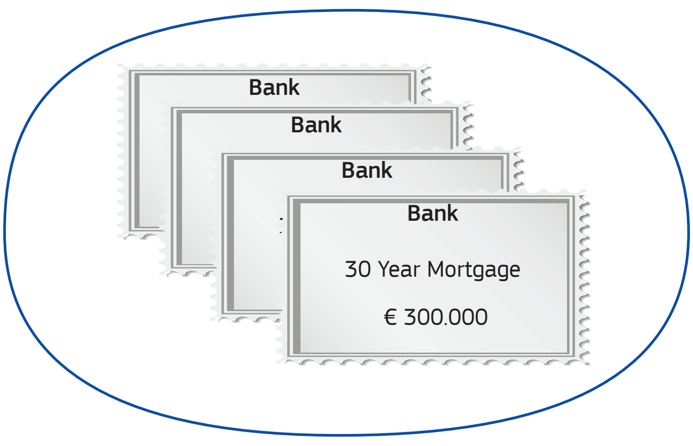
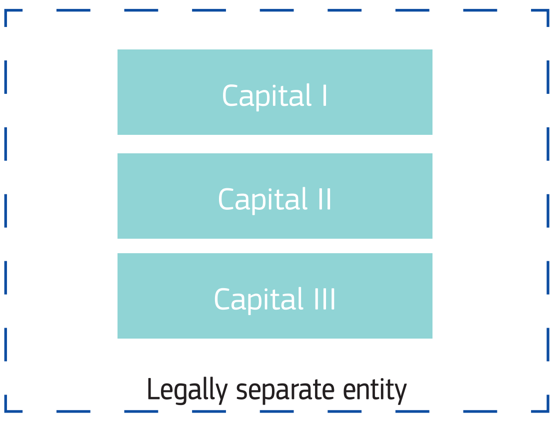
MAKING SECURITISATION SIMPLE, TRANSPARENT AND STANDARDISED

#CMU

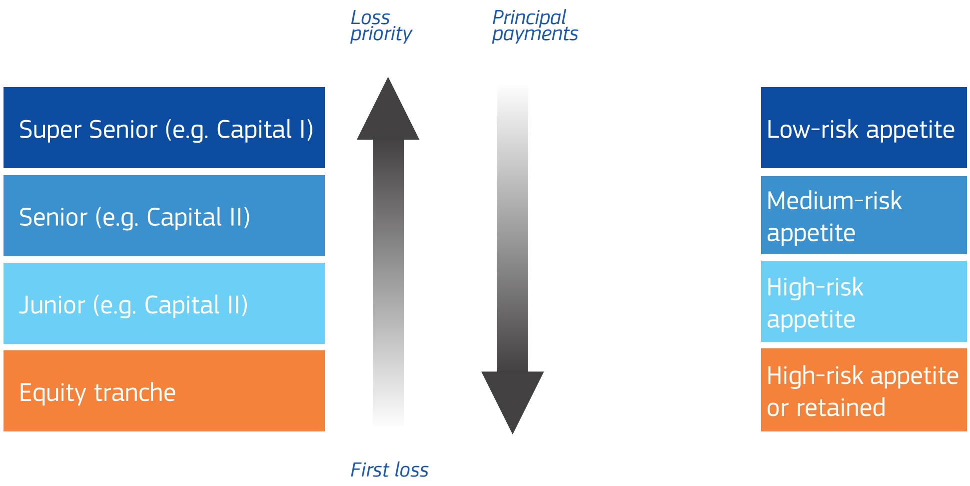
How does securitisation work?





1. Take a pool of mortgages/loans

2. Convert them into tradeable securities



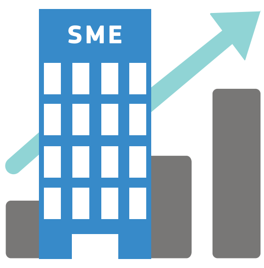
3. Tranche them to tailor to different risk/reward preferences. The bank / lender is required to retain at least 5% of the total amount securitised

How can it benefit businesses and households?

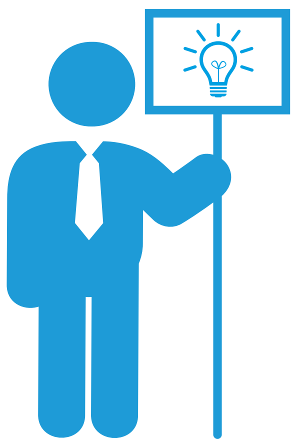
1. It will help to free up capital for banks, allowing them to lend more to households and businesses

2. It will make it easier for investors to access the loans market channeling more money into lending to the real economy

3. It will offer an alternative source of funding for SMEs



Simple, transparent and **standardised** securitisation



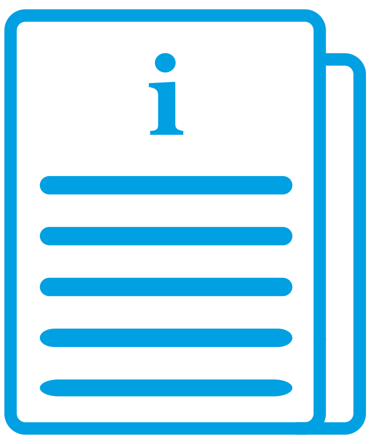
Simple

Assets packaged in securitisation must be homogenous loans

No re-securitisation - No 'CDO Squared'

Loans packaged in securitisation must have a long enough credit history so that their default risk can be reliably estimated

The owner of a securitisation package must also own these loans



Transparent and standardised

Loans packaged in securitisations must have been created using the same high lending standards

Part of the loan portfolio must be retained by the originator of the package

Data on packaged loans must be published on an ongoing basis

Contractual obligations, duties and responsibilities of all key parties to the securitisation must be defined clearly