

## Chapter 6 Conclusions and Recommendations

Launching a credit card securitization transaction in Taiwan needs more work by governments and domestic and foreign bankers. By the completion of this paper, Taiwan has not yet developed an environment for securitization products to blossom. Most financial institutions are not interested in securitizing their profit-making assets while interest rates hit a historical low and there is no clear sign of returning. Regulatory institutions are still so conservative, that some market participants have complained about it.

All new products have to be examined and approved prior to being made available to the public. Overly complex administration procedures and long duration of waiting increased the uncertainty of securitization and risks of issuers, especially for new products which have never been seen in the market. Our conclusions and recommendations for this study for developing credit card ABS are listed below. Hopefully, these conclusions are useful to future research and transactions and can be used into constructing real cases in the future.

**Compared with other sources of capital, securitization is not really a preferable alternative for credit card issuers in Taiwan under present general conditions. However, it is an excellent opportunity to occupy this new territory**

Benefits of securitization attracted issuers to move forward. What if the benefits are not attractive compared to other traditional channels? Financial market and general situations in Taiwan, at the time this paper was conducted, were still relatively unattractive for entry. We have presented major benefits of securitization and none of them is significant in the present scenario. Too much money in the banking system accompanied by low interest rates discourage banks and credit card issuers to consider alternatives which they actually don't need right now. The reality is that no one really needs a cheaper source of funding.

Potential candidates of credit card ABS originators in Taiwan are high performing companies. Chinatrust commercial bank and Taishin commercial bank are very competitive in Taiwan and have sufficient risk management systems. Those candidates have done an adequate job of running credit card businesses and maintaining tolerable risks at the same time. Their business focus and goal is not to be a risk broker and earn servicing fees instead. The spread of credit card, cash card, and other unsecured consumer loans are very charming to them and there is little chance that they will think about securitization at this time.

## **A high performing originator is as important as the health and performance of underlying collaterals for a credit card receivables backed security**

Credit card securitization has one major difference from other kinds of collaterals which is the repurchasing needs during revolving period. Most credit card receivables are short lived unsecured loans which have both high turnover and default. The importance of the servicer in credit card ABS deals is enormous. This difference sometimes bothers investors, because for most other asset securitized and ABS issued, investors only have to analyze the quality of underlying collaterals.

Credit card ABSs have to be managed and served by originators, and the default of servicers might be devastating. The significance of servicers in credit card deals is two-fold. The first concern is the repurchase task performed by the originator. We already noticed previously, one critical function of the servicer is to refill declining collateral balances in the trust. This recharging function can hardly be replaced by backup servicers due to various reasons such as the reputation of the originator and brand recognition which means the support from backup servicers may not be as strong as planned.

Secondly, the true sale of collaterals from originators to SPV is not clear-cut. When an originator defaults and becomes a candidate of takeover actions, there will be disputes about the ownership of the credit card receivables pool, because of the defaulter haunting existing series backed by related pools. The bustle definitely will shake investor's confidence and raise the chance of delayed cash flow to investors. That's why analysts put quite a lot of effort on diagnosing credit quality and overall health of the servicer/originator in every credit card ABS case.

## **The dissimilarities between Chinese people and Americans should be fully reflected in any models or assumptions used to construct or evaluate a credit card securitization transaction**

The most possible route of any virgin issuer is through the help of foreign investment banks. The models and parameters adapted by foreign investment banks are certainly not all true for Taiwan's receivables. This is pretty much common sense but which variables and to what degree should adjustments be made are absolutely not easy questions to resolve.

Via the simulation the researcher did in chapter five we know that repurchase rate and repayment rate are key determinants for collateral balance. Especially in Taiwan, finding good receivables to offset the negative impact to collateral balance

from principal repayment is harder than it was in the U.S., since most Chinese people are thriftier.

**Higher repayment rate can protect investor's interest in inverse situations but it may also reduce the overall balance of the collateral and endanger the deal while repurchase is not sufficient**

It is pretty much a consensus of market participants that it is a bad sign of collateral performance that the repayment rate is too low. It may reveal the weakness of collecting work performed by servicer due to servicer's inability or the declining quality of underlying assets. More serious consequence will be the difficulty the originator will face during the amortization period. If the debtors repay principals too slowly, the issuer will have a hard time fulfilling its obligation to make a timely payment to investors.

The results of the simulation showed the dilemma of repayment. Typically, higher repayment means stronger protections for investors against negative conditions. However, repayment is like the prepayment in mortgage backed cases which may hurt investors in the form of reinvestment risk. A higher than expected repayment rate will reduce the collateral balance significantly if repurchase efforts do not prevail. High and increasing repayment rates may be a signal of losing business or losing customers due to changing macroeconomic conditions or competition.

**Credit card issuers who have abundant credit card receivables should build securitization methodologies and standard operating procedures soon to prepare for interest rate turning up and ever changing investors' habitat**

Credit card debtors are ordinary people with various preferences and habits. How to manage credit card accounts in order to keep the accounts growing and securitized requires issuers' dedicated efforts. Every card issuer may have similar credit card customers but they will never be identical. The strategies and goals of issuers are not the same either. Based on all those heterogeneous requirements, potential originators should build up their own methodology and systems for future securitization needs.

**Further Research Suggestions**

Analyzing the servicers' ability to serve in credit card ABS and the objective evaluation model for estimating credit card receivables performance in Taiwan have

not been covered yet. Also, how to estimate key modeling variables in Taiwan needs more researchers' attention . The numbers and parameters used in Chapter Five are assumed or derived by the researcher based on the most reasonable supporting data available at the time. We need more elegant and scrupulous models and statistical data for better estimation.

Appendix A

	Active Cards	Receivable Balance	Revolving Amount	Default Amount	Interest
0	1,595,000	43,065,000,000	16,747,500,000	163,706,736	256,395,357
1	1,606,198	43,054,653,730	16,842,064,348	145,165,100	257,843,087
2	1,584,159	42,213,317,102	16,592,414,983	169,249,100	254,021,088
3	1,607,376	42,502,470,687	16,811,065,254	164,491,186	257,368,508
4	1,618,941	42,499,135,834	16,908,876,339	199,028,567	258,865,943
5	1,688,289	43,899,813,178	17,601,563,703	198,364,370	269,470,620
6	1,745,430	44,981,486,176	18,166,623,819	216,291,397	278,121,391
7	1,824,436	46,564,969,041	18,954,323,350	179,363,269	290,180,654
8	1,827,027	46,311,363,045	18,956,608,839	215,718,737	290,215,644
9	1,892,467	47,537,011,039	19,602,033,364	187,840,774	300,096,752
10	1,899,224	47,373,134,544	19,645,979,624	209,719,709	300,769,545
11	1,943,232	48,071,913,404	20,069,893,545	184,517,958	307,259,443
12	1,936,606	47,594,103,622	19,976,650,686	182,550,487	305,831,944
13	1,928,071	47,076,868,936	19,864,178,519	184,603,058	304,110,055
14	1,924,939	46,687,158,527	19,806,893,144	205,413,796	303,233,046
15	1,959,037	47,139,481,613	20,127,660,274	233,443,568	308,143,821
16	2,036,889	48,558,119,742	20,890,781,054	199,567,807	319,826,796
17	2,043,072	48,366,575,685	20,926,590,658	238,665,256	320,375,022
18	2,117,177	49,666,920,059	21,648,446,130	188,427,481	331,426,247
19	2,091,348	48,766,775,220	21,360,061,717	217,177,252	327,011,235
20	2,120,760	49,074,054,178	21,629,081,324	224,958,425	331,129,782
21	2,159,466	49,573,946,801	21,990,811,534	262,530,902	336,667,680
22	2,258,462	51,345,604,298	22,956,865,154	199,140,033	351,457,450
23	2,229,715	50,389,760,107	22,639,078,129	250,473,627	346,592,299
24	2,296,941	51,458,891,743	23,283,361,794	222,458,141	356,455,941
25	2,303,974	51,257,167,016	23,323,878,529	204,714,018	357,076,230
26	2,278,885	50,390,791,122	23,043,352,765	251,919,471	352,781,529
27	2,342,221	51,349,892,544	23,645,575,452	220,313,223	362,001,240
28	2,339,427	50,945,425,667	23,587,455,447	261,948,236	361,111,453
29	2,411,709	52,061,601,964	24,276,105,705	217,084,357	371,654,324
30	2,392,601	51,325,449,302	24,055,202,167	240,836,144	368,272,408
31	2,419,568	51,515,747,682	24,291,887,855	258,075,000	371,895,940
32	2,473,418	52,231,891,472	24,794,111,287	239,867,859	379,584,715
33	2,486,318	52,131,702,981	24,889,943,179	251,837,359	381,051,851
34	2,519,081	52,417,270,642	25,181,649,378	244,418,475	385,517,718
35	2,533,658	52,344,550,914	25,293,169,476	221,253,792	387,225,032