



Bachelor of Economics
THAMMASAT UNIVERSITY

FN 211 Financial Markets

Class 1: Introduction

Win Phromphaet, CFA

Today's Outline

- Course Introduction
- Overview of **Financial System**
- **Financial Markets**
 - Function and Structure
 - International Financial Markets
- **Financial Institutions**
 - Classification of Financial Institutions
 - Function of Financial Institutions

Introduction



About Me

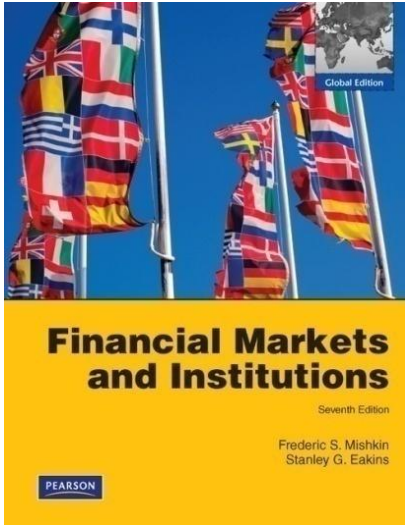
- Name: Win Phromphaet, CFA
- Education:
 - B.A. Econ (International Program) #2, Thammasat University
 - MBA (Finance), Rotterdam School of Management, Erasmus University, the Netherlands, sponsored by the Royal Thai Government Scholarship
 - Chartered Financial Analyst
- Positions:
 - Head of Investments, Social Security Office
 - Director, CFA Society of Thailand
 - Lecturer at Thammasat, NIDA and ABAC
 - *Facebook.com/SSOSavingsClub*
 - *cfathailand.blogspot.com*

Introduction

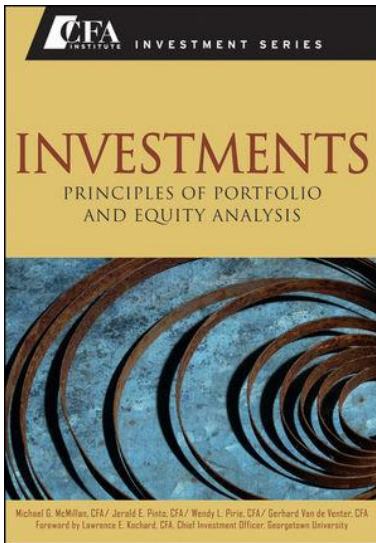
About You

1. Nickname, hometown, high school?
2. What do you do in your free time?
3. Is there anything unique about yourself (i.e., no one else in the class has it)?

Recommended Textbooks



- Mishkin and Eakins (2012), **Financial Markets and Institutions**, 7th Edition, Pearson.



- McMillan and Pinto (2011), **Investments: Principles of Portfolio and Equity Analysis**, 1st Edition, Wiley.

Grading

Composition

- Class Attendance and Participation 15%
- Case Studies 20%
- Midterm Exam 25%
- Final Exam 40%

Criteria

- A = 4.0 (90 – 100) Excellent
- B+ = 3.5 (85 – 89) Very Good
- B = 3.0 (80 – 84) Good
- C+ = 2.5 (70 – 79) Fair
- C = 2.0 (60 – 69) Adequate
- D+ = 1.5 (55 – 59) Poor
- D = 1.0 (50 – 54) Very Poor
- F = 0.0 (<49) Fail

Financial Calculator



Recommended Calculators:

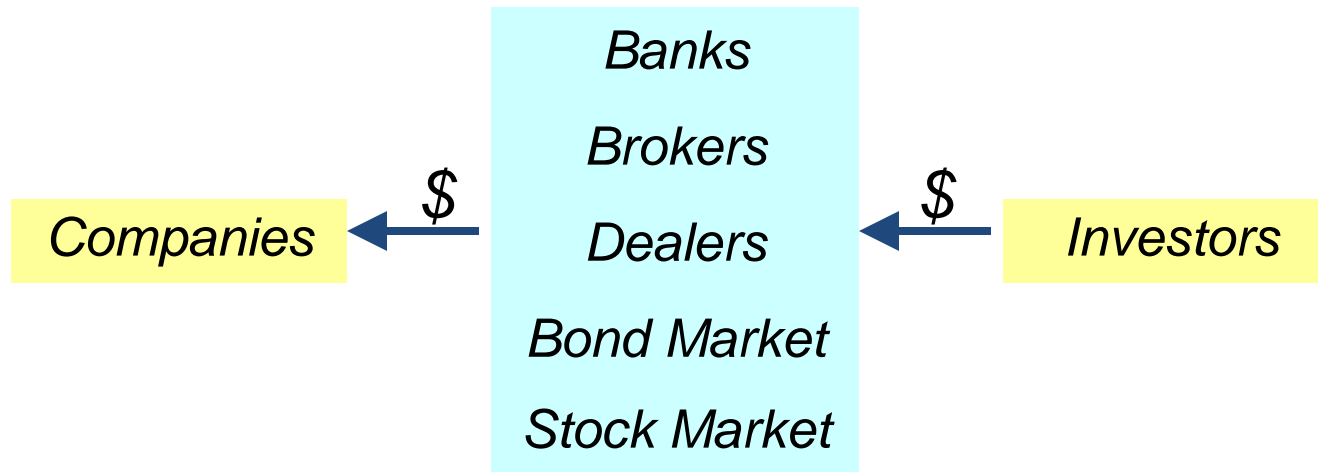
Texas Instruments BAII Plus *or*

Texas Instruments BAII Plus Professional:

- Highly recommended if you want to pursue your career in business or finance
- These are 2 out of 4 required models to sit for the CFA exam.
- The other 2 are HP12C and HP12C Platinum which are, for many people, more difficult to use.
- Very practical, but quite expensive (Around 1,700 for ordinary model and 2,500 baht for professional model at B2S)
- The **Professional model** has 5 more functions. I personally think that they do not justify a much higher price.



The World of Finance



FN 311

*Tools for
CFOs*

FN 211

*Markets and
intermediaries*

FN 312

*Tools for
investors*

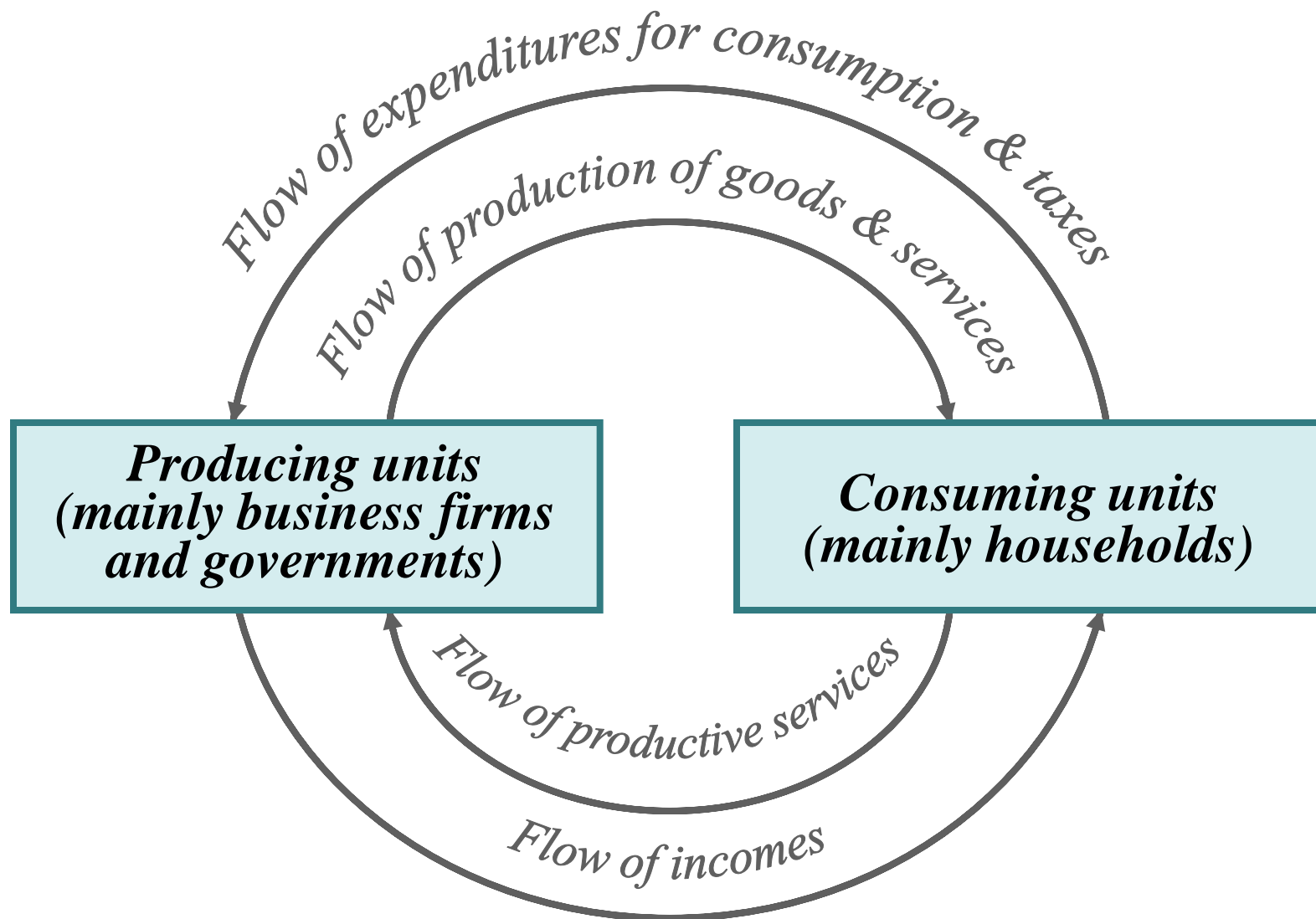
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Overview of Financial System

- The *financial system* is the collection of markets, institutions, laws, regulations, and techniques through which bonds, stocks, and other securities are traded, interest rates are determined, and financial services are produced and delivered around the world.
- The **primary task of the financial system** is to move scarce loanable funds from those who save to those who borrow to buy goods and services and to make investments in new equipment and facilities, so that the global economy can grow and the standard of living can increase.

Circular Flow of Income, Payments, and Production in the Global Economic System



Functions Performed by the Financial System

- *Savings function*. (= **flow**) The global system of financial markets and institutions provides a channel for the public's savings.
- *Wealth function*. The financial instruments sold in the money and capital markets provide an excellent way to store wealth (accumulated savings = **stock**) until funds are needed for spending.



Functions Performed by the Financial System

Wealth function:

$$W_t = \sum_i A_{it}$$

- Wealth is the sum of the values of all individual assets held. Wealth is built up over time by a combination of current savings plus income earned on previously accumulated wealth.

$$\Delta W_t = S_t + (r_t * W_{t-1})$$

- ΔW_t is the change in wealth in the current period
- S_t is the volume of current savings
- r_t is the average rate of return on accumulated assets
- W_{t-1} is the initial value of all accumulated wealth held

Functions Performed by the Financial System

Wealth function (Cont.)

- The portion of wealth held by society in the form of financial wealth (stocks, bonds, deposits, etc.) is substantial.

Financial Wealth of US Households & Non-Profits in 2011

Total Financial Assets – Debt = Net Financial Wealth

US\$73 – 13 = 60 trillion

- Wealth holdings represent stored purchasing power that will be used in future periods as income to finance purchases of goods and services and to increase society's standard of living. => *Pension Fund*

Functions Performed by the Financial System

Wealth function (Cont.)

- Income is created by the rate of return (r_t) that current wealth holdings (W_{t-1}) generate for their owners

$$Y_t = r_t * W_{t-1}$$

- In turn, that wealth-created income leads to both increased consumption spending (C_t) and to new savings (S_t);

$$Y_t = C_t + S_t$$

- resulting in a higher standard of living for those who hold wealth in income-generating forms.

Functions Performed by the Financial System

- *Liquidity function.* Financial markets provide liquidity for savers who hold financial instruments but are in need of money.
- *Credit function.* Global financial markets provide credit to finance consumption and investment spending.
- *Payments function.* The global financial system provides a mechanism for making payments for goods and services: checking account, credit cards, electronic payments.



Functions Performed by the Financial System

- *Risk protection function.*

The financial markets around the world offer businesses, consumers, and governments protection against life, health, property, and income risks.

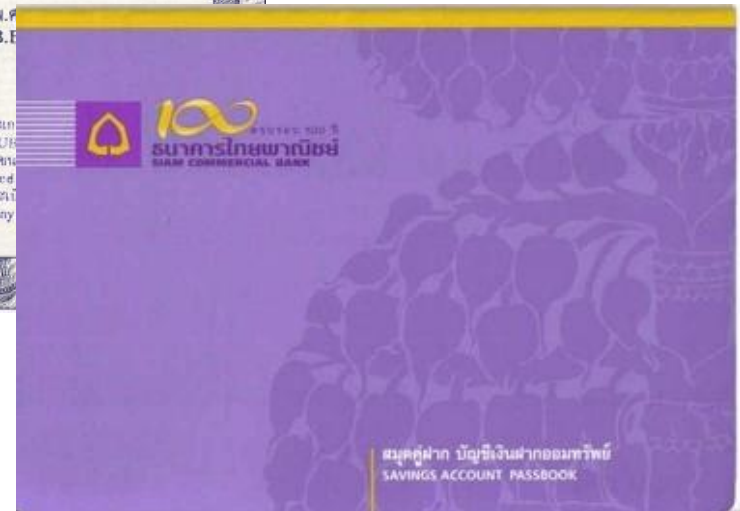
The advertisement is for Thunachart Life Assurance's 'Perfect Saving 10/4' plan. It features a yellow background with a stack of Thai banknotes on the right side. The text is in Thai and English. At the top left is the Thunachart logo and name. The main title is 'ธนาชาต PERFECT SAVING 10/4' with 'คุ้มครอง 10 ปี/ชำระเบี้ยเพียง 4 ปี' below it. A central text block states 'ไม่ต้องตรวจสุขภาพ คุ้มครองทันทีที่สมัคร อนุมัติทุกกรมธรรม์'. A large orange circle on the right says 'รับผลตอบแทน 550% ของทุนประกันภัย เริ่มต้น'. At the bottom, it provides contact information: 'ติดต่อสอบถามได้ที่ โทร 02-207-4200 ต่อ 4252,4751,4753' and 'ทุกช่องทางรับ ฝ่ายขาย โทร. 1770'.

The Creation of Financial Assets

A *financial asset* is ...

- a *claim* against the income or wealth of a business firm, household, or unit of government,
- represented usually by a certificate, receipt, computer record file, or other legal document,
- and usually created by or related to the lending of money.

The Creation of Financial Assets



Characteristics of Financial Assets

- Financial assets are sought after because they promise *future* returns to their owners and serve as a *store of value* (purchasing power).
- Financial assets do not provide a continuing stream of services to their owners as a home, a car or washing machine would do. Their value rests on *faith* that their issuer will honor his or her contractual promise to pay.



Characteristics of Financial Assets

- They do not *depreciate* like physical goods, and their physical condition or form is usually not relevant in determining their market value.
 - *A stock certificate is not more or less valuable because of the size or quality of paper it is printed on.*
- Their cost of transportation and storage is low, such that they have little or no value as a commodity.
- Financial assets are *fungible* – they can easily be changed in form and substituted for other assets.
 - *A bond or a share of stock can be quickly converted into any other asset the holder desires.*

Different Kinds of Financial Assets

Money

• is generally accepted in payment for the purchases of goods and services. Examples include currency and checking accounts.

Bond

• is a debt security that **promises to make payments** periodically for a specified period of time.

Stock

• (or equities) represents **a share of ownership** in a corporation

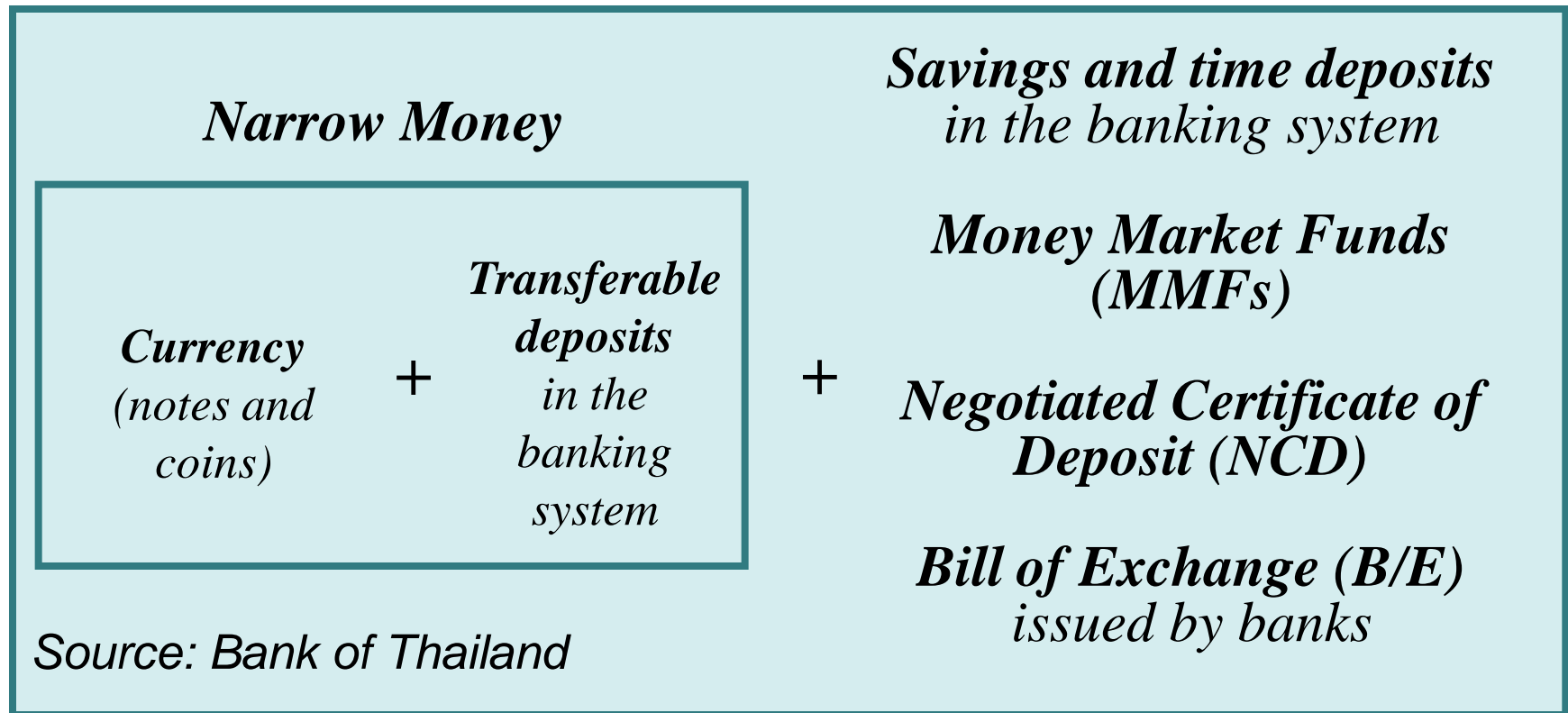
Derivative

• is a financial security whose **payoff is linked to another**, previously issued security.



Money

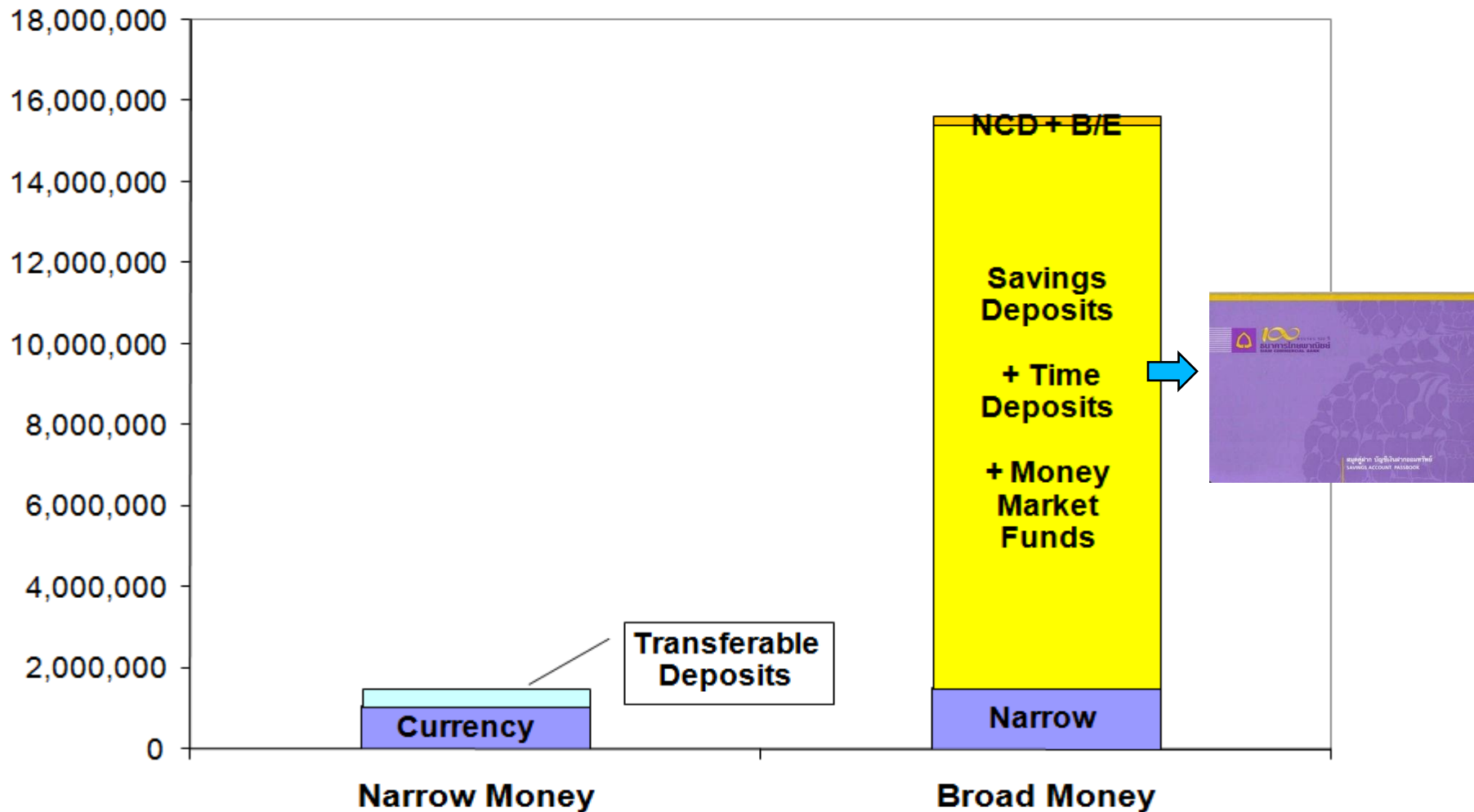
Broad Money



*Transferable deposits = เงินฝากกระแสรายวัน

Money

Thailand Money Supply as of Oct 2013



Source: <http://www2.bot.or.th/statistics/BOTWEBSTAT.aspx?reportID=7&language=ENG>

Bond

A **Bond** is a debt security that promises to make payments periodically for a specified period of time.

- An **interest rate** is the cost of borrowing or the price paid for rental of funds.
- Because different interest rates tend to move together, economists usually lump interest rates together and refer to **“the” interest rate**.
- Other debt securities include *bills, notes, accounts payable, credit card loans, mortgage loans and savings deposits*.

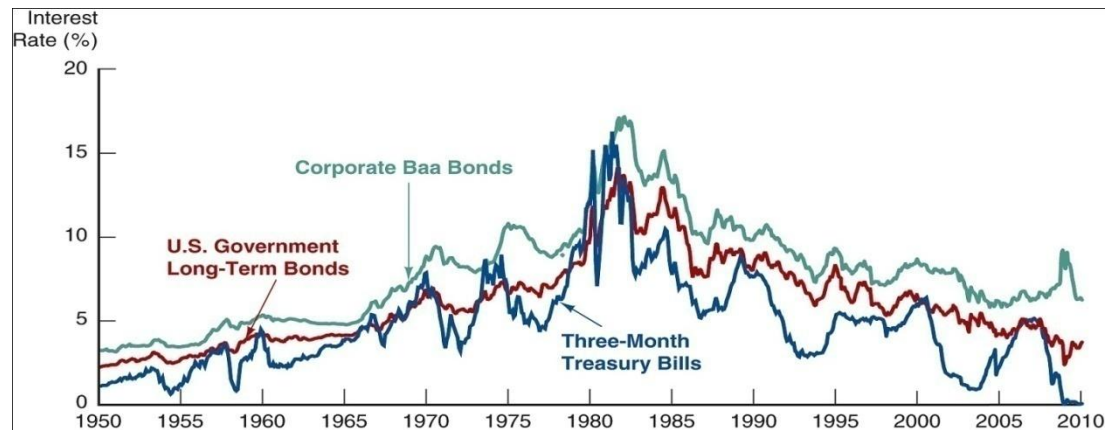


FIGURE 1.1 Interest Rates on Selected Bonds, 1950–2010

Sources: Federal Reserve Bulletin; www.federalreserve.gov/releases/H15/data.htm.

Stock

- **Stock** or **equities** represent a share of ownership in a corporation. It is a security that is a claim on the earnings and assets of the corporation.
- 2 types of **equities**: **common stock** and **preferred stock**.
- Companies initially sell stock (in the *primary market*) to raise money. But after that, the stock is traded among investors (*secondary market*).
- Of all the active markets, the stock market receives the most attention from the media, probably because it is the place where people get rich (and poor) quickly



Derivative

Derivative is a financial security whose payoff is linked to another, previously issued security.

- *It generally involves an agreement between two parties to exchange a standard quantity of an asset or cash flow at a predetermined price and a specified date in the future.*
- **Futures/Forwards** are contracts to buy or sell an asset on or before a future date at a price specified today.
 - *A futures contract is a standardized contract traded in an exchange,*
 - *A forward contract is a non-standardized contract written by the parties themselves.*
- **Options** are contracts that give the owner the right, but not the obligation, to buy or sell an asset.
- **Swaps** are contracts to exchange cash (flows) on or before a specified future date based on the underlying value of currencies/exchange rates, bonds/interest rates, commodities, stocks or other assets.



The Foreign Exchange Market

- *Foreign Exchange Market* is a worldwide, decentralized, *over-the-counter* market for the trading of currencies.
 - The primary purpose of the foreign exchange market is to assist international trade and investment, by allowing businesses to convert one currency to another currency.
 - It also helps determine the relative values of different currencies.
 - Average daily turnover in global foreign exchange markets is estimated at \$1.0 trillion!
 - Top-3 most traded currencies are USD (86%), EUR (37%), JPY (17%)



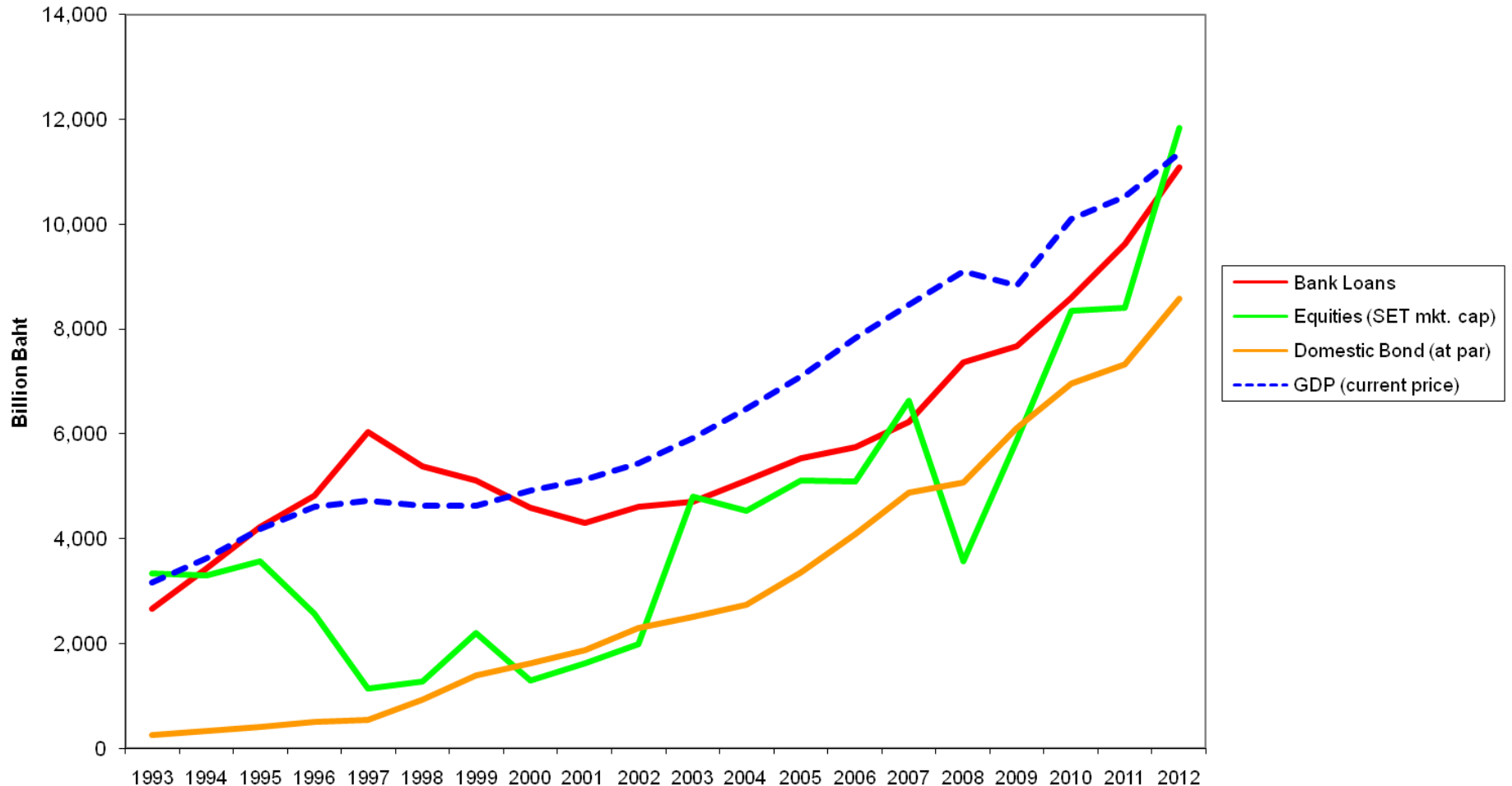
CANADA	CAD	0.9512	0.8883
CHINA	CNY	7.169	6.0910
EURO	EUR	0.6644	0.6100
JAPAN	JPY	109.00	102.00
SINGAPORE	SGD	1.3772	1.2638
HONG KONG	HKD	7.0043	6.4072
NEW ZEALAND	NZD	1.1646	1.0675
MALAYSIA	MYR	3.2536	2.7818

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Size of the Thai Financial Markets (billion baht)

Size of Thai Financial Markets

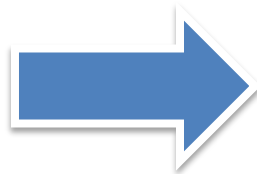


Function of Financial Markets

- Channels funds from person or business without investment opportunities (i.e., “Lender-Savers”) to one who has them (i.e., “Borrower-Spenders”)
- Improves economic efficiency

Lender-Savers

1. Households
2. Business firms
3. Government
4. Foreigners



Borrower-Spenders

1. Business firms
2. Government
3. Households
4. Foreigners

Function of Financial Markets

Direct Finance

- Borrowers borrow **directly** from lenders in financial markets by selling financial instruments which are claims on the borrower's future income or assets

Indirect Finance

- Borrowers borrow **indirectly** from lenders via financial intermediaries (established to source both loanable funds and loan opportunities) by issuing financial instruments which are claims on the borrower's future income or assets

Function of Financial Markets

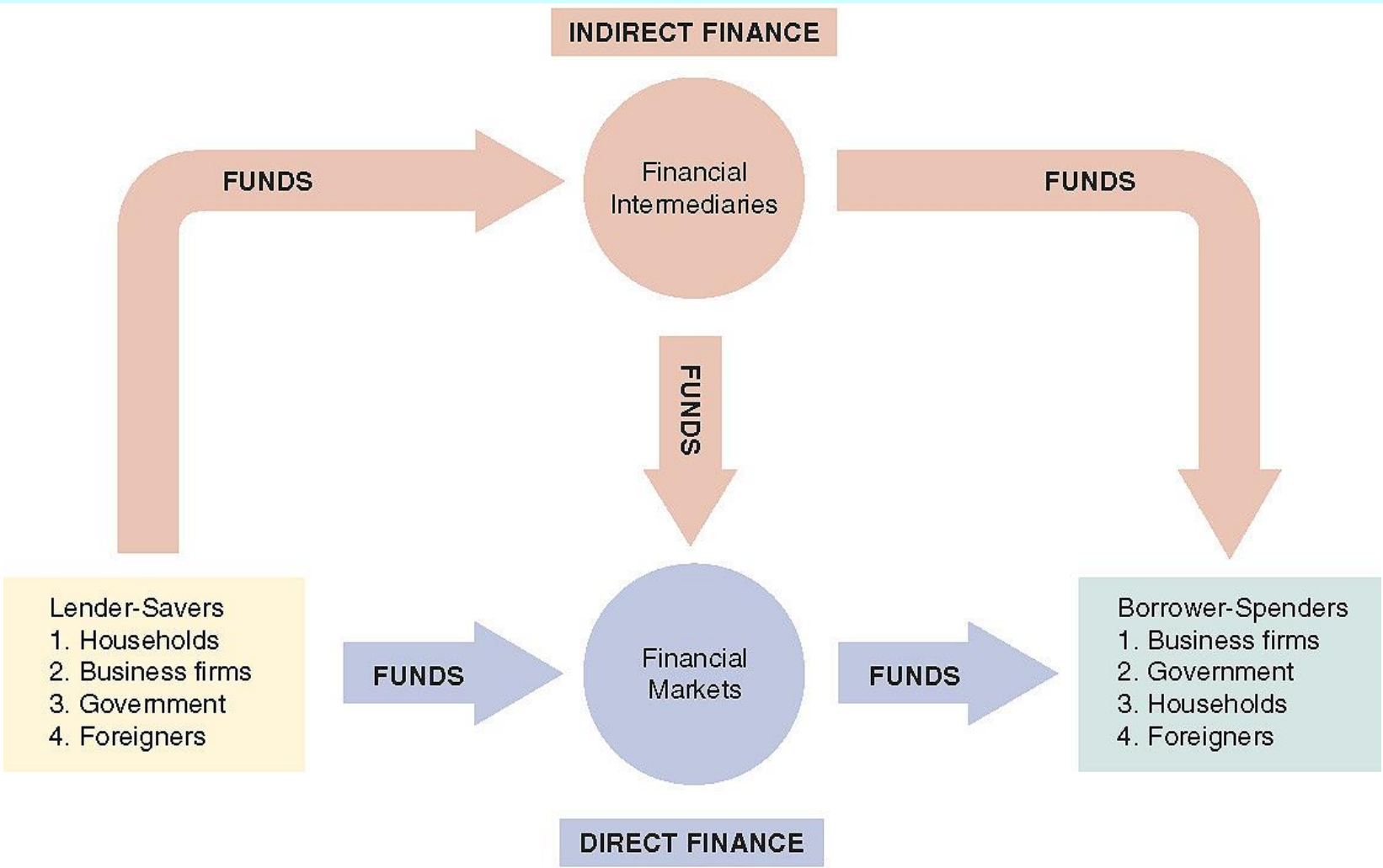
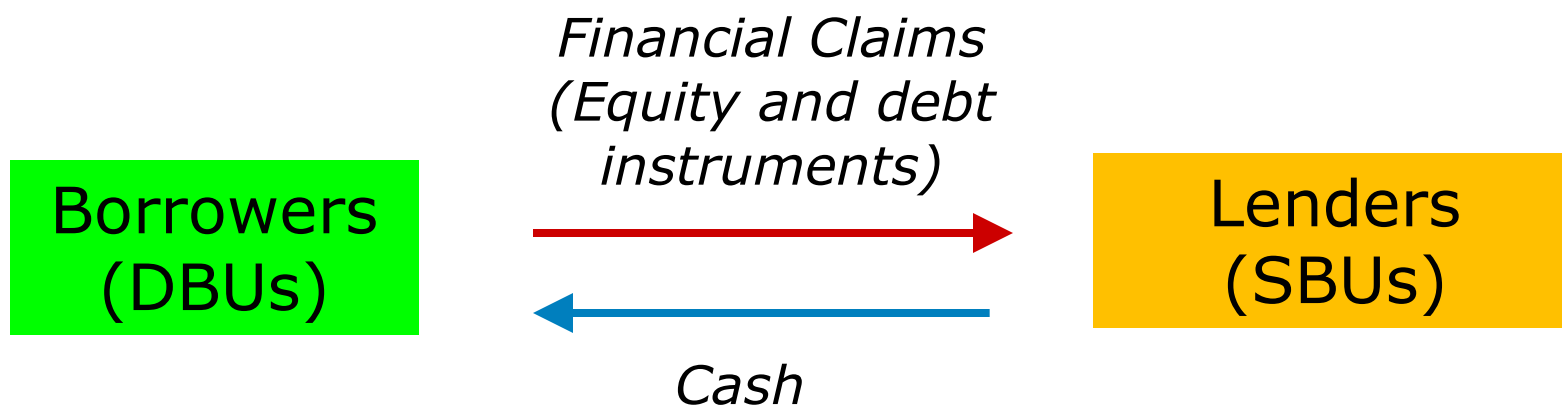


FIGURE 2.1 Flows of Funds Through the Financial System

The Evolution of Financial Transactions

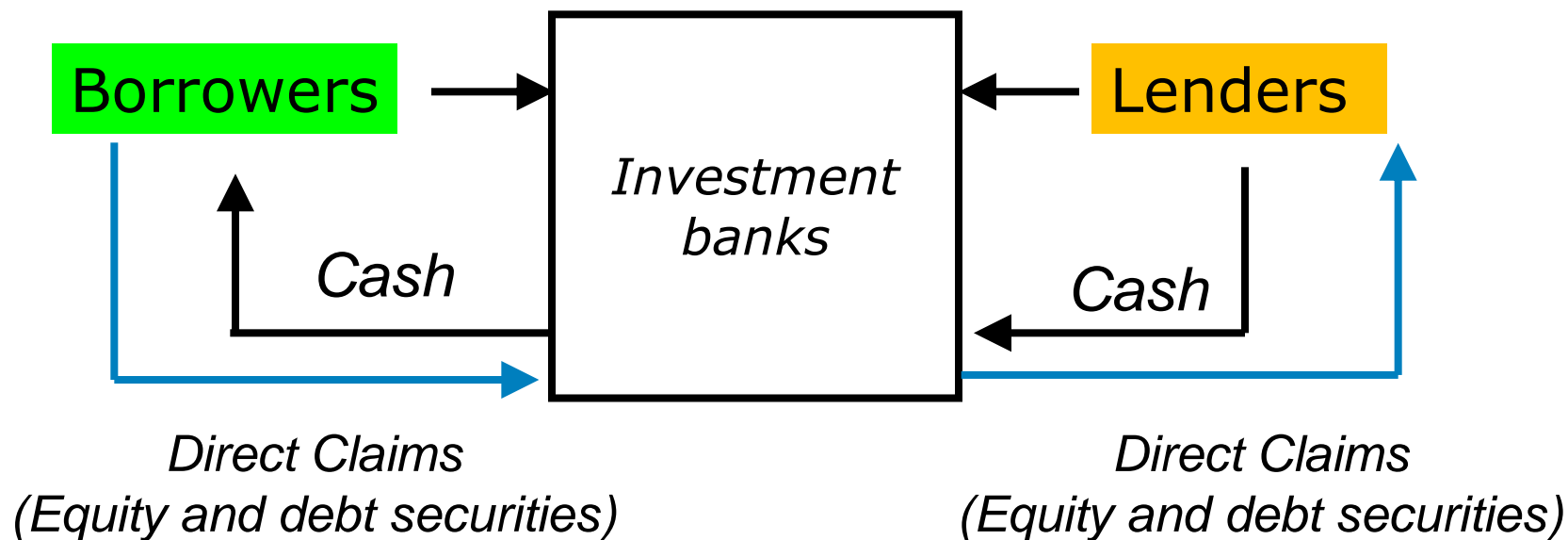
Direct Finance – Direct lending gives rise to direct claims against borrowers.



- *Both borrower and lender must desire to exchange the same amount of funds at the same time.*
- *The lender must be willing to accept the borrower's IOU, which may be risky.*
- *This incurs substantial information costs, simply to find each other.*
- *Example: **borrow money from a friend** and give him or her your IOU, purchase stocks or bonds directly from the issuing company.*

The Evolution of Financial Transactions

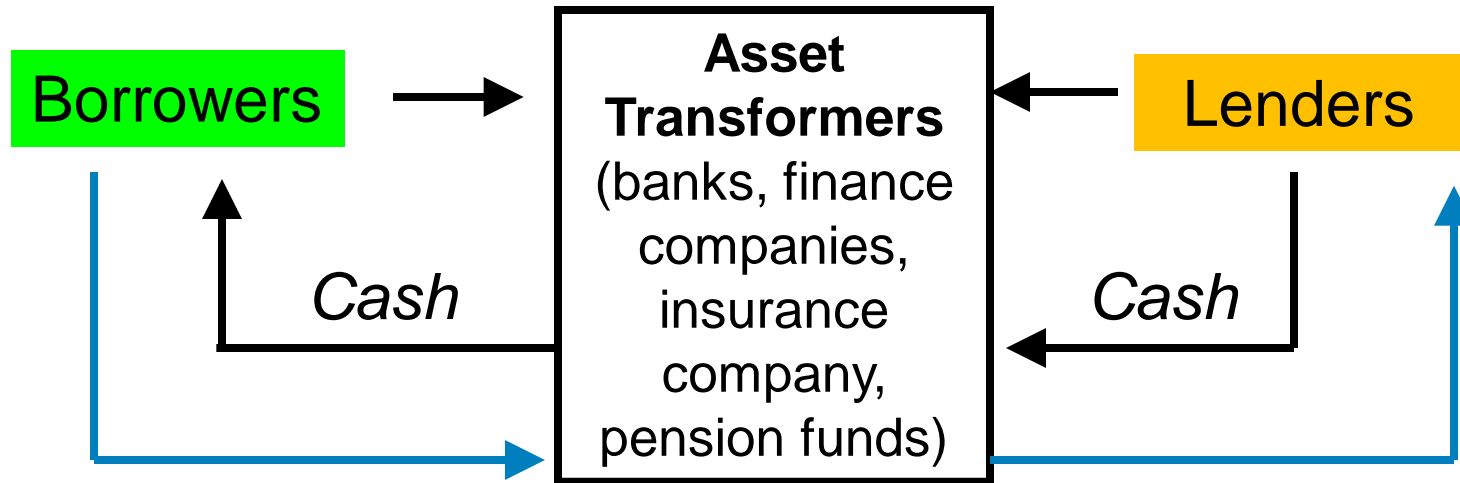
Semidirect Finance – Direct lending with the aid of market makers who assist in the sale of direct claims against borrowers.



- *Brokers – match buyers and sellers*
- *Dealers – acquire securities from sellers (take position of risk) with hope to sell to buyers later at better price.*
- *Lower information (search) cost. Lenders must be willing to take risk.*
- *Example – **buy stocks and bonds from investment banks in primary markets***

The Evolution of Financial Transactions

Indirect Finance – Financial intermediation of funds.



Direct Claims/Primary Sec.
(Equity and debt securities)

Indirect Claims/Secondary Sec.
(Deposits and insurance policies)

- *Asset transformers offering low risk, indirect claims with small denominations to lenders while granting higher risk, more illiquid investments (e.g., loans) to borrowers*
- *Example: **buy insurance policy**, deposit money at a bank*

Direct, Semi-direct or Indirect Finance?

Borrowing money from a bank

Purchasing a life insurance policy

Selling shares of stock through a broker

Lend money to a friend

Selling shares of stock to a colleague at work

purchase stock from your investment banker

Your corporation's contracting with an investment banker to help sell its bonds



Structure of Financial Markets

- The financial markets are structures through which funds flow.
 - Financial markets make possible the exchange of *current income* for *future income* and the transformation of *savings* into *investment* so that production, employment, and income can grow.
 - The suppliers of funds to the financial system can expect not only to recover their original funds but also to earn additional income as a reward for waiting and for assuming risk.

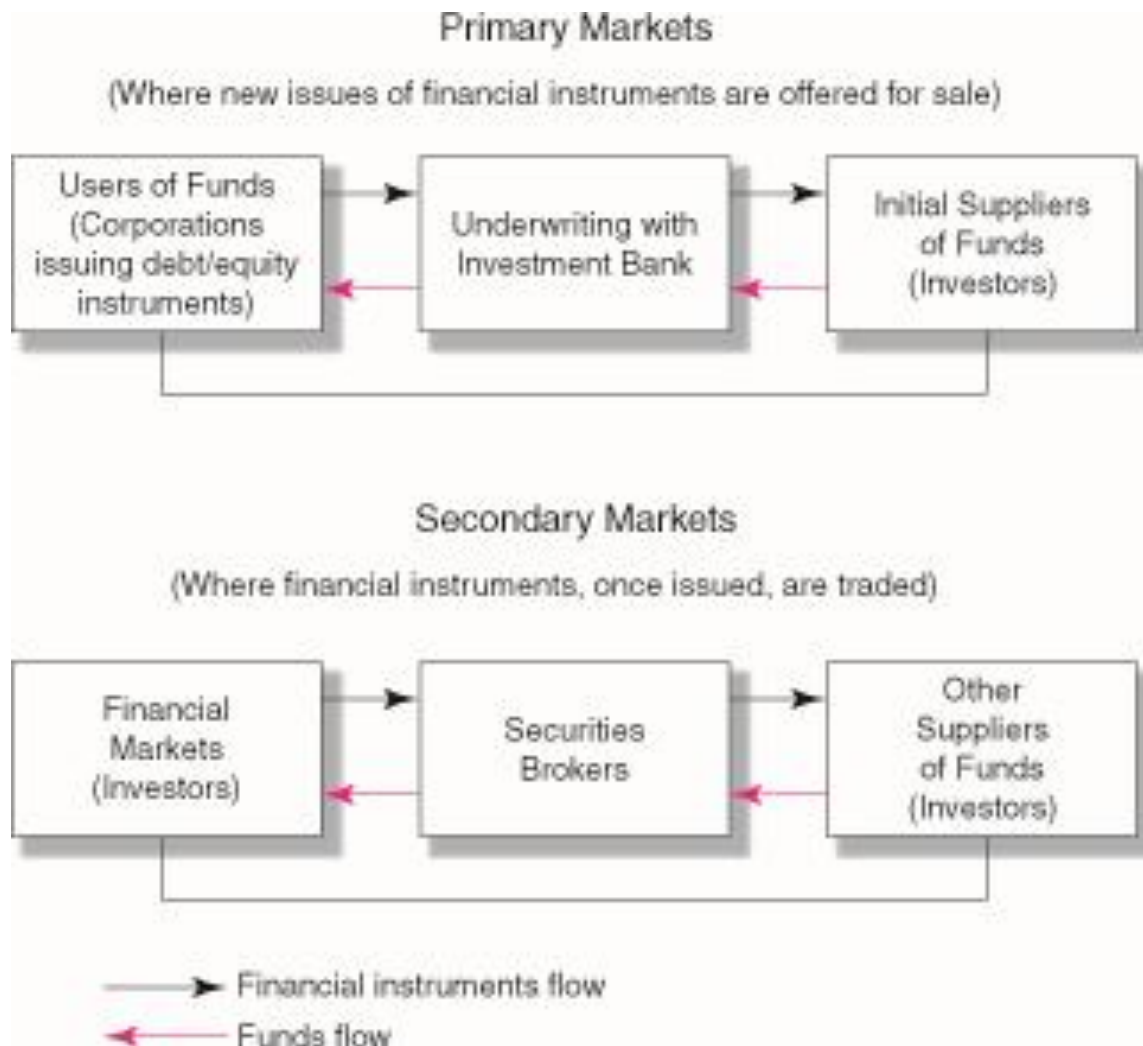
Structure of Financial Markets

Primary vs. Secondary

- *Primary markets* are markets in which users of funds (e.g., corporations and governments) raise funds by issuing financial instruments (e.g., stocks and bonds).
 - Most transactions are arranged through **investment banks** and can be either
 - Public Offering (initial PO or seasoned PO)
 - Private Placement
- *Secondary markets* are markets where financial instruments are traded among investors (e.g., Stock Exchange of Thailand, NYSE and NASDAQ)
 - Provide information about the current market value for the issuers.



Structure of Financial Markets



Structure of Financial Markets

Money vs. Capital Markets

- **Money markets** are markets that trade instruments with maturities of one year of less.
 - where individuals and institutions with temporary surpluses of funds meet the needs of those who have temporary shortages of funds.
 - *Instruments include Treasury bills, repurchase agreements, interbank loans, commercial papers, and bills of exchange.*
- **Capital markets** are markets that trade instruments with maturities of more than one year.
 - These securities finance long-term investments (such as factories, highways, schools, homes, etc.) by businesses, governments, and households.
 - *Instruments include mortgage loans, consumer loans, government bonds, corporate bonds and corporate stock.*

Structure of Financial Markets

Derivative Security Markets are markets in which derivative securities trade.

- *Futures and Options* are traded on exchanges
 - Example: Thailand Futures Exchange (TFEX), Chicago Board of Trade (CBT), Chicago Mercantile Exchange (CME), New York Mercantile Exchange (NYMEX)
- *Forwards and Swaps*, since they are not standardized, can be traded in OTC markets.



International Financial Markets

Foreign bonds

- Sold in a foreign country and are denominated in that country's currency.
- Example: Hana Bank (from Korea) issued bond in Thailand, denominated in Thai Baht.



Eurobonds

- Denominated in one currency, but sold in a different market
- Example: Toyota issued bonds in US Dollars and sold in London.
- Over 80% of new bonds are Eurobonds.



Eurocurrency Market

- Foreign currency deposited outside of home country
- Eurodollars are U.S. dollars deposited in, say, London.
- Gives U.S. borrowers an alternative source for dollars.

Primary or Secondary Market?

Google issues \$300 million of new common stock.

GE issues \$500 million of 5-year bonds.

Mary sells \$5,000 of GM stock through her broker.

Linda buys 10 futures contracts from an exchange.

ABC Pension Fund sells \$10 million of Intel stock.

Money or Capital Market?

Commercial Paper

Treasury Bills

Common Stock

Government Bonds

Repurchase Agreements



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Overview of Financial Institutions

- Institutions that perform the essential function of **channeling funds** from those with surplus funds to those with shortages of funds.
- Examples are banks, insurance companies, securities firms and investment banks, finance companies, mutual funds, pension funds, etc.

Classification of Financial Institutions

- *Depository institutions* derive the bulk of their loanable funds from deposit accounts sold to the public.
 - *Commercial banks, credit unions.*
- *Contractual institutions* attract funds by offering legal contracts to protect the saver against risk.
 - *Insurance companies, pension funds.*
- *Investment institutions* sell shares to the public and invest the proceeds in stocks, bonds, and other assets.
 - *Asset Management Companies who sell units of mutual funds, money market funds, etc.*

Classification of Financial Institutions

TABLE 2.1 Primary Assets and Liabilities of Financial Intermediaries

Type of Intermediary	Primary Liabilities (Sources of Funds)	Primary Assets (Uses of Funds)
Depository institutions (banks)		
Commercial banks	Deposits	Business and consumer loans, mortgages, U.S. government securities, and municipal bonds
Savings and loan associations	Deposits	Mortgages
Mutual savings banks	Deposits	Mortgages
Credit unions	Deposits	Consumer loans
Contractual savings institutions		
Life insurance companies	Premiums from policies	Corporate bonds and mortgages
Fire and casualty insurance companies	Premiums from policies	Municipal bonds, corporate bonds and stock, U.S. government securities
Pension funds, government retirement funds	Employer and employee contributions	Corporate bonds and stock
Investment intermediaries		
Finance companies	Commercial paper, stocks, bonds	Consumer and business loans
Mutual funds	Shares	Stocks, bonds
Money market mutual funds	Shares	Money market instruments

Source: Federal Reserve Flow of Funds Accounts: www.federalreserve.gov/releases/Z1/.

Depository Institutions

- **Commercial Banks**
 - depository institutions whose major assets are loans and major liabilities are deposits
- **Credit Unions**
 - issue deposits as shares and are owned collectively by their depositors, most of which at credit unions belong to a particular group, e.g., a company's workers



Contractual Savings Institutions

- Life Insurance companies
 - Insure people against financial hazard following a death and sell annuities.
- Property and Casualty Insurance companies
 - Insure policy holders against loss from theft, fire, accidents, etc.
- Pension Funds
 - financial institutions that offer savings plans for retirement



Investment Institutions

- Securities firms and investment banks
 - financial institutions that underwrite securities and engage in securities brokerage and trading
- Mutual Funds
 - financial institutions that pool financial resources and invest in diversified portfolios



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Asset
Management




Investment Institutions

- Finance companies
 - financial institutions that make loans to individuals and businesses
- Credit Foncier
 - financial institutions that make loans to real estate businesses.




Financial Conglomerates


A Financial Conglomerate consists of a bank, an asset management company, an insurance company, etc.
 Notice that, under each group, there is only one deposit-taking institution (which is a bank)




SCB
ไทยพาณิชย์




SCB
Asset Management



SCB
Securities



SCB
Samaggi Insurance



SCB
Life Assurance



ธนาคารกสิกรไทย
KASIKORNBANK 泰华农民银行



หลักทรัพย์จัดการกองทุนกสิกรไทย
KASIKORN ASSET MANAGEMENT 泰华农基金



ศูนย์วิจัยกสิกรไทย
KASIKORN RESEARCH CENTER 泰华农研究中心











หลักทรัพย์กสิกรไทย
KASIKORN SECURITIES 泰华农民证券



ลีสซิ่งกสิกรไทย
KASIKORN LEASING 泰华农租赁



แฟคเตอรี แอนด์ อีควิปเมนท์ กสิกรไทย
KASIKORN FACTORY AND EQUIPMENT 泰华工厂和设备

บริษัทในเครือกรุงศรีอยุธยา	
	AYUDHYA ASSET MANAGEMENT
	AYUDHYA FACTORING
	AYUDHYA CAPITAL AUTO LEASE
	AYUDHYA DEVELOPMENT LEASING
	AYUDHYA CARD SERVICES
	AYUDHYA TOTAL SOLUTIONS
	AYUDHYA SECURITIES
	AYUDHYA CARD COMPANY

Function of Financial Institutions

Transactions Costs

- Reduce transactions costs by developing expertise and economies of scale
(*One full-time banker can make loans to 10 companies*)

Risk Sharing

- FIs create and sell assets with lesser risk to one party in order to buy assets with greater risk from another party. This process is referred to as **asset transformation**.
- FIs also help by providing the means for individuals and businesses to **diversify** their asset holdings.

Asymmetric Information

- **Adverse Selection** (Before transaction occurs)
 - Potential borrowers most likely to produce adverse outcome are ones most likely to seek a loan (*Unhealthy people want their known medical problems covered*)
- **Moral Hazard** (After transaction occurs)
 - Hazard that borrower has incentives to engage in undesirable (immoral) activities making it more likely that won't pay loan back
(*People may engage in risky activities only after being insured*)



Services Performed by Financial Institutions

- **Monitoring Costs**

- FIs can hire employees with superior skills and training who will collect information and monitor the ultimate fund users on behalf of the fund suppliers.
- This helps alleviate the **free-rider problem** that exists when small fund suppliers leave it to each other to collect information and monitor a fund user.
- In an economic sense, fund suppliers have appointed FI as a **delegated monitor** to act on their behalf.

- **Liquidity and Price Risk**

- FIs act as **asset transformer** by issuing secondary securities which are very liquid, with low risk of default, to make loans or buy stocks and bonds which are less liquid and has higher risk of default.

Services Performed by Financial Institutions

- **Maturity Intermediation**
 - FIs have ability to provide long-term loans while still raising funds with short-term liability contracts such as deposits.
- **Denomination Intermediation**
 - FIs issue secondary securities which have small denomination for small savers and, in turn, make loans or buy stocks and bonds in large denomination.
- **Money Supply Transmission**
 - Since bank deposits are a significant component of the money supply, FIs play a key role in the transmission of monetary policy from the central bank.

Services Performed by Financial Institutions

- **Credit Allocation**

- Policy makers may want to finance particular sectors (BAAC for farmers, GHB for home buyers, SME Bank for SMEs, etc.)

- **Intergenerational Wealth Transfers**

- life insurance companies and pension funds provide savers with the ability to transfer wealth from their youth to old age as well as from one generation to the next.

- **Payment Services**

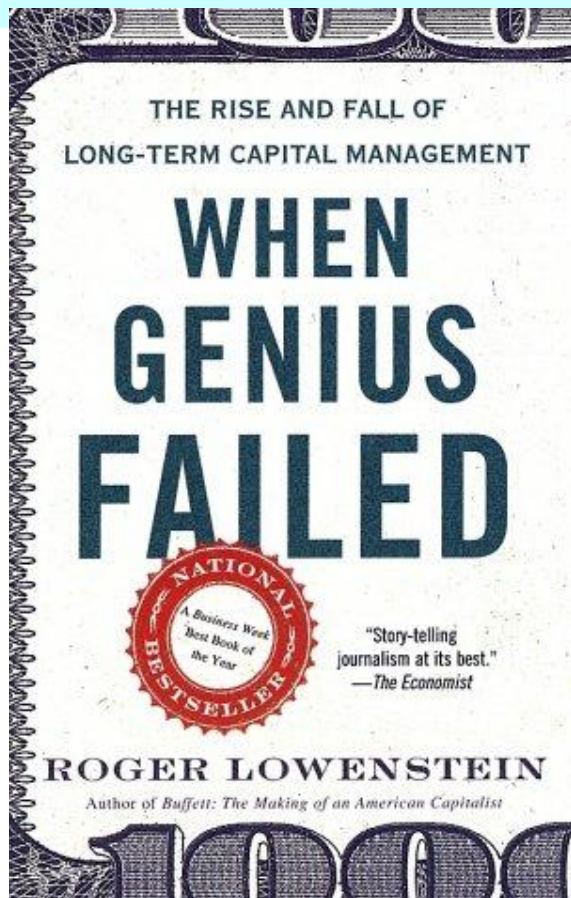
- Check-clearing and wire transfer services



Factors Tying All Financial Markets Together

- *Credit, the Common Commodity.* Borrowers can switch from one market to another, seeking the most favorable credit terms wherever they can be found. This helps bring the credit costs in the different markets into balance with one another.
- *Speculation and Arbitrage.*
 - **Speculators** are risk seekers who are willing to gamble their funds even when the probability of success is low. They help level out the prices of securities
 - *Buy underpriced securities with hope that prices will go up*
 - **Arbitrageurs** make profit when prices of securities in different markets appear to be out of line with each other. They help maintain consistent prices between markets.
 - *Long underpriced securities and short overpriced securities with hope that prices will converge*

Recommended Reading



Long-Term Capital Management (LTCM)

- was a U.S. hedge fund which used trading strategies (such as *fixed income arbitrage*) combined with high leverage.
- It failed spectacularly in the late 1990s, leading to a massive bailout by other major banks and investment houses.

Fixed Income Arbitrage

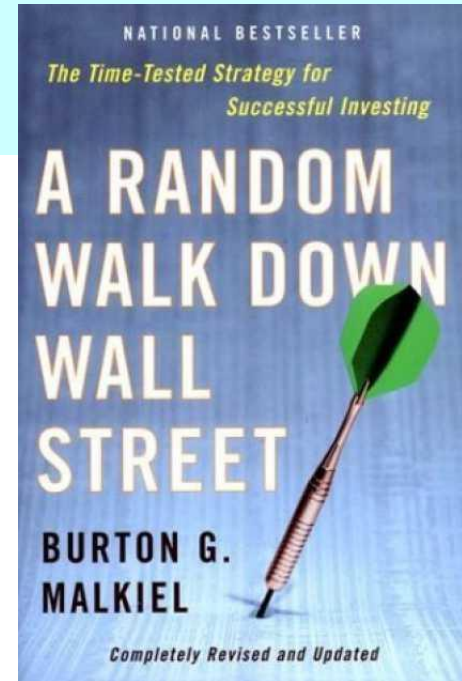
- *Buying* the cheaper 'off-the-run' bond (the 29.75 year old bond) and *shorting* the more expensive, but more liquid, 'on-the-run' bond (the 30 year bond just issued by the Treasury), it would be possible to make a profit as the difference in the value of the bonds narrowed.

Factors Tying All Financial Markets Together

- *Perfect and Efficient Markets.*
 - A market is **perfect** if transaction cost is zero or near zero and all market participants are price takers. No significant government restrictions on trading.
 - *No financial market today is perfect, although many of them are quite close to being perfect.*
 - A market is **efficient** if prices fully reflect the latest available information. No buyer or seller can expect to reap excess profits from collecting information that is readily available in the market and then trading on the basis of that information.
 - *Studies suggest that many financial markets are close to being efficient.*

Recommended Reading

- Burton Malkiel, professor of economics at Princeton, is a leading proponent of the efficient market hypothesis.
- He contends that prices of publicly traded assets reflect all publicly available information.
 - *In other words, a "blindfolded monkey" would have as much luck selecting a portfolio as a pro.*
- Since stock prices cannot be predicted in the short term, investors are better off buying and holding onto index funds than meddling with securities or actively managing mutual funds.

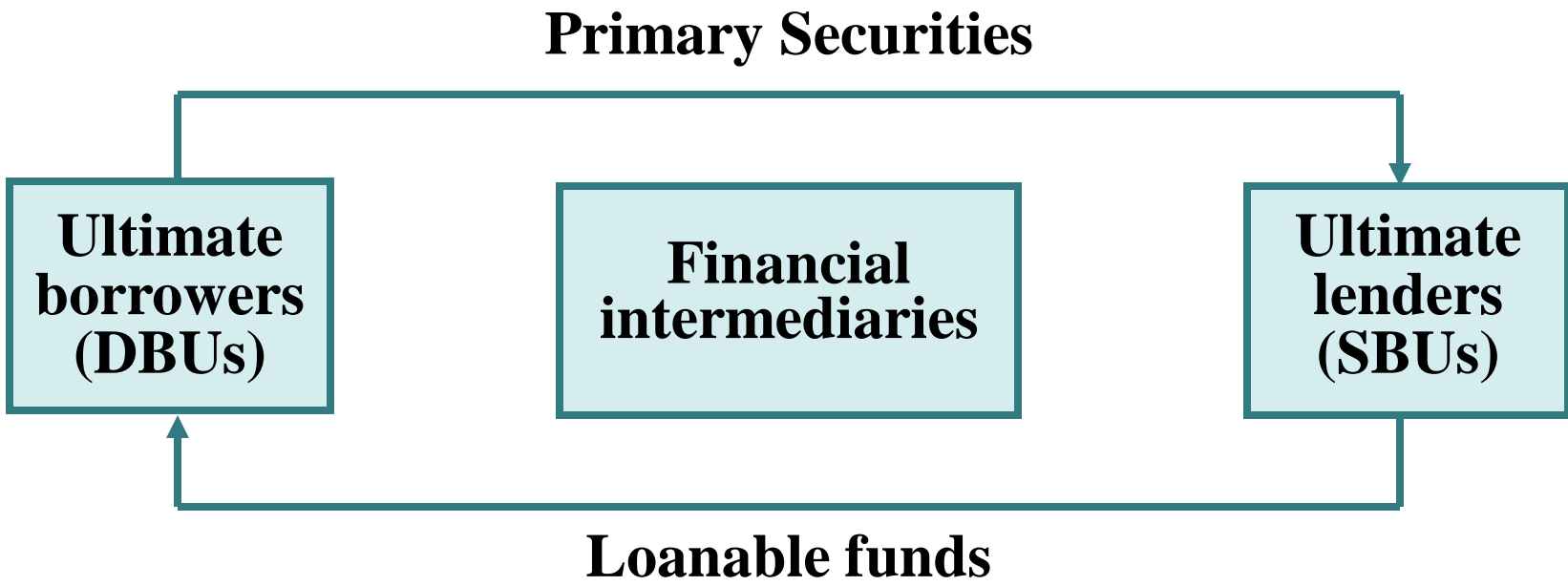


Disintermediation of Funds

- *Disintermediation* refers to the withdrawal of funds from a financial intermediary by the ultimate lenders (SBU) and the lending of those funds directly to the ultimate borrowers (DBU).
- Disintermediation involves the shifting of funds from indirect finance to direct and semidirect finance.

Disintermediation of Funds

Financial Disintermediation

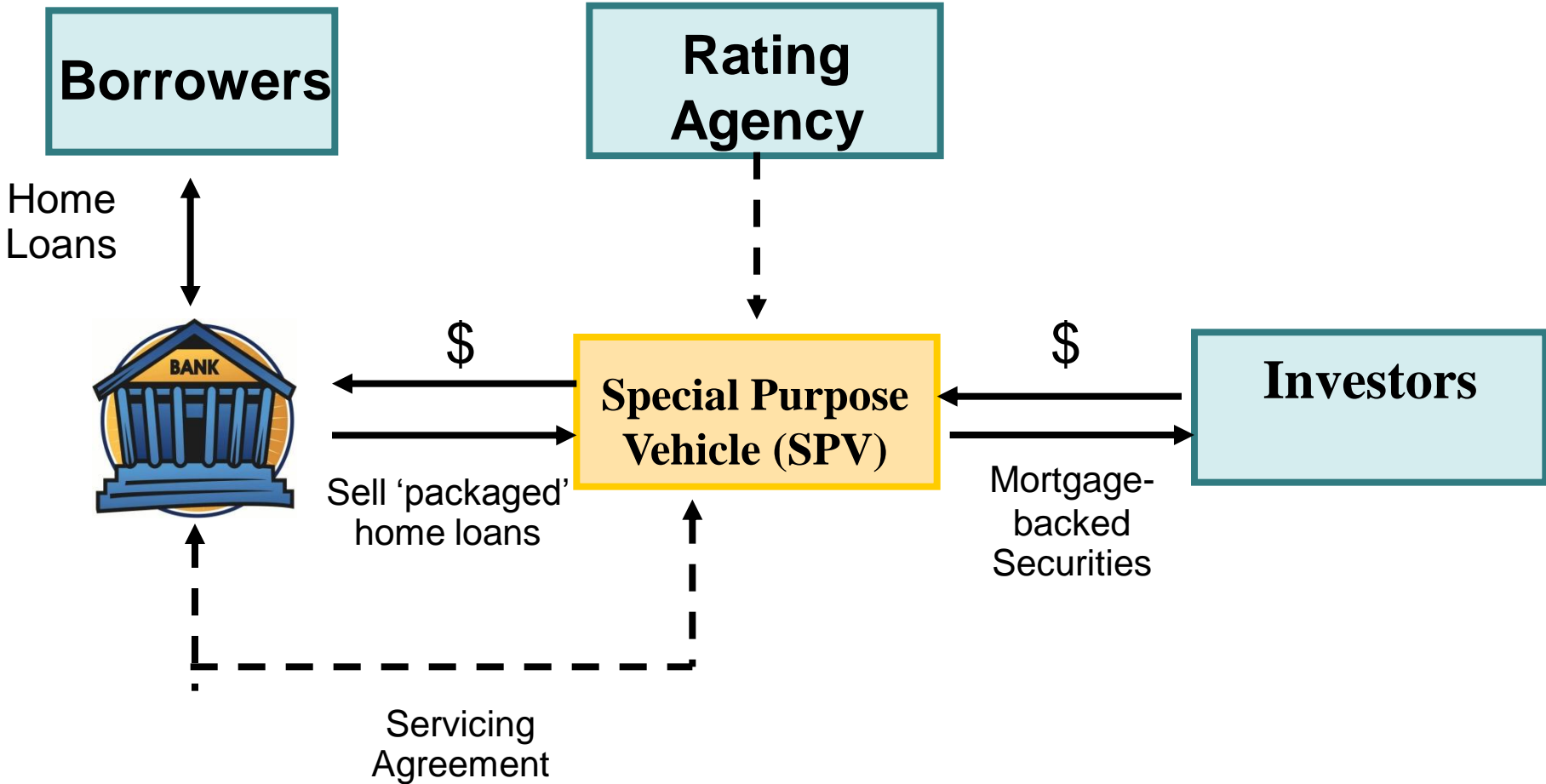


Disintermediation of Funds

- Some new forms of disintermediation have appeared in recent years.
 - ❖ **Initiation by financial intermediaries:** Some banks sold off some of their loans (such as credit cards, auto hire purchase, etc.) because of difficulties in raising capital.
 - ❖ **Initiation by borrowing customers:** Some borrowing customers learned how to raise funds directly from the open market.

Disintermediation of Funds: Example

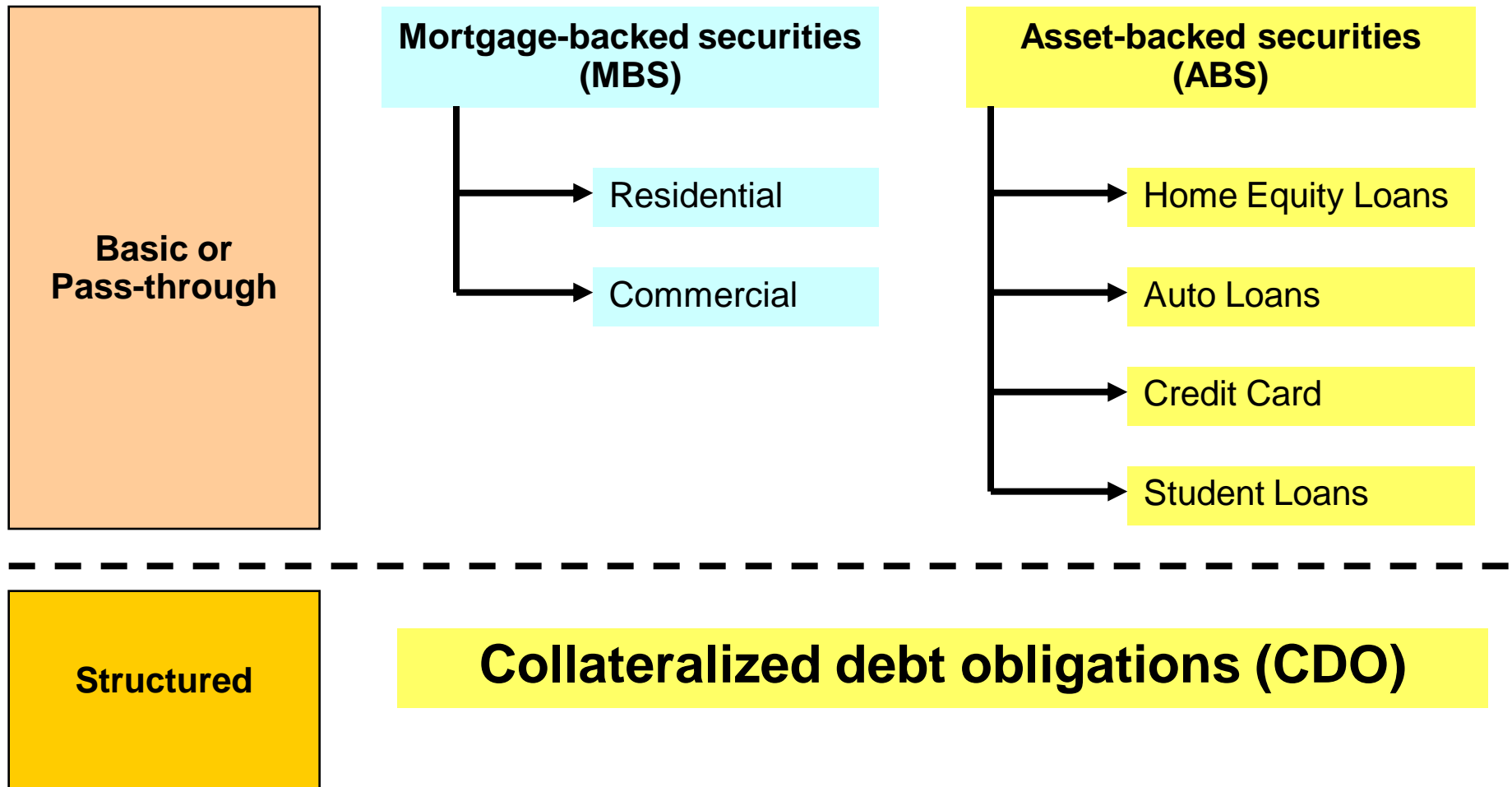
Mortgage-Backed Securitization



Bank-Dominated Versus Security-Dominated Financial Systems

- Lesser-developed financial systems are often *bank-dominated financial systems*, in which banks and other similar institutions dominate in supplying credit and attracting savings.
- The more mature systems today are becoming *security-dominated financial systems*, in which traditional intermediaries play lesser roles and growing numbers of borrowers sell securities to the public to raise the funds they need.

The World of Securitization



The World of Securitization

Mortgage-backed securities (MBS)

Government National Mortgage Association (Ginnie Mae)
(backed by the full faith and credit of the U.S. government)



Federal Home Loan Mortgage Corporation (Freddie Mac)
Federal National Mortgage Association (Fannie Mae)
(U.S. government-sponsored enterprises)



private-label

