

Abstract

In light of the crucial role of securitization in the financial crisis of 2007-2008, a key issue is whether there is a causal link between securitization and screening. Since securitization is a complex process involving several agents, it leads to various frictions mainly due to the presence of severe information asymmetries. This work examines information asymmetries within the securitization process, focusing especially on asymmetric information problems between originators and potential borrowers. The information advantage of borrowers about their credit quality creates a standard adverse selection problem. Since screening and monitoring are costly and through securitization financial institutions are no longer bound to keep loans on their balance sheets but can remove them off, transferring the associated credit and default risk to third parties, securitization may have adverse effects on originators' screening incentives. The two presented academic papers analyze how the ease of securitization and different retention mechanisms for the originator affect the originator's effort in screening potential borrowers, and suggest that, due to lower screening incentives, originators need more skin-in-the-game.