Securitization and tranched credit products: a national promotional bank’s perspective

Tranched credit products, such as CDO’s and CLO’s, are often associated with the subprime crisis of 2007-2008, when the originate-to-distribute business model, coupled with sloppy origination processes and questionable modeling assumptions, contributed to a world-scale financial disaster. However, asset securitization and the associated concept of tranching represent a powerful structuring tool that can be used to deal with credit risk in an effective way, provided that the appropriate care is taken in designing incentives. We provide some practical examples of tranched products that can be used to achieve the goals of a national promotional bank.