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HIGHLIGHTS:

- We study the securitization of letters of guarantee through theory analysis and experiment.
- The risk probability of cash flow and the loss rate of cash flow are imported in the model.
- The return rate of securities increase with the increasing of the risk probability of cash flow.
- A short maturity date corresponds to a high return rate of securities.
- Experiment results are compared in different economy situations.

ABSTRACT

Using the theory of asset securitization, we analyze the feasibility of the securitization of letters of guarantee in theory. In the process of constructing the model of rate of return of securities backed by letters of guarantee, we propose two indices: the risk probability of asset-backed securities and the loss rate of asset-backed securities to analyze the cash flow of securities. On the basis of no arbitrage principle, the expression of rate of return of securities backed by letters of guarantee is put forward. In order to study the relationship between the rate of return of securities and other influential factor in the model, a simulation experiment is designed. The experiment results show that (i) an increasing risk probability of cash flow or a short maturity date also make the return rate of securities increase and (ii) the return rate of securities is higher in economic boom than that in economic recession when other parameters remain unchanged.

Keywords:

Asset securitization, Letters of guarantee, Risk probability, Loss rate of cash flow

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