

SECURITISATION AS A LIQUIDITY OPTION FOR SMALL BANKS IN SOUTH AFRICA¹

by

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Abstract:

The South African Reserve Bank (SARB) changed its accommodation procedures from using a discount window to a repurchase (or repo) accommodation system during March 1998. The previous system guaranteed full accommodation of liquidity needs to banks, while the repo system aim to control liquidity with the use of a penalty rate (the marginal lending rate) when liquidity in excess of the amount offered by the Reserve Bank is required. At first the marginal lending rate was fixed at 1 per cent above the repo rate, but during June 1998 the marginal lending rate increased to 20 per cent above repo. Small banks (which accommodate via large banks) are more exposed to this marginal lending rate in times of limited liquidity, than large South African banks. They also have less access to purchased funds. In order to address the small banks' problem of paying excessively high rates during times of limited liquidity, securitisation of assets and mortgages are investigated. Although widely used in other parts of the world, only limited securitisation deals have been conducted in South Africa and the market for securitised instruments is relatively undeveloped. This paper aims to (i) determine the suitability of securitisation as a source of liquidity for small South African banks; (ii) shed light on the difficulties experienced in securitising products in South Africa, and (iii) make recommendations to improve the South African market for securitised products.

Key words: Securitisation, Liquidity risk, Small banks,
South Africa

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1. INTRODUCTION

1.1 Background – The South African Banking sector

The past six years have seen a couple of major changes in the South African banking industry. With South Africa rejoining the world economy, the domestic banking sector was forced to liberalise. New foreign competitors were re-admitted, domestic financial markets had to be developed and the national payment, clearing and settlement system had to be upgraded (Metcalf, 1999:2). Over and above that, the 1998 Asian crisis caused a fundamental restructuring of banks throughout the world and emphasised the importance of a sound banking system (The Banking Council, 1998b:5).

In December 1998, banking in South Africa was conducted by:

- Four major banking groups with national distribution networks and assets in excess of R100 billion each;
- Two medium-sized banks with distribution networks and/or with asset in excess of R45 billion each;
- Ten small banks with assets of less than R12 billion each;
- Ten micro banks with assets of less than R1 billion each;
- Four mutual banks;
- Ten foreign controlled banks;
- Twelve branches of foreign banks; and
- Fifty-nine foreign banks' representative offices (The Banking Council, 1998b:8).

Banking in South Africa is dominated by four large South African banks - ABSA, Nedcor, Standard Bank and First National Bank – which still control about 75 per cent of the South African market share in terms of assets and deposits. Their market share is, however, declining at a slow rate due to the growth of smaller banks and the entry of foreign banks (Metcalf, 1999:1). These four banks secured most of the consumer banking activity in South Africa. The smaller banks focus their attention more on corporate clients and compete with the “big four” in the corporate market.

1.2 Problem statement and objectives

If the 1998 and 1997 figures on banks in South Africa are compared, the following are discovered. Three additional branches of foreign banks have opened in South Africa in 1998, but the medium, small and micro South African banks have decreased by seven during the same year (The Banking Council, 1998a). In January 1999 another small bank, New Republic Bank Limited, experienced serious liquidity problems when depositors withdraw their deposits held by the bank on a large-scale (SARB, 1999). In the same year, yet another small bank, FBC Fidelity, was also liquidated.

In both these cases bad management wasn't the cause of bank failure, but liquidity and market perception. Audit reports revealed temporary support to both these banks could have saved them (Senekal, 2000:2). Small banks in South Africa have limited access to liquidity due to the following two reasons.

Firstly, the South African Reserve Bank (SARB) changed its accommodation policy from using a discount window and ensuring full accommodation, to a repurchase (repo) system where liquidity is controlled on March 9, 1998 (Van der Merwe, 1999). According to the repo system, banks have to tender for the amount of funds they need against collateral of specified securities, at an interest rate they are willing to pay (The Banking Council, 1998b:11). The allotment of funds is made at the bidding rate of each individual bank, giving priority to bids with the highest interest rates (SARB, 1997:23). The average tender rate is referred to as the repo rate (SARB, 1998b).

Banks whose tenders are not accepted or only partially accepted can obtain additional liquidity at the marginal lending facility (at a marginal lending rate), provided that the necessary collateral can be offered (SARB, 1997:18). The marginal lending rate was initially established on repo plus 1 per cent (Gebhardt-Mann, 1998:24), but increased to repo plus 20 per cent in June 1998 (The Banking Council, 1999). In April 1999 the difference between the

repo rate and the marginal lending rate was still 15 per cent (Roodt, 1999:24).

Small banks in South Africa are more exposed to the marginal lending rate than large banks, because the small banks get accommodated via the large banks. In times of limited liquidity, the large banks may keep the funds obtained at the repo rate for their own purposes, exposing the smaller banks to the marginal lending rate.

Secondly, South African banks are classified as A1, A2 or A3 banks according to their amount of capital. Banks that are classified as A1, are believed to have a sufficient capital base to absorb losses and can obtain funds on the markets at lower rates than A2 or A3 banks. Of all the banks in South Africa, only 6 are classified as A1 banks, namely the "big four", Investec and BEO Bank. The remaining banks pay at least 0.5 per cent more for purchased funds and in a climate of bank failures, market perception makes it even harder to get funds at a competitive rate.

Given the problems that small banks experience in obtaining liquidity from "traditional" sources, as indicated above, the objective of this research is, firstly, to determine the suitability of securitisation as an alternative source of liquidity for small banks in South Africa. Unlike the USA, Europe and Australia, the market for securitised products are only starting to develop in South Africa and only a limited number of securitisation deals have been completed. Secondly, this research aim at shedding light on the difficulties experienced in the securitisation of products in South Africa, and thirdly to make recommendations on improving the South African market for securitised products.

1.3 Methodology

The research for this paper was twofold. Firstly it consisted of a literature study regarding securitisation, where secondary sources of information were

analysed. The results of this literature research are discussed in section 2. Information on securitisation deals conducted in South Africa was also gathered and this is described in section 3 of the paper.

Secondly, investors and a number of small banks were approached and interviews held with key persons within these organisations. The results of the interviews are represented in section 4 of this paper.

2. SECURITISATION – A BACKGROUND

Broadly, securitisation can be defined as the practice of structuring and selling negotiable investments in order to spread a risk which is normally taken by a single lender or syndicate, over a broad group of investors (Donaldson in Henderson & Scott, 1988:2). More narrowly defined, securitisation is the process where pools of individual loans, receivables or debt instruments are packaged in the form of securities, the credit status or rating of the securities are enhanced and distributed to investors (Cox, 1990:2 and Kendall, 1996:1-2). In short, it involves turning bank assets into marketable securities (Gardener & Revell, 1988:17).

As suggested by the definition of securitisation, more than one asset can be securitised. In the United States and international markets a clear distinction is made between “mortgage-backed” securities (MBS), where the underlying asset of the security is residential mortgages, and “asset-backed” securities (ABS), where the security is backed by any other asset except residential mortgages (Thompson, 1995:8). Such assets include credit card receivables, auto loans and corporate loans or any other assets that are homogeneous and has reliable loss and prepayment data (Albert, 1991:18-19).

2.1 The securitisation process

Lieske and Blumenfeld (1999:8) illustrate a typical securitisation process in six steps (see Figure 1):

- ❖ Step 1: The lender, also called the originator (typically a financial institution) makes a loan to a borrower (the obligor).
- ❖ Step 2: The loan is warehoused until the lender has a sufficient volume of loans to securitise.
- ❖ Step 3: The lender sells the loans to a special purpose vehicle (SPV) – a legal entity created by the originator, which may take on the form of a trust, a group of underwriters or a receivables investment company.
- ❖ Step 4: The special purpose vehicle (SPV) pays for the loans by simultaneously selling certificates, representing ownership of the loans, to investors. A credit rating agency rate the securities issued by the SPV.
- ❖ Step 5: A servicer is appointed, which provides administration for the duration of the issue. The duties of the servicer include servicing the loans in the trust and to service problem loans. In many cases, the role of the servicer is performed by the originator. A trustee can also be appointed to ensure that investors are paid in accordance with the terms of the securities and to monitor the performance of the servicer.
- ❖ Step 6: The borrower is instructed to make payments to the servicer and direct all inquiries to the servicer (adapted from Lieske & Blumenfeld, 1998:8, DCR, 1999:5-6, Koornhof, 1996:10 and Thompson, 1995:8)

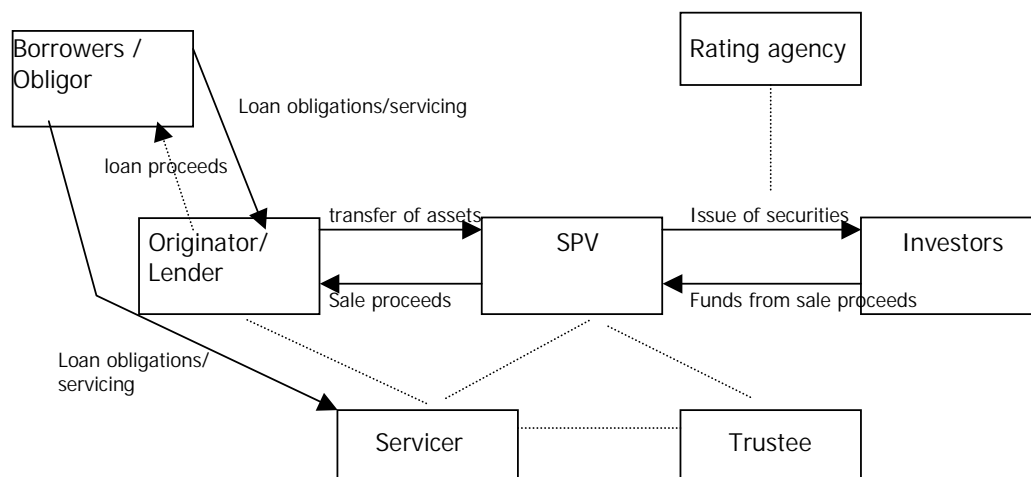


Figure 1: Securitisation Process
 (Adapted from: Lieske & Blumenfeld, 1999:8 and DCR, 1999:6)

Other parties that may be involved in the process include the legal council and a credit enhancer (Baums, 1994:4).

The rating of the security issued provides a view of the credit risk of the security to the investor and the role of rating agencies in the securitisation process can thus not be over emphasised (DCR, 1999:5 and Baum, 1996:48). Through credit enhancement, a better rating can be achieved. Credit enhancement may take on different forms, which include:

- ❖ Cash collateral, or a cash deposit to enhance the credit quality of the SPV.
- ❖ Spread accounts, which refers to the net servicing spread or the net cash flow of the SPV in any period that is available to fund credit enhancement obligations.
- ❖ Subordinate ranking securities, where securities subordinate to A-class securities in principle and interest payment are also issued. A higher rate of interest is applicable to subordinate securities, to compensate for the additional credit risk.
- ❖ Overcollateralisation, where additional financial assets of the originator are pledged, but not sold to the SPV.
- ❖ Securitisation triggers, which are events that suspend an originator's right to excess cash flows from a securitised pool of assets.
- ❖ Early amortization events which triggers the immediate repayment of investors on the occurrence of such events (DCR, 1999:6-7).
- ❖ Pool insurance, where insurance is provided for 100 per cent of the losses on the pool of assets in return for an initial premium paid or other support to cover losses (Chammah, 1991:4).

2.2 Different securitisation structures

The SPV can make different types of issues from a pool of assets obtained, which causes the process to differ for each issue. This includes:

- ❖ Asset-backed certificates (a pass-through transaction), which are pass-through certificates issued by the SPV, representing undivided fractional interest in a pool of receivables.
- ❖ Asset-backed or mortgage-backed obligations (a pay-through transaction), which are debt securities of an SPV.
- ❖ Asset-backed preferred stock which is issued by the SPV on the assets purchased from a high-graded commercial bank.
- ❖ Asset-backed commercial paper issued by the SPV to finance the purchase of the assets (Chammah, 1991:3 and Elmgren, 1995:8-9).

2.3 The benefits and concerns of securitisation

Securitisation offers the bank a number of benefits, which include:

- ❖ It can provide the bank with a cheaper source of funds, or funding at more favourable terms, which improves the profitability of the bank (Albert, 1991:17, Tensfeldt *et al.*, 1993:11 & Thompson, 1995:10).
- ❖ It causes the bank to expand its loan volume faster than its deposit growth, without becoming capital constraint. This can increase the market share of banks that securitise (Albert, 1991:17 & Tensfeldt *et al.*, 1993:11).
- ❖ It is a tool for interest rate risk management when a perfect match in assets and liabilities is obtained by directly passing the cash flow from the asset through to the holder of the liability, as is done in securitisation (Albert, 1991:17). Securitisation thus reduces balance sheet mismatches (Fisher, Montagu & Co. Ltd, 1991:36).
- ❖ It offers an alternative, reliable source of liquidity which diversify the liquidity sources of the bank (Albert, 1991:17 & Orchart, 1990:120).
- ❖ It allows investors to purchase an issuer's securities based primarily on the credit quality of the underlying assets, when these investors would not purchase conventional debt obligations from the originator (Elmgren, 1995:11). This is because the securitised assets may obtain a higher rating than the originating institution (Baums, 1994:4).

- ❖ With the sale of assets, these assets are taken from the balance sheet of the bank, which impacts positively on the capital requirement of the bank, the liquidity cost (associated with required reserves) as well as key financial ratios. Non-interest income is increased as securitisation creates a new source of fee-income for banks (Elmgren, 1995:12 & Tensfeldt *et al.*, 1993:11).

Investors also benefit from securitisation, in that it broadens their investment choices and they have the opportunity to invest in high-grade, asset-backed securities (Tensfeldt *et al.*, 1993:11). Such securities normally have higher yields than comparable Treasury instruments (Bhattacharya & Dandapadi, 1991:418).

Borrowers feel the advantage of securitisation through lower interest rates and more readily available credit (Tensfeldt *et al.*, 1993:11).

Besides the number of advantages of securitisation, the following impediments to securitisation exist (Tensfeldt *et al.*, 1993:13 and Bhattacharya & Dandapani, 1991:427-428):

- ❖ Securitisation is a complicated, time-consuming process which requires substantial preparation in the computer systems and accounting areas.
- ❖ The cost involved in securitisation, which includes underwriting fees, fees to external auditors, the credit rating agency, the trustee and transfer fees and stamp duties (which is applicable in South Africa).
- ❖ For reduced credit enhancement cost, banks may securitise only low-risk debt, leaving other debtors exposed to an inferior asset base. Alternatively, only the weakest assets are securitised, leaving investors with "lemons".
- ❖ Where the performance of a bank is measured in terms of its asset growth, a decrease in asset growth due to securitisation may concern banks and investors.

- ❖ Certain legal and regulatory concerns. This includes steps to be taken to ensure that the originator to be a bankruptcy remote entity, such as the transfer of assets that must be treated as a sale for accounting and tax purposes.
- ❖ The lack of a statistical database within the bank to determine the risk information of the assets to be securitised.
- ❖ An underdeveloped, illiquid secondary market for securitised assets and investors' hesitance to accept new instruments.

2.4 The risks involved in securitisation

When assets are securitised, the interest rate risk and liquidity risk of the bank diminishes (Tensfeldt *et al.*, 1993:11), a number of other risks come to the fore that threatens the success of the securitisation. The success mainly depends on the solvency of the SPV, which is threatened by the following risks (Wood, 1995:56-58 and Beaumont, 1995:45-50):

- ❖ Credit risk occur when the issuer (SPV) suffer losses because of weaknesses in the underlying assets it owns and expected receivables are thus not collected.
- ❖ Income risk can be subdivided into interest mismatch and exceptional expenses and reinvestment risk.
 - Interest mismatch occur when the SPV receive less interest income on the securitised assets (from the borrowers/ obligors) that the SPV has to pay in interest expenses plus other expenses, such as agency fees, trustee fees, taxes etc. This interest mismatch is also referred to as "basis" risk. But this gap between expenses and income also appear when exceptionally high expenditure takes place due to poor/insufficient budgeting or unexpected liabilities, such as a new form of taxation or the costs of convening a meeting.
 - Reinvestment risk is the risk of receiving income from high interest-bearing assets early. The SPV cannot reinvest the cash at the same high rate and a loss in income is inevitable.

- ❖ Liquidity risk is the risk of not having enough cash or credit available to honour debt payments, in other words a timing mismatch between the recovery of receivables and interest payments.

Other risks which threatens the securitisation process includes:

- ❖ Asset risk, which occur when the portfolio that are being securitised, does not have the same quality or standards than the historical data the portfolio is based on. This can be due to the random selection of assets to be securitised or a changing economic environment. The ultimate asset risk is default (Buerger, 1991:15-17).
- ❖ Market or price risk is the risk faced by investors that the market value of a asset-backed or mortgage-backed security may decrease due to changing interest rates or exchange rates (Gardener & Revell, 1988:64).
- ❖ Country and transfer risk occurs when asset-backed or mortgage-backed securities are brought from agents or governments of another country, and they are unable to honour their commitments (country risk). When a country is unable or unwilling to service all its financial obligations due to shortage of foreign exchange, transfer risk occur (Gardener & Revell, 1988:64).

3. SECURITISATIONS COMPLETED IN SOUTH AFRICA

While Americans have been able to buy asset-backed securities since the nineteen seventies, South Africans have missed out on the growing securitisation market. The securitisation market has spread through Britain, Europe and into emerging and Asian markets, and it is expected that securitisation will also take off in South Africa during the next two years (Wood, 1998:67).

Only a fist full of securitisations has taken place in South Africa. United Building Society Ltd. (now part of ABSA) conducted the first securitisation, during November 1989. The aim of this securitisation was to obtain

experience in the field, rather than to increase liquidity, improve the asset/capital ratio or reduce the interest rate gap. The securitisation involved a R250 million pool of mortgages that was listed as an unsecured redeemable mortgage-backed floating rate debenture issue on the Johannesburg Stock Exchange in February 1990. The term of the issue was 20 years (maturity date, 15 November 2009). The main investors in the MBSs were insurers and pension funds and because no secondary market exists for MBSs in South Africa, the MBSs were bought for investment purposes only (Faure, 1991:25-27).

Sasfin (Pty) Ltd. conducted the second securitisation during 1991. A pool of instalment rental loans was the underlying asset for the asset-backed floating rate debentures listed on the JSE. Provisions was made to the SPV to issue R250 million of ABS debentures, but only R60 million has been issued and listed in two tranches of R30 million each. The issue had a maximum term of 20 years and a minimum of 5 years, and can be redeemed earlier. A second securitisation was also conducted through the issue of five-year debentures to the value of R25 million, with capital redemption yearly until August 1998. The aim of these securitisations was to obtain long-term funding, without increasing capital (Van den Berg, 1998:72-73).

In November 1998, Sotta Securitisations International Limited listed on the JSE as a securitisations vehicle. Early 1999, Sotta securitised the cash flows from rent received from five Lyons Properties. The value of the future cash flow from the properties was estimated on R120 million asset-backed securities in denominations of R1 million each was issued. Lyons conducted the securitisation with the aim to reduce the debt on its balance sheet, increase its equity funds and to shift the tax burden to a special funds (Pittendrigh, 1999:50).

In October 1999, Unibank securitised R500 million of their term loan book. SecCo was the company formed as a special purpose vehicle, which is a

subsidiary of Mettle Limited. Negotiable asset-backed securities to the value of R350 million and with a maturity of 3 years were issued by SecCo. The R500 million is thus security for R350 million, which implies substantial overcollateralisation for credit enhancement purposes (Mettle, 1999).

In an “unconventional” type of securitisation Saambou Bank packaged R1 billion of their home loans and sold it to BOE Bank on 31 March 2000. No SPV was used in the transaction and Saambou Bank took out insurance on 30 per cent of the transaction, which serves as credit enhancement. BOE Bank carries the remainder of the risk. Saambou Bank still remains the servicer for the loans. The reason for the securitisation was to enable growth, without becoming capital constraint.

At the end of May 2000, Gensec, JP Morgan and Real Africa Durolink launched the Kiwane fund, which is a collateralised loan obligation fund where corporate bonds and debt serve as the underlying asset for security issues. The fund started with an issue of R500 million and will stop the first issue when it reaches R2 billion. Securities with a maturity of 5 years are issued at a discount. Real Africa Durolink sees this as an excellent opportunity to increase their liquidity and it is expected that other small banks will follow, since Kiwane can take on the corporate debt of other banks as well.

4. SECURITISATION IN SOUTH AFRICA – DIFFICULTIES AND FUTURE GROWTH PROSPECTS²

From the bank’s (originator’s) perspective, the following difficulties are experienced which hamper the development of securitisation in South Africa:

- ❖ Time and cost. It takes a considerable amount of time to securitise assets in South Africa - in most cases more than 1 year to structure the securitisation and to get the necessary approvals. The costs involved in

² This section is based on the interviews conducted and listed after the References. This research is continuing and more interviews with role players are scheduled.

the process are also high, due to the excessive amount of time it takes as well as consultation fees and the cost involved in acquiring the sophisticated technology needed for securitisation. However, the cost is anticipated to decrease as South African banks evolve over the learning curve.

- ❖ Legislation. Although certain amendments have been made to the Banks Act (no. 94 of 1990) to accommodate securitisation with the government notice (no. 153) in January 1992 (RSA, 1992), the legislation is not adequate and in some cases also restraining on the development of securitisation. Legislation especially hampers the securitisation of mortgages in that it requires transfer fees to be paid for each mortgage transferred to the SPV, making it very costly. Banks are also still required to keep the full risk-weighted capital required on the assets securitised. The Reserve Bank of South Africa is, fortunately, receptive for conversation and changes to legislation.
- ❖ Accounting. The accounting debate centres around the issue if a securitisation is a “sale” or a “financing” arrangement. When it is sale, the securitised assets are removed from the balance sheet. But when the bank still carries some of the risk, it can be seen as a financing arrangement and it is kept on the balance sheet of the bank. Disclosure of securitisation on bank statements is also excessive in South Africa and the prescriptions quite technical.
- ❖ Investor perception. To make securitised products attractive to investors, substantial credit enhancement must take place and international partners are approached, since investors are still sceptical of such products and the originator are still an important consideration by investors. This also involves substantial costs to banks.
- ❖ Taxation. When assets are securitised, the bank loses the interest income, but gain fee income. Different types of income are subject to different types of taxation. Interest income of banks are not subject to value added tax (VAT), although fee income is. Thus, securitisation has a definite tax

implication for banks and the securitisation must be structured correctly in order to maximise the gains.

- ❖ Pricing. The pricing of ABSs remain a new concept for South African banks and the pricing systems are not in place yet. There is also some dispute over which rate should be used as a “benchmark” rate for ABSs.
- ❖ Bank competitiveness. South African banks are measured in terms of size to determine their competitiveness, rather than on profitability. While securitisation may increase profitability, it decreases the assets of the bank which has a negative impact on market perception regarding the bank.
- ❖ Commercial paper regulation. According to commercial paper regulation, the SPV must run its full course before profits can be extracted from it. When overcollateralisation takes place for credit enhancement, this legislation creates a problem, since profits lie idle in the SPV and the bank cannot capitalise on that.

From investors' perspective, the following difficulties exist regarding asset-backed securities:

- ❖ Liquidity. Because of the non-existence of a secondary market in ABSs in South Africa, investors are hesitant to invest in securitised products. From an investor point of view, the issue must at least be R500 million to make increase the liquidity of the issue, although some investors prefer issues in excess of R1 billion. For the same reason South African investors have no appetite for junk bonds, only investment grade securities.
- ❖ Credibility of ratings. Although four big international rating agencies, namely Moody's, Standard and Poor's, Fitch IBCA and Duff & Phelps, have opened their doors in South Africa during the late 1990s, investors are reluctant to place total trust in ratings and rely more on their internal analysts. The originator of the assets still remains an important consideration when investments are made.
- ❖ Lack of knowledge. Reluctance to buy ABSs also exists because they are unknown in South Africa and investors are sceptical of new products and

“scared” of non-performing ABSs. Investor education will, however, improve this situation.

Is there a future for securitisation in South Africa? Definitely. Both banks and investors in South Africa have new interest in the securitisation market due to a changing environment. The lack of growth in the securitisation market to date can be partially ascribed to South African banks having adequate capital to support growth. The lack of a vibrant corporate bond market as well as reputable ratings also played a role.

Views on what the future will hold differ, although there is some consensus that mortgage-backed securities will not be the initial point of growth followed by asset-backed securities, as in the American market. There is the belief that growth would be more balanced between ABSs and MBSs. Growth in asset-backed securities, with credit card receivables and corporate debt being examples of underlying assets, are expected. Some of the larger A2 banks may set up their own SPV, but smaller banks that do not have the loan book are expected to use already set-up vehicles such as Kiwane to obtain additional liquidity.

While the trend and investor appetite certainly seem to be for long-term securities, with a minimum of 3 years and a maximum of 20 years, shorter-term securities are also possible in securitisations with especially credit card receivables. A thriving secondary market is not expected in the short-term, but once a corporate paper market is established and investor confidence is boosted, an informal secondary market in asset- and mortgage-backed securities should follow. In the longer term, with capital becoming scarcer, it is expected that even large South African banks will engage in securitisation of assets and mortgages.

5. CONCLUSIONS AND RECOMMENDATIONS

The purpose of this paper was, firstly, to determine the suitability of securitisation as an alternative source of liquidity for small banks. In the previous section it was indicated that small banks in South Africa are increasingly looking at securitisation for liquidity reasons. Collateralised loan obligation funds, such as Kiwane, should make it easier for small South African banks to securitise their assets – since corporate debt is their area of specialisation. Openness of investors to “private” deals, such as the one conducted by Saambou, also expand small banks’ liquidity options through securitisation. Such developments in the securitisation market are enhancing the possibility as well as accessibility of asset-backed securities as a reliable, affordable source of liquidity.

The second purpose of this paper was to indicate the difficulties experienced in securitising products in South Africa. The previous section also indicated that banks (or originators) experience a variety of difficulties, ranging from legislation, cost, taxation, accounting to investor perception and competitiveness measures. Investors don’t contribute towards improving the securitisation market in South Africa due to their lack of knowledge and scepticism of ratings.

Given the above, the third aim of the paper can be reached and the following recommendations can be made to develop the market for securitised products in South Africa and overcome some of the current obstacles:

- ❖ Investor, bank (originator) and regulator education. Educating investors as well as banks on the structure, advantages, costs, risks and pricing of securitised products may have a twofold impact. Firstly investors are more informed and may rely more on ratings by rating agencies, which may improve their appetite for asset- and mortgage-backed securities. Secondly, by educating banks substantial amounts of time and cost usually incurred in securitisation can be saved. Banks may become more active in

the securitisation of assets when they know what the obstacles and advantages are and where they can obtain specialised information. Regulator education may improve the speed and also the cost of securitisation in South Africa.

- ❖ Adaptations to legislation. Legislation and regulation, such as transfer cost for mortgages, capital holding standards and commercial paper regulation should be revised to make it more receptive for securitisation transactions.
- ❖ Accounting standards. The accounting of securitised assets should be made more “user-friendly” with just the necessary disclosure to determine the risk still accepted by the originator.
- ❖ Change in determination of bank competitiveness. Rating banks rather on profitability than on size can influence investor perception and contribute towards a speedy development of the South African securitisation market.

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