Securitisation Transactions by NBFCs- Draft Guidelines on Minimum Holding Period and Minimum Retention requirement

Detailed Guidelines on Securitisation of Standard Assets were issued to NBFCs vide Circular DBOD.NO.BP.BC.60/21.04.048/2005-06 dated February 01, 2006.

2. In order to prevent unhealthy practices from developing and in order to align the interest of the originator with that of the investors, it has been considered necessary that originators should retain a portion of each securitization originated, as a mechanism to better align incentives and ensure more effective screening of loans. In addition, a minimum period of retention of loans prior to securitization is also considered desirable, to give comfort to the investors regarding the due diligence exercised by the originator.

3. Keeping in view the above objectives, the following guidelines have been formulated regarding the Minimum Holding Period and Minimum Retention Requirement:

3.1 Minimum Holding Period (MHP)

Maturity of loan	MHP of the loans
Upto 24 months	**(i) (a)** In the case of loans with periodic repayment schedules, the MHP would be **nine months** from • date of full disbursement of loans for an activity/purpose; date of acquisition of asset by the borrower (i.e car, residential house, etc.); date of completion of project; as the case may be OR • date of first instalment of interest/principal/EMI which is due **whichever is later** **(b)** In case of bullet repayment loans, **twelve months** from the relevant dates specified in (i) (a) above.

More than 24 months	**(a**) In the case of loans with periodic repayment schedules, the MHP would be **twelve months** from • date of full disbursement of loans for an activity/purpose; date of acquisition of asset by the borrower (i.e car, residential house, etc.); date of completion of project; as the case may be OR • date of first instalment of interest/principal/EMI which is due **whichever is later** **(b)** No securitisation of loans with maturity exceeding 24 months and bullet repayment is envisaged.

3.2 Minimum Retention Requirement (MRR)

Type of loan	MRR		Description of MRR	
Loans with original maturity of 24 months or less	**5%** of the book value of the loans being securitised	(i)	Where the securitisation involves **neither tranching nor any credit enhancement**	Investment in the securities issued by the SPV equal to **5%** of the book value of the loans being securitised.
		(ii)	Where the securitisation involves **tranching**	Investment in the **equity tranche** issued by the SPV equal to **5 %** of the book value of the loans being securitised.
		(iii)	Where the securitisation involves no tranching, but involves **first loss credit enhancements** e.g. off-balance sheet supports, cash collaterals, overcollateralization etc.	Exposure to first loss position through **any of the stated credit enhancements** equal to **5%** of the book value of the loans being securitised.
		(iv)	Where the securitisation involves **tranching as well as the first loss credit enhancements** (off-balance sheet supports, cash collaterals, overcollateralization etc.)	Exposure to **equity tranche or first loss position** in other forms as stated equal to 5% of the book value of the loans being securitised.

Loans with original maturity of above 24 months	**10%** of the book value of the loans being securitised	(v)	Where the securitisation involves **neither tranching nor any credit enhancement**	Investment in the securities issued by the SPV equal to **10%** of the book value of the loans being securitised.
		(vi)	Where the securitisation involves **tranching**	Investment in **equity tranche of minimum 5%** of the book value of the loans being securitised and the balance as **pari-passu** investment in all the remaining tranches of securities issued by the SPV.
		(vii)	Where the securitisation involves no tranching, but involves **first loss credit enhancements** e.g. off-balance sheet supports, cash collaterals, overcollateralization etc.	• Exposure to first loss position through **any of the stated credit enhancements** of **minimum 5%** of the book value of the loans being securitised and the balance as **pari-passu** investment in all the securities issued by the SPV.
		(viii)	Where the securitisation involves **tranching as well as the first loss credit enhancements** (off-balance sheet supports, cash collaterals, overcollateralization etc.)	Exposure to **equity tranche or first loss position** in other forms as stated equal to **minimum 5%** of the book value of the loans being securitised and the balance as **pari-passu** investment in all the remaining tranches (other than equity) of securities.

4. Limit on total exposure to SPV and/or underlying assets

4.1 At present, total investment by the originator (including its group entities) in the securities issued by the SPV (PTCs) through underwriting or otherwise is limited to 10% of the total PTCs issued. Credit enhancement, liquidity support, and counterparty credit exposures in the case of interest rate swaps/currency swaps with the SPV are outside this limit. However, to ensure transfer of a significant credit risk associated with the securitised exposures to the third parties for recognition of risk transfer, it is advised that the total exposure of NBFCs to the SPV and/or securitised assets in the following forms should not exceed **20%,** for securitisation transactions undertaken after date of this circular.

- Investments in equity/subordinate/senior tranches of securities issued by the SPV including through underwriting commitments.
- Credit enhancements including cash and other forms of collaterals including over-collateralisation
- Liquidity support

If an NBFC exceeds the above limit due to devolvement of underwritten securities, the excess amount would be deducted from capital.

5. Hedging of Minimum Risk Retention not permitted

NBFCs should not hedge the credit risk in the retained exposures counting towards the minimum retention requirements.

6. Securitisation Activities/Exposures not Permitted in India

It is clarified that the NBFCs in India are not permitted to undertake the securitisation activities or assume securitisation exposures like Re-securitisation of Assets, Synthetic Securitisations, Securitisation with Revolving Structures etc.

7. All other guidelines on securitisation of assets contained in Circular DBOD.NO.BP.BC.60/21.04.048/2005-06 dated February 1, 2006 as revised from time to time, remain unchanged.

Yours sincerely,

(Uma Subramaniam)
Chief General Manager-in-Charge