

Backup Servicer in Securitization

Securitization is a transaction where fund is raised backed by only assets assigned with the originator's credit risk being separated from them. Normally, the originator continues to receive collected money as a servicer after assignment of receivables. In a scenario where the servicer goes bankrupt, it is necessary to secure smooth receipt of monies collected from receivables beforehand. For this reason, a backup servicer (hereinafter referred to as "BUS") is appointed. It is necessary therefore that BUS be a company capable of servicing operation fit for the types and the number of securitized assets, and that it maintains the appropriate state of readiness in response to creditworthiness of the originator. These measures in the securitization transaction make possible a rating higher than that of the originator such as AAA.

It is true that there are needs to reduce these contractual burdens as securitization is becoming more popular as tools for funding in the business world. There are already many cases where a BUS has not been appointed until certain conditions such as worsening of the initial servicer's creditworthiness occur. In the event where servicer's creditworthiness worsens, it is important to find a BUS with an appropriate cost that cannot cause a significant impact on the interest and principal payments of the securitization. In general, it is expected that selection of BUS when the servicer's creditworthiness worsens will be difficult to a certain degree. JCR thinks it necessary to add qualitative decisions such as quality of assigned receivables that could have an impact on degree of difficulty in collection of receivables and incentives for a prospective BUS as to the possibility that the BUS will acquire receivables of the servicer's operating assets eventually instead of merely examining direct costs expected for selection of BUS.

JCR allows appointment of a BUS to be reserved until later by a measure that "in the event that the originator's rating by JCR lowers below a certain degree, trustee will select a BUS," while JCR requires, in principle, an effective and appropriate BUS being appointed at the time of securitization to counter a scenario of servicer's bankruptcy. In this caseⁱ, JCR thinks it desirable that BUS selection is made during a period where the originator's rating is within BBB category, which is an investment grade. JCR determines a rating considering qualitative factors as described above including originator's current state and its quality of receivables as its operating assets.

ⁱ When the originator is not formally rated by JCR, the determination of whether or not such reservation on the BUS appointment is admissible is made by case-by-case analysis of the originator's creditworthiness.

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