

Research on the Current Situation of Financial Leasing ABS and Its Risk of Basic Assets

Yueying Xu

Lecturer, Department of Finance
Fuzhou University of International Studies and Trade
Changle, Fuzhou, China

Abstract—Financing leasing has broadened the financing channels for SMEs in China, alleviating the problem of financing difficulties for SMEs. However, financial leasing companies themselves are also facing difficulties in financing. Financial leasing enterprises are capital-intensive enterprises, which have large demand for long-term and low-cost funds, and traditional financing channels cannot meet the requirements of financial leasing enterprises. The financial leasing ABS has revitalized the leased assets held by the financial leasing company, providing them with a low-cost, long-term source of funding. In recent years, it has been favored by financial leasing companies. The booming financial leasing ABS is the result of the actual demand for funds in the financial leasing industry, the characteristics of ABS and the combined effects of national policies. However, the financial risk of ABS is rapidly developing while the business risks are gradually emerging. The fundamental problem lies in the quality of the underlying assets. Therefore, the risk-related factors related to the underlying assets deserve our attention. Promoting financial leasing the fundamental guarantee for the sustainable and healthy development of ABS lies in improving the quality of basic assets.

Keywords—financing lease; ABS; financing channel; risk

I. INTRODUCTION

The so-called financial leasing ABS refers to a leasing asset (lease credit) that a financial leasing company will use a batch of uses, performance, leases of the same or similar, and can generate large-scale and stable cash flow, through structural reorganization, convert it into the process of selling and circulating securities on the financial market. The owner of the leased debt financing leasing company sells various similar or similar leased claims held by the liquidity to the leased securitization institution (SPV), and obtains the funds for selling the lease debt from the SPV. Then, the SPV issues the leased bonds with these claims as collateral, and the secondary market intermediary sells the leased bonds to the investors and obtains the funds for selling the leased securities from the final investors.

II. DEVELOPMENT STATUS OF FINANCIAL LEASING ABS

After the resumption of asset securitization in China in 2011, leased assets became the fastest-growing underlying asset class. In 2014, there were only 4 ABS products for

financing leases in China, and the scale of issuance was only 6.131 billion yuan. In 2015, the number of financial leasing ABS products soared to 68, and the issuance scale rapidly increased to 64.715 billion yuan. In 2016, its issuance scale exceeded 100 billion, reaching 116.69 billion yuan, and the product scale was also broken, reaching 120. In 2017, although the number of financial leasing ABS was reduced to 99, the amount of issuance increased to 143.998 billion yuan. In 2018, a total of 124 ABS products were financed and leased, with an issue amount of 144.779 billion yuan. As of June 4, 2019, China's financial leasing companies issued a total of 80 ABS products with a financing amount of 94.869 billion yuan, which has reached 66% of the total size of the 2018 issuance. Compared with the same period of 2018, the issue amount increased by 68% year-on-year, and the issue amount increased by 54%. [1]

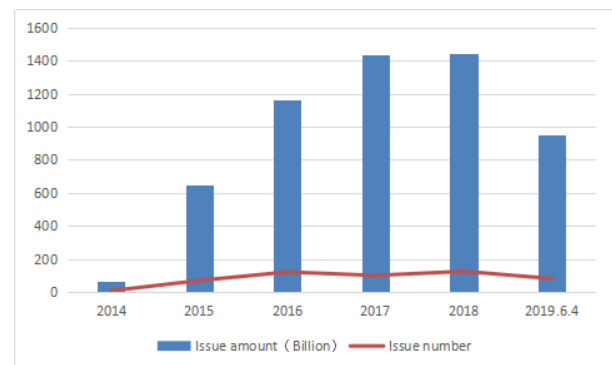


Fig. 1. Financial leasing ABS issuance

III. REASONS FOR THE RAPID DEVELOPMENT OF FINANCIAL LEASING ABS

The rapid growth of financial leasing ABS business volume is the result of multiple factors. This paper mainly studies from the aspects of financial leasing companies, financial leasing ABS business and national policies.

A. The Financial Leasing Company Perspectives

The industry nature of financial leasing companies determines that traditional financing models cannot meet their business development needs, and new financing channels that can reduce capital costs are urgently needed.

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- Financial leasing is a capital-intensive industry: The subject matter of financial leasing often involves multiple industry sectors, the model is more complicated, the project capital demand is large, the business period is basically more than three years, and there is a great demand for large and long-term funds. Therefore, the sustainable and healthy development of financial leasing companies must be supported by reliable and long-term financial support.
- Financial leasing companies generally face difficulties in financing: China's financial leasing companies are mainly divided into four types: financial leasing companies with foreign backgrounds; and total leasing companies with bank backgrounds. In addition to the financial leasing companies with foreign investment background relying on the strength of their foreign shareholders to finance less, the other three types of financial leasing companies are facing greater financial pressure. Although a financial leasing company has a banking background, for a listed bank, the financing of the subsidiary to the parent company is a related party transaction, and the financial leasing company's financing to its parent company is restricted. As for financial leasing companies established by large manufacturers and financial leasing companies of independent third parties, the main financing channel is bank loans. Overall, at present, the source of funds for China's financial leasing companies mainly depends on shareholder loans and bank loans, which is difficult to meet the funding needs of financing companies.
- Existing financing channels are likely to lead to mismatching of funds for financial leasing companies: The business of financial leasing companies is mainly for medium and long-term business of 3-10 years. More than 70% of projects require 3-5 years to recover costs, and the time span of large-scale projects is even more than ten years. Therefore, for financial leasing companies, it is ideal to have long-term, low-cost funds. However, the main financing channels of China's financial leasing companies at this stage are still bank loans, and the business varieties are mainly credit products such as inter-bank credit and factoring. The time limit for the funds to be financed is generally 1-3 years, and there are very few for more than five years. Financial leasing companies' financing channels are too dependent on bank loans, resulting in mismatches in the assets and liabilities of financial leasing companies.

B. Financial Leasing ABS Business Perspective

- Financial leasing ABS is conducive to financing leasing companies to revitalize assets: Through financial leasing ABS, financial leasing companies can transform their less liquid financing claims into more liquid cash assets, accelerating the turnover rate of existing assets. Before the ABS, the financial leasing enterprises need an average of 4-5 years to expire, and the ABS financial leasing companies can package and sell the assets in a short period of time to realize the

withdrawal of funds, thus facilitating the rapid rolling of the financial leasing enterprises. Invest in and accelerate the pace of your business development.

- Financing lease ABS is conducive to reducing financing costs: Since 2016, the issuance rate of financial leasing ABS has continued to decline. The average interest rate reached 3.20% at the lowest, which is lower than the benchmark interest rate for loans within five years. Driven by low capital costs, more and more companies are issuing financial leasing ABS. In 2017, as the ABS market warmed up, the average cost of capital increased gradually, reaching 5.96% in the fourth quarter of 2017. The average issuance rates for 2016 and 2017 are basically between 5% and 6%. [3] The 2018 leased ABS weighted average interest rate was 6.03%, [2] and the average issue rate from January to June 2019 was 4.8%. [1] By issuing ABS financing, the cost is much lower than traditional bank credit funds.
- Lease assets and ABS base assets are highly matched: Financial Leasing ABS's underlying assets are leasehold claims that are expected to generate stable cash income in the future. The financial leasing enterprise and the lessee clearly stipulate in the financing lease contract the obligation of the lessee to pay the rent, and usually, the other expenses and losses related to the financial leasing are also borne by the lessee. In terms of cash flow, the rent and amount of the underlying assets are clear, and the future cash flow can be measured. The lease term is basically more than one year and lasts for a long time. Besides, 78% of the leased ABS base assets are paid on a quarterly basis, [4] the repayment amount is customized according to the lessee's financing needs and repayment schedule requirements. Therefore, from the perspective of the matching degree between the two, the financial lease assets can meet the requirements of the ABS basic assets to a higher degree.
- Financial leasing ABS helps to match the funding period: ABS is a financing tool that restructures assets with stable expected returns but lacks current liquidity, and then sells them in the capital market. It absorbs social idle funds and can set financing terms according to asset characteristics. ABS can match the actual situation of the financial leasing business to raise funds. At present, the term of ABS products issued by financial leasing companies ranges from 1 to 10 years, and more than 95% of projects are more than 5 years, which ensures that the maturity of assets and liabilities of financial leasing companies matches.

C. National Policy Perspective

The Financial Leasing No. 1 document issued in September 2015, "Guiding Opinions of the General Office of the State Council on Accelerating the Development of the Financial Leasing Industry" states that eligible financial leasing companies are supported to raise funds through the issuance of stocks and asset securitization. The National Financial Work

Conference, which ended in July 2017, made it clear that “it is important to place direct financing for development”. From the approval of ABS to the filing system, from the limited types of basic assets to the current 17 categories, from the financial leasing to the three-return policy to the industry-wide reform, the development of the national team's asset securitization business and financial leasing industry provides Great support.[5]

IV. RISK ANALYSIS OF ABS BASIC ASSETS OF FINANCIAL LEASING

The proportion of the stock of financial leasing ABS in the ABS market is about 10.57%. With the continuous increase in the issuance of financial leasing ABS, the risks under high-speed growth are also constantly exposed. As of the end of April 2019, there were 4 ABS projects with substantial defaults, namely: the special asset management plan for the toll income right of Dacheng West Yellow River Bridge in 2016, and the special asset support plan for the first phase of Qinghui Leasing in 2017. The 2018 Red Expo Exhibition CMBS, the 2018 Ping An Kaidi & Pingyin Kaidi Power Online Charging Rights Asset Support Special Plan. Judging from these four default events, the risk of financing lease ABS mainly comes from the risk of the underlying assets. Specifically, it can be divided into the following types.

A. Downside Risks of Basic Asset Quality

With the adjustment of China's economic structure, the economic operation is facing downward pressure, and the quality of basic assets is declining. Due to the jet development of the ABS well in the financial leasing in 2017, the price of funds has increased. The weighted average interest rate for leased ABS in the first half of 2018 was 6.34%, and the highest was 8.2%.[4]Under the influence of the increase in financing costs, large-scale financial leasing enterprises with better credits turned to issuing bonds. The financing channels are relatively limited. Because their credit qualifications are difficult to meet the credit requirements for issuing bonds, they cannot be financed by issuing bonds. However, compared with the traditional financing methods, the financing cost of financial leasing ABS is much lower. However, such small and medium-sized financial leasing companies have higher operational risks and the quality of the underlying assets is relatively weak. The difference between ABS and traditional financing methods is that the degree of risk of ABS products depends on the credit quality of the underlying assets. The basic assets are the core factors of securitization, and their quality directly affects the development of ABS business.

B. Concentration Risk of Basic Assets

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credits turned to issuing bonds. The financing channels for small and medium-sized financial leasing companies are relatively limited. Because their credit qualifications are difficult to meet the credit requirements for issuing bonds, they cannot be financed by issuing bonds. However, compared with the traditional financing methods, the financing cost of financial leasing ABS is much lower. However, such small and medium-sized financial leasing companies have higher operational risks and the quality of the underlying assets is relatively weak. The difference between ABS and traditional financing methods is that the degree of risk of ABS products depends on the credit quality of the underlying assets. The basic assets are the core factors of securitization, and their quality directly affects the development of ABS business.

C. Lessee Business Risk

The debtor of the lessee and the underlying assets, the production and operation status of the lessee will have the most direct impact on the recovery of the financial assets of the ABS base assets. Once the lessee has difficulty in operating, the repayment ability will be affected, which will lead to default risk. In the case of defaults that have occurred, the points of risk are caused by the inability of the lessee to pay interest on time. Especially for financial leasing ABS involving multiple lessees, the specific circumstances of each tenant are different. Once there is a problem with the operating conditions of some tenants, it will affect the quality of the entire asset package.

D. Operating Risks of the Original Equity Holder and the Credit Enhancement Entity

Although China's asset securitization has set up SPA for risk isolation, according to the actual situation of China's current capital market, the existing financial leasing ABS products are non-listed ABS, and its asset isolation effect is relatively limited. After the transfer of assets, the recovery of their cash flows depends to a greater extent on the original equity, guarantor or credit subject. In other words, the original equity and the credit entity bear the role of the source of the final repayment of the ABS product. In particular, when the lessee overdue or defaults, the original equity and the credit enhancement entity become the ultimate security guarantee for the ABS product.

V. SUGGESTIONS ON IMPROVING THE QUALITY OF ABS BASIC ASSETS OF FINANCIAL LEASING

After the text edit has been completed, the paper is ready for the template. Duplicate the template file by using the Save As command, and use the naming convention prescribed by your conference for the name of your paper. In this newly created file, highlight all of the contents and import your prepared text file. You are now ready to style your paper; use the scroll down window on the left of the MS Word Formatting toolbar.

A. *The Financial Leasing Industry should Strengthen the Construction of the Risk control System and Standardize its Operation.*

The financial leasing company is the provider of the underlying assets in the financial leasing ABS business chain, and determines the quality of the underlying assets from the source. In the course of business development, financial leasing companies should strengthen the construction of risk control system, actively prevent and control asset risks, and improve the quality of basic assets.

B. *Strengthening Peer Cooperation*

In recent years, although China's financial leasing industry has achieved rapid development, the industry penetration rate is far from the world average level, and the distance from developed countries is greater. With the promotion of China's "One Belt, One Road" policy, infrastructure construction and public facilities construction in developing countries along the line will provide a large number of high-quality base assets for financial leasing ABS. In the future, both large-scale financial leasing companies and small and medium-sized leasing companies can find a market that suits them and form a complementary virtuous circle. Based on this, the financial leasing industry can achieve Pareto improvement for all parties through peer-to-peer cooperation and quality assets. Financial leasing ABS with high cost of issuing small and medium-sized financial leasing companies can cooperate with other large financial leasing companies to jointly package and lease ABS, and increase the liquidity and utilization rate of funds in the form of platter.[4]Financial leasing companies with debt-issuing capabilities can jointly set up industrial funds, tap high-quality assets from other financial leasing companies, and give full play to asset issuance capabilities.

C. *Improve Relevant Policies and Legal Systems*

China's relevant laws and policies on financial leasing ABS are still not perfect. It is necessary for the state to establish a legal framework for financial leasing ABS to ensure that the development of this business is legally compliant and has rules to follow, thus promoting the financing leasing enterprises. Smooth development.[8]

VI. CONCLUSION

Financial leasing has provided a new blood for the development of China's real economy. It has effectively expanded the financing channels for SMEs and promoted the upgrading and transformation of traditional manufacturing. However, the financial leasing industry is also facing difficulties in financing. The traditional financing model cannot adapt to the characteristics of the industry. The issuance of bonds has a higher threshold, which is beyond the reach of most financial leasing companies. Financial leasing ABS can effectively revitalize the leased assets of financial leasing enterprises. The financial leasing ABS has been booming in China in recent years due to its own characteristics. However, the quality of the underlying assets that determine the decisive factors of ABS products is also subject to various risk factors. However, in the long run, the financial leasing industry has broad room for development, and financial leasing companies, governments and the whole society should work hard to improve the quality of financial leasing ABS basic assets. With the improvement of the quality of basic assets, the leased assets ABS will gradually become a weapon to promote the financial leasing services to the real economy.

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