**Securitization**

Securitization is the process of financing or refinancing income-generating assets by transforming them into a form that can be traded through the issuance of bonds or other types of securities. It makes it possible for originators to dispose of assets in a time- and cost-effective manner and get a more advantageous financing profile and improved funding conditions.

Securitization implies the transformation of an [illiquid](https://www.wallstreetmojo.com/illiquid/) asset or combination of illiquid assets into a security. This transformation is accomplished via the use of [financial engineering](https://www.wallstreetmojo.com/financial-engineering/). The process by which groups of such illiquid assets (typically debts) are bundled, bought, securitized, and sold to traders is satirically described by the phrase “securitization food chain,” which was popularized by the film “Inside Job,” which was based on the [financial crisis](https://www.wallstreetmojo.com/financial-crisis/) that occurred in 2007-2008.

A [mortgage-backed security](https://www.wallstreetmojo.com/mortgage-backed-security/) is an example of a typical form of [asset-backed security](https://www.wallstreetmojo.com/asset-backed-securities/) guaranteed by a pool of mortgages and serves as a good illustration of securitization. Initially implemented in 1970, this strategy was the driving force behind the development of innovations such as [collateralized mortgage obligations](https://www.wallstreetmojo.com/collateralized-mortgage-obligations/), which appeared for the first time in 1983. Around the middle of the 1990s, MBS reached its peak prevalence.

**Securitization vs Factoring**

* [Factoring](https://www.wallstreetmojo.com/factoring-in-finance/) is a financial institution’s [acquisition](https://www.wallstreetmojo.com/acquisition/) of a firm’s book debts and payment to the company against receivables. At the same time, securitization is transforming illiquid into liquid assets by shifting long periods of cash flows into shorter-term.
* Factoring involves the bank and the corporation, whereas securitization involves many investors who engage in the securitized asset.
* Factoring is helpful for short-term account receivables ranging from one month to six months. At the same time, securitization is helpful for the company’s long-term receivables.
* While factoring is with or without recourse, securitization does not have recourse.
* Because factoring includes the bank and the firm, there is no need for a credit rating. In contrast, securitization involves multiple investors and hence requires a credit rating before proceeding with receivables securitization.