great amount of control over the assets in order to achieve some of the tax and accounting benefits set forth above. However, this disadvantage is somewhat mitigated through the Originator's retention of servicing rights.

Finally, in some cases, due to either the low quality of the assets involved or the lack of operating history of the Originator, or both, the costs of credit enhancement, when combined with the high transaction costs of securitization generally, may actually make a securitization more costly for an Originator than an alternative source of financing. In this regard, it should be noted that a rating agency often looks for three years of operating history of an Originator before it will agree to rate a securitization security or MBS or Asset Backed Security (ABS) involving the Originator's assets.

SECURITIZATION PROCESS

FIGURE 2: SECURITIZATION PROCESS



Proposed process of securitization given in figure 2 indicates that a Debtor receives a loan or supply of money from the originator or the bank or a financial Institution. The financial institution than transfer the assets created or the ownership on the asset created to a Special Purpose Vehicle along with the rights to collect and distribute the receivables being generated by the assigned asset. SPV creates Debt securities and gets them credit rated by an appropriate rating agency along with generating underwriting from a third party for liquidity support in the case of failure of asset or asset class to pay back the promised returns on the instrument.

Debt Securities hence created by the process is then issued or sold to investors and cash is generated, the cash so generated by SPV is handed over to the originator or the financial institution, which can use the same for running its normal business or may reinvest it further, may be in more profitable ventures or activities. SPV over a period of life of security receives cash flows generated by the asset and distributes the same to investors of securities. The process helps in passing the prepayment and reinvestment risk to the investor from the originator or the financial institution.

To summarize securitization process involves the following steps:

1. A sponsor or originator of receivables sets up the bankruptcy remote SPV, pools the receivables, and transfers them to the SPV as a "true sale"
2. The cash flows are tranched into asset-backed securities, the most senior of which are rated and issued in the market; the proceeds are used to purchase the receivables from the sponsor
3. The pool revolves in that over a period of time the principal received on the underlying receivables is used to purchase new receivables
4. There is a final amortization period, during which all payments received from the receivables are used to pay down tranche principal amounts.

SPECIAL PURPOSE ENTITIES OR SPECIAL PURPOSE VEHICLES

To insulate investors from the bankruptcy risks of the Originator, securitization generally rely on the use of specially formed, limited-purpose entities (also referred to as "special purpose companies", "bankruptcy remote entities", "bankruptcy remote vehicles" or entities, "SPCs", "SPVs", "SPEs". These entities or vehicles forms the unique feature of a typical securitization arrangement as these entities can be established under either trust or corporations law.

The purpose of the SPV is to acquire receivables and any associated collateral rights from an originating institution. The SPV pays for the receivables by issuing debt securities (or notes) backed by the receivables. An SPE may be any form of entity (such as a corporation, trust, limited liability company or limited partnership) that is subject to various restrictions on its activities. These restrictions, were developed by investors, the rating agencies and the market along with, where such restrictions are appropriately applied to an SPE, permit investors and the rating agencies to assume that the SPE will not become the subject of a bankruptcy proceeding.

An accurate sale opinion concludes that the transfer of the assets to the SPE eliminates the assets from the bankruptcy estate of the Originator if the Originator becomes subject to a bankruptcy proceeding. Based upon the transaction structure, the existence of the SPE restrictions and, in part, the true sale opinion, the rating agencies and the investors are generally willing to assume that the assets and the cash flow from the assets are inaccessible from the bankruptcy risk of the Originator.

REAL ESTATE AND REAL ESTATE MARKETS

Real Estate can without doubt be identified as the oldest form of investment known to man. Even in the modern high technology economies real estate is a dominant economic factor, although the demands of investors and users have changed with time. The increasing need for high and secure returns, driven by the rising global competition through open markets, also affects the investment in real estate.

Buying residential housing offers the best investment for relatively little risk if done conservatively. Whether you buy home or a house to rent, tax laws, leverage, and demand help you to acquire and grow your real estate investment. The intrinsic immobility of real estate calls for other means of economic exchange. Securitized real estate is the logical answer to the demand for efficient international diversification of real estate portfolios.

As discussed above securitization covers the risks for the lenders and provides them with an opportunity to take more risks in search of higher returns, the search for higher returns makes even sub-prime investments look investable thereby the lending norms of banks as well as other financial institutions get relaxed plus majority of borrowers, who need large sums of money to buy into reality gets an opportunity to invest or participate in property market. This phenomenon of easy access to mortgages and availability of large funds makes reality investments simple and devoid of any operational troubles thereby creating potential for large scale growth led further by pertinent demand in real estate asset categories, whether commercial or residential. The tax advantage on mortgages as well as on housing loans along with capital gain taxes treatments and relaxations on the profits made by selling real-state assets, world over, makes real-estate investment lucrative. Couple of other reasons for sustaining fast paced real estate growth are leveraging and exceeding movement in housing prices.

LEVERAGING

Because most of the housing is bought with a mortgage, your investment in the house is originally the amount you put down or the amount taken out of one's savings – the amount invested by an investor is called 'the equity'. Your equity is always the value of the house less the mortgage amount you owe (Equity = present market value of the property – value of mortgage). Since the bank's mortgage claim is fixed, any increase in the value of the house unswervingly increases your equity.

Leverage makes your equity grow faster than the value of the house moreover that can mean a significantly high investment rate for your investment or to put it simply a high ROI (Return on Investment). As long as you put enough down for your initial investment and maintain your income, you should be able to weather most market downturns.

For example, consider you put 50% down for a $100,000 house - which gives you $50,000 in house equity and a $50,000 in mortgage or loan by bank. If house prices get higher just by 10% over the next year, your $100,000 house grows to be $110,000. Despite the fact that you still owe about $50,000 on the mortgage your equity is now $60,000 (110,000 – 50,000). That's a 20% equity growth rate - a high investment!

MOVEMENT IN HOUSING PRICES

Phenomenally rising population needs to live at someplace; the need for the shelter and the number of people who earns or starts a new family is always increasing. This pretty much keeps housing prices going up - generally about a minimum of 4% or 5% per year over the long run in developed economies but in certain fast developing economies like Middle East, Asia and Far East the growth margins have seen a phenomenal figure 0f 25% - 28% hike within a year's time. Year 2004 to 2008 has seen the real estate markets of Middle East and Asian economies booming in three digits cumulative growth rates both in residential and commercial asset classes.

Every year hundreds of new construction projects were initiated and real estate groups and companies mushroomed in countries like UAE, India, China, Singapore, Malaysia, Qatar and Hong Kong.

Most of the buyers they depend upon loans or mortgages to buy their dream house or even to invest in one. In today's world of increasing wages and salaries and families with dual income most of the prospective buyers qualify for mortgages.

As the common knowledge about loans and mortgages suggests that cost of every loan or the burden on each loan is the rate of interest or the prevailing lending rate to be more specific, the interest rates or the change in interest rate affect not only the numbers of buyers but the house price they each can bid for. Lowering of interest rates allow more people to qualify for mortgages - and to bid higher on a house or may be to go for a higher value more comfortable resting place (the property). This causes temporary upward pressure on housing prices. The reverse comes about with rising interest rates. But these effects are for short term and put peaks and trough on the trend of relentless rise in prices.

If you put enough down or can save sufficient so as not to be too exposed to holding costs or interest service burden and can preserve, uphold or maintain your income for your own house, or rent income from your rental, you should be able to hold out through various economic downturns. Then your responsible level of leverage will aid as well facilitate you to grow your wealth faster than most other forms of investment.

SECURITIZATION AND REAL ESTATE GROWTH – ANALYZING THE RELATIONSHIP

FIGURE 3.1: RELATIONSHIP BETWEEN SECURITIZATION AND REAL ESTATE GROWTH

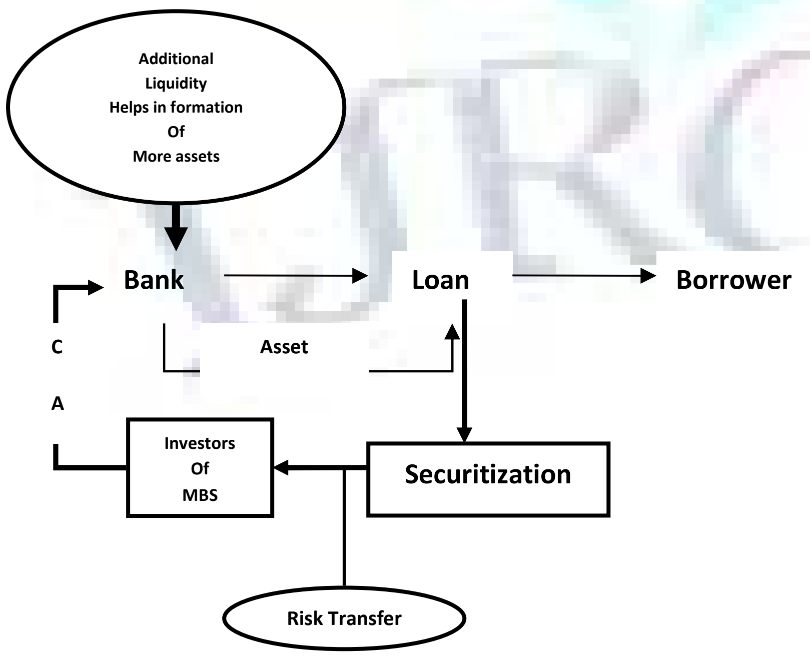
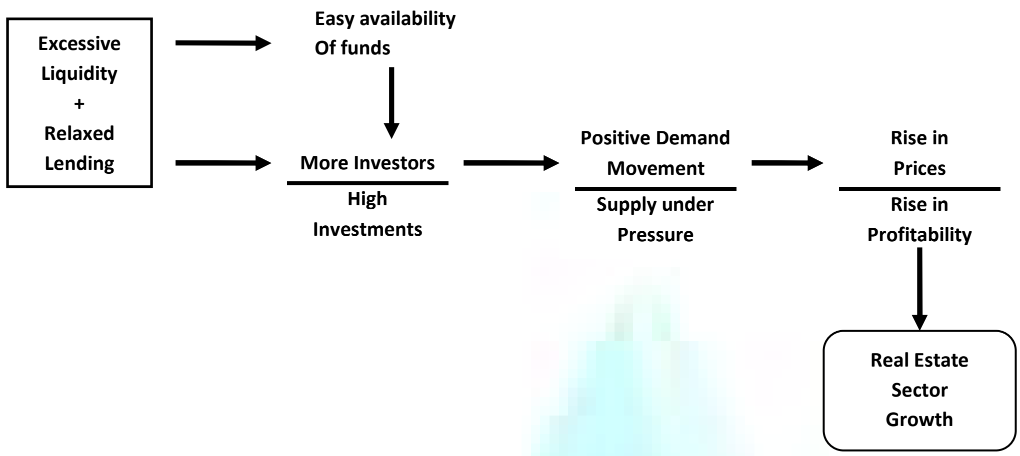


FIGURE 3.2: LINKAGES BETWEEN LIQUIDITY EXPANSION AND REAL ESTATE SECTOR GROWTH



Relationship between securitization process and real estate growth is complex as it is multifaceted plus involves lot of variables and constraints that may get indirectly or directly affected by environmental factors. The relationship depends upon lot of environmental factors such as monetary policy of the government, demand for mortgages in conjunction with demand for real-estate, government policy towards real estate investments, economic conditions along with economic stability of individual country and global economic conditions. Mentioned environmental factors determine the amount of money available in the real-estate market or volume of potential flows towards realty sector. Kind of returns expected and long-term outlook of country or global real estate sector can be formed with the study of the mentioned factors.

ASSUMPTIONS

In order to study the relationship between securitization of mortgages and real-estate growth we need to consider some assumptions. The first assumption is all environmental factors to be considered as constant. The next assumption is that there exists vast market of investors interested in investing in MBS (Mortgage Backed Securities) and last assumption is that there can be present a relationship between securitization and real-estate growth which will be impacted by easy availability of loan funds to borrowers or investors of real-estate sector.

EXPLAINING THE RELATIONSHIP

Figure 3.1 and 3.2 represents the relationship that may occur between securitization process and real estate growth. Both figures represent the two different but overlapping phases of the complete process that will help in understanding how securitization process and its outcome helps in creating better demand conditions furthermore growth opportunities for real estate sector. Both figure 3.1 and figure 3.2 are though distributed in phases for simplifying the process but to get a holistic view the need to realize that the complete process can not be segregated or separated is imminent.

Next an important understanding about the process, which should be consolidated, is that though process is overlapping and seems cyclical in nature, is to be considered as a process in distributed or functional in stages. Each stage has to be considered as a separate phenomenon emerging as an outcome of previous stage or stages.

The initiating point of the relationship is bank granting the loan or making a mortgage to a borrower, once a loan has been disbursed or a mortgage is granted the money supply with the bank shrinks and this situation limits out bank's operations along with limiting its profitability and enhancing bank's or financial institution's risk. The risk associated with the individual borrower and the property gets added to the risk profile of the bank thereby making its operations more risky.

In order to reduce the risk as well as to generate liquidity banks rely on or undertake the process of securitization of assets. Banks will acquire and bundle assets class or assets of same characteristics or attributes together and transfer them to a SPV (Special Purpose Vehicle) and carry out the process of securitization as shown in figure 2 and discussed above. The acquired assets or the asset class will be securitized and the outcome of the process will be the formation of MBS, which will be offered to the investors and along with the sale of MBS the risk associated including the reinvestment risk will be transferred to the investors or buyers of MBS. The cash generated from the process of securitization or to be more precise the liquidity generated by proceeds of the sales of securitized instruments called MBS or ABS (Asset Backed Securities) to investors, rather institutions including governmental agencies, will be passed on to the bank or the financial institution, called originator.

The cash generated from the sales proceeds will provide liquidity to the originator to generate more loan assets or to disburse more loans or grant more mortgages. As the process of securitization will help a financial institution or a bank to pass on its risks to investors of MBS along with generating additional cash or much needed liquidity and profitability the option to securitize becomes lucrative for the bank. The additional cash generated will be channelized back into the operations and will be further granted as mortgage or home loans. The ease of passing the risk to the investor of MBS will make banks less risk averse or bit more relaxed in its approach to screen loans and associated risks, verification process will become lenient, the loan qualification norms will be relaxed thereby qualifying large number of applicants into prospective borrowers. This tendency of relaxation or leniency provokes a bank to accept even sub-prime assets for financing.

The overall impact of enlarged as well as enhanced capacity to finance, easy availability of loans from the banks or financial institutions, relaxation in lending norms and the strong desire of a bank to enhance the profitability so as to impress its stock holders creates a scenario of expanded money supply towards real estate market that encourages or attracts other investors to follow the suit.

We can understand the specific intricacies of bank's response to creation of liquidity along with borrower's demand behavior for mortgage and emerging impact of both phenomenons on real estate sector with the help of figure 3.2, which is extension of figure 3.1 and explains how relationship between securitization and growth in real estate sector takes shape after bank generates liquidity with the help of securitization process. Figure 3.2 takes the scenario brought out by figure 3.1 forwards and the anticipated process of figure 3.2 starts where the process of figure 3.1 ends.

The set off point for figure 3.2 is the setting when excess liquidity has been created and lending norms have been relaxed, the next stage will be two fold situations, first will be easy availability of funds and second will be generation of more investments as more investors get attracted towards real estate sector and they find the timing suitable for large investments. The projected condition of generation of huge investments and large number of investors is a complex arrangement of excessive liquidity coupled with relaxed lending norms and unmitigated by easy availability of funds to public as represented in figure 3.2.

Next phase, after creation of position with large number of investors and rise in quantum of investment is rise in demand for property or realty. The previous stages creates positive demand movement for real estate and this demand creation will put pressure on supply and as a matter of fact, the supply of property or realty can not be increased so as to bring in short-run equilibrium. Higher demand for realty coupled with inadequate supply and easy availability of funds all lead to upward movement of prices rather the situation creates capricious prices constantly moving higher on the scale. The next stage is marked by chaotic rise in prices and super normal profits. Short-term stage of upward moving prices creates super-normal profits for the realty companies as well as for investors. In given circumstances the former non-property companies enter or get into or else develop into the real estate business company, some small-time firms become real-estate business in the course of the closure of the original line of business.

The situation creates further demand for the funds and provides banks or financial institutions with a chance to earn higher returns or higher yields on their loans and investments.

The situation of skyrocketing prices and soaring bottom-line creates growth, expansion, development and investment opportunities in real estate sector.

ANALYZING THE IMPACT OF SECURITIZATION AND REAL ESTATE SECTOR GROWTH

It is often observed that securitization has different impact in prime and sub-prime markets. In prime markets it has been delivering the expected results though several theorists supported upon research findings and data based on limited scope of country level analysis, may not agree with the claim but world-wide analysis suggests as well as supports good performance by securitization.

The securitization process concentrates on certain dynamic aspects or situational facets that bring in more volatility in real estate segment. Prominent amongst several reasons are the fake security that securitization provides to financial institutions or to the originators. Other important factor is weakening of underwriting standards. There are several factors that helped to weaken underwriting standards, prominent are lack of transparency and non-availability of unified, as well as universal standards in the markets for securitized loans.

Changes coming in real estate sector over a period of time also initiated certain transformations which resulted in real estate loans or securitized loans becoming risky. In earlier years banks as well as financial institutions were concerned about their reputation and goodwill, regulators were stringent, even the market size was small and well regulated moreover the environmental variables along with factors discussed kept securitization loans and real estate financing synchronized with investors objectives. Initiated by large scale construction projects and ever increasing demand for finances along with the increased volume and value of securitization deals the reputational effect or the concern or serious consideration about goodwill of financial institution that was earlier sufficient to sustain underwriting standards lost its importance. As loan volumes increased, and the future of the housing market became more and more tenuous or unsubstantiated, the current benefit from originating questionable loans outweighed the future costs, and this led to deterioration in issuers' incentives to properly underwrite loans.

Growing investors concern and realization by the regulators has initiated a process of reform in improving the standards of loan screening. Looking at the issue of fake security or lowering of mortgage screening standards it has been proposed that issuers must be mandated or required by regulator's provisions to maintain a 5 percent stake in any securitization. Assets or asset class selected or acquired for securitization should have been in originator's portfolio for at least 3 years and should not have any outstanding interest or any other forms of due payments older than one quarter as on the date of transfer to SPV or SPE.

Availability of information to investors of MBS along with rise in their awareness level has made them more cautious about investing in securitized loans and they have started seriously questioning the viability of every MBS or ABS offered fro sale in the market. As proposed and explained by Gorton and Souleles (2007) and brought out by their work the prices paid by investors in any form of Mortgage Backed Securities or Asset Backed Securities takes into account issuers' ability to bail out their MBS or ABS, if credit risk or default situation arises. Thus, issuers' incentives need not necessarily be misaligned with those of investors. This view is also supported by earlier work on the securitization of prime mortgages by Ambrose, et al., 2005, who found that securitized loans tended to perform *better* than similar non-securitized loans. In simple words, despite the theoretical charm of the solution, securitized real estate and the investment securities or alternatives emerging out of the process has failed to meet the high expectations of potential investors.

CONCLUSION

This article has examined the mechanics in structuring a mortgage securitization program and has gone a step further to study the linkages that exists between accepting or introducing a securitization program by a country and kind of real estate growth or boom the real estate sector witnesses as the result of positivity created by the securitization program.

Analysis of the proposed relationship between securitization program and real estate sector growth has been undertaken both in short run and long term and found that in short run there are far reaching benefits and boom in real estate market that arises due to positivity of the securitization process. There are lots of examples of how securitization helped real estate market to grow at an accelerating pace and the phenomenal growth attained attracted lot of new entrants in the sector though some of the new players had no previous exposure or experience of the segment. To highlight the fact, we can look at the example, as in Germany the number of public listed real estate companies saw a steady growth before the arrival of economic crisis; however this was not due to the public placement of newly formed property companies but by the development of former non-property companies into the real estate business in the course of the closure of the original line of business. Moreover it would be not being exaggerated to speak of a drastic growth and establishment of real estate companies as an investment vehicle for indirect real estate investments.

However in longer run the environmental factors can not be controlled as well as can not be kept constant so positivity may no longer stay very constructive or fruitful thereby making securitization less effective as real estate sector's source of growth. The lack of quality standards for screening mortgages accompanied by huge demand for loans and the will to make lot of profit rather a super normal profit by financial institutions along with real estate companies will result into collapse of the mortgage securitization as the real estate sector will crash with artificial supply shortage and excessive and massive construction projects.

The greed to earn more and to make very high profits and the compromises made in loan or mortgage evaluation procedure were the reasons behind the recent collapse of real estate sector world over and the same were the factors that created sub-prime lending and sub-prime crises in major economies of the world and lead the global economic system towards a complete collapse rather global economic meltdown or economic crisis.

The final comment will be that securitization as a tool of finance has no short coming and if used with complete susceptibility and understanding will definitely result in growth as well as provide financial security and stability to a bank or a financial institution. Securitized securities provide earning options along with security of investment to the investor. If the real essence of the securitization process is maintained and financial regulators play their role more effectively and aggressively along with the disciplined behavior of banks and financial institutions than securitization will result in growth of any industry and will give long term benefits to the economy.

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