Extract from Second Quarter Review of Monetary Policy for the Year 2009-10

Lock-in Period and Minimum Retention for Securitisation Exposures

161. To ensure that the originators do not compromise on due diligence of assets generated for the purpose of securitisation, it was proposed in the Annual Policy Statement of April 2009 to stipulate a minimum lock-in period for bank loans before these were securitised. It was also proposed to lay down minimum retention criteria for the originators as another measure to achieve the same objective. Accordingly, it is proposed:

- that the minimum lock-in period for all types of loans would be one year before these can be securitised; and

- that the minimum retention by the originators will be 10 per cent of the pool of assets being securitised.

162. The international work, especially in the European Union and the US regarding the minimum retention criteria, is still underway. The Reserve Bank will issue detailed guidelines on the manner of computation of the one year lock-in period and other operational details keeping in view the international norms being developed.

ANNEX

REVISIONS TO THE GUIDELINES ON TRANSFER OF ASSETS THROUGH SECURITISATION AND DIRECT ASSIGNMENT OF CASH FLOWS

1. INTRODUCTION

1.1 Securitisation involves the pooling of assets and the subsequent sale of the cash flows from these asset pools to investors. The securitization market is primarily intended to redistribute the credit risk away from the originators to a wide spectrum of investors who can bear the risk, thus aiding financial stability and to provide an additional source of funding. The recent crisis in the credit markets has called into question the desirability of certain aspects of securitization activity as well as of many elements of the 'originate to distribute' business model, because of their possible influence on originators' incentives and the potential misalignment of interests of the originators and investors. While the securitization framework in India has been reasonably prudent, certain imprudent practices have reportedly developed like origination of loans with the sole intention of immediate securitization and securitization of tranches of project loans even before the total disbursement is complete, thereby passing on the project implementation risk to investors.

1.2 With a view to developing an orderly and healthy securitization market, to ensure greater alignment of the interests of the originators and the investors, as also to encourage the development of the securitization activity in a manner consistent with the aforesaid objectives, several proposals for post-crisis reform are being considered internationally. Central to this is the idea 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 originators. Keeping in view the above objectives and the international work on these accounts, guidelines have been formulated regarding the Minimum Holding Period (MHP) and Minimum Retention Requirement (MRR).

SECTION A

GUIDELINES ON SECURITISATION OF STANDARD ASSETS

1. Requirements to be met by the Originating Banks

1.1 Assets Eligible for Securitisation

In a single securitisation transaction, the underlying assets should represent the debt obligations of a pool of obligors[1]. Subject to this condition, all on-balance sheet standard assets which are in the nature of debt claims on the borrowers[2] of the banks, **except the following**, will be eligible for securitisation by the originators:

(i) The revolving credit facilities such as cash credit accounts and credit card receivables

(ii) Bonds other than the bonds which are in the nature of advance as defined in Para 2.1 (vii) of Master Circular – Prudential norms for classification, valuation and operation of investment portfolio by banks dated July 1, 2011.

(iii) Loans/bonds purchased from other entities

(iv) Securitisation exposures (e.g. Mortgage-backed/asset-backed securities).

1.2 Minimum Holding Period (MHP)

Originating banks can securitise loans only after these have been held by them for a minimum period in their books. The criteria governing determination of MHP for assets listed below reflect the need to ensure that

- the project implementation risk is not passed on to the investors and
- a minimum recovery performance is demonstrated prior to securitisation to ensure better underwriting standards

The MHP with regard to various types of securitisation deals are given in the following table.

[1] The single assets securitisations do not involve any credit tranching and redistribution of risk, and therefore, are not consistent with the economic objectives of securitization.

[2] In these guidelines the terms 'loans' and 'assets' have been used to refer to all claims on banks' borrowers which are in the nature of debt.

Minimum Holding Period

	Particulars	MHP of the Assets
1.	**Loans with quarterly repayment schedules**	
(a)	***Loans with original maturity upto 24 months***	• **9 months** from the date of full disbursement of loans for an activity/purpose; date of acquisition of asset (i.e car, residential house, etc.) by the borrower; date of completion of project; as the case may be OR • **3 months** from the due date of **second quarterly instalment** of interest and/or principal **whichever is later**
(b)	***More than 24 months***	In the case of loans with periodic repayment schedules, the MHP would be • **12 months** from the date of full disbursement of loans for an activity/purpose; date of acquisition of asset (i.e car, residential house, etc.) by the borrower; date of completion of project; as the case may be OR • **3 months** from the due date of **third quarterly instalment** of interest and/or principal/EMI **whichever is later**
2.	**Loans with less than quarterly (e.g. monthly etc.) repayment schedules**	• **6 months** from the date of full disbursement of loans for an activity/purpose; date of acquisition of asset (i.e. car, residential house, etc.) by the borrower; date of completion of project; as the case may be OR • **6 months** from the due date of the first **instalment** of interest and/or principal **whichever is later**

Note:

(i) The single-repayment non-amortising loans where interest is also due only on maturity will not be eligible for securitisation.

(ii) The MHP will be applicable to individual loans in the pool of securitised loans.

1.3 Minimum Retention Requirement (MRR)

1.3.1 The MRR is primarily designed to ensure that the originating banks have a continuing stake in the performance of securitised assets so as to ensure that they carry out proper due diligence of loans to be securitised. In the case of long term loans, the MRR also includes a vertical tranche of securitised paper in addition to the equity/subordinate tranche, to ensure that the originating banks have stake in the performance of securitised assets for the entire life of the securitisation process. Thus whenever originating banks also act as servicing agents, they would also be incentivised to keep up their interest in proper monitoring/supervision of securitised loans throughout their life. The originating banks should adhere to the MRR detailed in the Table below while securitising loans[3]:

Minimum Retention Requirements at the Time of Securitisation

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 credit tranching nor any credit enhancement** by originators	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 no credit tranching, but involves **originators providing first loss credit enhancements** e.g. off-balance sheet supports, cash collaterals, overcollateralization etc	The originator would be providing the required credit enhancement. If the first loss credit enhancement required is less than 5%, then the balance should be in the securities issued by the SPV.
		(iii)Where the securitisation involves **credit tranching but no credit enhancement from originator**	5% in equity tranche. If equity tranche is less than 5%, then balance pari-passu in remaining tranche
		(iv)Where the securitisation involves **credit tranching and**	If the first loss credit enhancement is less than 5%, then balance in equity tranche. If balance is greater

[3] The MRR in terms of percentage of the outstanding amount of unamortised principal should be maintained on an ongoing basis, subject to provisions of para 1.3.1 and 1.8.

		first loss credit enhancements by originator (off-balance sheet supports, cash collaterals, overcollateralization etc.)	than equity tranche, then remaining pari passu in other tranches.
Loans with original maturity of above 24 months	**10%** of the book value of the loans being securitised	Where the securitisation involves **neither credit 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.
		Where the securitisation involves no **credit tranching**, but involves **first loss credit enhancements from originators** e.g. off-balance sheet supports, cash collaterals, overcollateralization etc.	Provide required credit enhancement. If this is less than 10%, then balance in the securities issued by the SPV.
		Where the securitisation involves **credit tranching but no first loss**	5% in equity tranche or less if the equity tranche is less than 5%. The balance (10% - investment in equity tranche) pari passu in other tranches issued by the SPV.
		Where the securitisation involves **credit tranching as well as the first loss credit enhancements by originators** (off-balance sheet supports, cash collaterals, overcollateralization etc.)	Provide first loss credit enhancement. If first loss is less than 10%; then balance in (i) equity tranche so that first loss plus equity tranche is equal to 10% (ii) if first loss plus equity tranche is less than 10%; then balance pari passu in other tranches, so that total retention is 10%.

1.3.2 MRR will have to be maintained by the entity which securitises the loans. In other words, it cannot be maintained by other entities which are treated as 'originator' in terms of para 5(vi) of the circular dated February 1, 2006 containing guidelines on securitisation of standard assets.

1.3.3 The MRR should represent the principal cash flows. Therefore, banks' investment in the Interest Only Strip representing the Excess Interest Spread/ Future Margin Income, whether or not subordinated, will not be counted towards the MRR.

1.3.4 The level of commitment by originators i.e. MRR should not be reduced either through hedging or selling the retained interest. The level of commitment will not be deemed to have been affected (reduced) by either the amortisation of such interest due to proportionate repayment or through the absorption of losses. However, at the time of reset of credit enhancements (as indicated in para 1.8) forming part of MRR, it needs to be ensured that the reset does not result in MRR falling below the level stipulated in para 1.3.1. The form of MRR should not change during the life of securitization.

1.4 Limit on Total Retained Exposures

1.4.1 At present, total investment by the originator in the securities issued by the SPV through underwriting or otherwise is limited to 20% of the total securitised instruments 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, under the Basel II requirements, there should be a transfer of a significant credit risk associated with the securitised exposures to the third parties for recognition of risk transfer. In view of this, the total exposure of banks to the loans securitised in the following forms should not exceed **20%** of the total securitised instruments issued**:**

- 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, but excluding the credit enhancing interest only strip.
- Liquidity support

1.4.2 If a bank exceeds the above limit, the excess amount would be risk weighted at 1111%[4].

[4] As per Basel III, the maximum risk weight for securitisation exposures, consistent with minimum 8% capital requirement, is 1250%. Since in India minimum capital requirement is 9%, the risk weight has been capped at 1111% (100/9) so as to ensure that capital charge does not exceed the exposure value.

1.4.3 Credit exposure on account of interest rate swaps/currency swaps entered into with the SPV will be excluded from this limit as this would not be within the control of the bank.

1.5 Booking of Profit Upfront

1.5.1 In terms of para 20.1 of our circular DBOD.No.BP.BC.60/21.04.048/2005-06 dated February 1, 2006 any profit / premium arising on account of securitisation of loans should be amortised over the life of the securities issued or to be issued by the SPV. These instructions were *inter alia* intended to discourage 'originate-to-distribute' model. Now that these concerns are sought to be addressed to some extent by MRR, MHP and other measures being proposed in these guidelines, it has been decided to allow limited recognition of cash profits arising from securitisation transactions. Accordingly, the amount of profit received in cash may be held under an accounting head styled as *"Cash Profit on Loan Transfer Transactions Pending Recognition"* maintained on individual transaction basis. The losses, including marked-to-market losses, incurred by banks on the MRR and any other exposures to the securitisation transaction (other than credit enhancing interest only strip[5]) may be charged to this account to the extent this account has positive balance[6]. The following additional rules may be observed while writing-off losses against the balance in the *"Cash Profit on Loan Transfer Transactions Pending Recognition" A*ccount:

a) If no loss happens during a year, the amount due for amortisation as per straight line method may be transferred to P&L Account as hitherto.

b) If in a financial year, the amount of loss is less than the amortisable amount for that year, the loss may be charged to the *"Cash Profit on Loan Transfer Transactions Pending Recognition" A*ccount and the excess amount may be transferred to P&L Account that year.

c) If in a financial year, the amount of loss exceeds the amortisable amount for that year, the entire amount of loss can be written-off against the balance in the *"Cash Profit on Loan Transfer Transactions Pending*

[5] For accounting of losses in respect of credit enhancing interest only strip, please see para 1.5.4.

[6] Even though banks may charge the losses incurred in MRR and other exposures to *"Cash Profit on Loan Transfer Transactions Pending Recognition" A/c,* banks should hold capital against securitisation structures as required in terms of extant guidelines of RBI without taking into account balance in this account.

Recognition" account, subject to balance available. If the balance in this account is insufficient to absorb the entire loss, the excess loss should be charged to P&L A/c. Further, no amount should be transferred from this account to P&L Account that year as amortisation.

d) At the end of every financial year, the amount of amortisation for future years may be recalculated taking into account the balance outstanding in this account after adjusting for losses, if any, charged to the account.

1.5.2 At times, the originating banks retain contractual right to receive some of the interest amount due on the transferred assets. This interest receivable by the originating bank represents a liability of the SPV and its present value is capitalised by the originating bank as an Interest Only Strip (I/O Strip), which is an on-balance sheet asset. Normally, a bank would recognise an unrealised gain in its P&L A/c on capitalisation of future interest receivable by way of I/O Strip. However, consistent with the instructions contained in circular dated February 1, 2006 referred to above, banks should not recognise the unrealised gains in P&L A/c., instead hold the unrealised profit under an accounting head styled as *"Unrealised Gain on Loan Transfer Transactions"*. The balance in this account may be treated as a provision against potential losses incurred on the I/O Strip due to its serving as the credit enhancement for the securitisation transaction[7]. The profit may be recognised in P&L Account only when Interest Only Strip is redeemed in cash. As banks would not be booking gain on sale represented by I/O Strip upfront, it need not be deducted from Tier I capital.

---

[7] The I/O Strips may be amortising or non-amortising. In the case of amortising I/O strips, a bank would periodically receive in cash only the amount which is left after absorbing losses, if any, supported by the I/O strip. On receipt, this amount may be credited to P&L Account and the amount equivalent to the amortisation due may be written-off against the *"Unrealised Gain on Loan Transfer Transactions"* A/c bringing down the book value of the I/O strip in the bank's books. In the case of a non-amortising I/o Strip, as and when the bank receives intimation of charging-off of losses by the SPV against the I/o strip, it may write-off equivalent amount against *"Unrealised Gain on Loan Transfer Transactions"* A/c and bring down the book value of the I/O strip in the bank's books. The amount received in final redemption value of the I/O Strip received in cash may be taken to P&L Account.

1.6 Disclosures by the Originating Banks

1.6.1 Disclosures to be made in servicer/investor/trustee report

The originating banks should disclose to investors the weighted average holding period of the assets securitized and the level of their MRR in the securitisation. The originating banks should ensure that prospective investors have readily available access to all materially relevant data on the credit quality and performance of the individual underlying exposures, cash flows and collateral supporting a securitisation exposure as well as such information that is necessary to conduct comprehensive and well-informed stress tests on the cash flows and collateral values supporting the underlying exposures. The disclosure by an originator of its fulfillment of the MHP and MRR should be made available publicly and should be appropriately documented; for instance, a reference to the retention commitment in the prospectus for securities issued under that securitization programme would be considered appropriate. Such disclosures can be made privately in a bi-lateral or private transaction. The disclosure should be made at origination of the transaction, and should be confirmed thereafter at a minimum half yearly (end-September and March), and at any point where the requirement is breached. Subsequent disclosures could be made in the servicer report, investor report, trustee report, or any similar document published. The aforesaid disclosures can be made in the format given in **Appendix 1**.

1.6.2 Disclosures to be made by the originator in Notes to Annual Accounts

The Notes to Annual Accounts of the originating banks should indicate the outstanding amount of securitised assets as per books of the SPVs sponsored by the bank, total amount of exposures retained by the bank as on the date of balance sheet to comply with the MRR. These figures should be certified by the Auditors of the originating entity. These disclosures should be made in the format given in **Appendix 2**.

1.7 Loan Origination Standards

The originating banks should apply the same sound and well-defined criteria for credit underwriting to exposures to be securitised as they apply to exposures to be

held on their book. To this end, the same processes for approving and, where relevant, amending, renewing and monitoring credits should be applied by the originators.

1.8 Reset of Credit Enhancement

The original amount of credit enhancement can be reset and excess withdrawn by the credit enhancement provider subject to the following conditions:

(i) Question of reset of credit enhancement will not arise if the rating of any of the tranches other than the first loss tranche/first loss credit enhancement, has deteriorated vis- a- vis the original rating of these securitization positions.

(ii) At the time of reset, all the outstanding tranches of securities other than first and second loss should be re-rated and the amount of credit enhancement required to at least retain the original or outstanding rating, whichever is higher, determined by the concerned rating agency[8].

(iii) The reset of credit enhancement should have been contemplated in the contractual terms of the transaction and the initial rating of the transaction should take into account the likelihood of resets.

(iv) The reset can be applied to any external form of credit enhancement provided by a third party or the originator which is in first or second loss position. For this purpose, a credit enhancement which, for the investors, creates exposure to entities other than the underlying borrowers will be treated as external credit enhancement. Such credit enhancements are not the liabilities of the securitization SPV. For instance, cash collaterals and first/second loss guarantees are external forms of credit enhancements. Investment in subordinated tranches, over-collateralisation, excess spreads, credit enhancing interest-only strips are internal forms of credit enhancements.

(v) The reset of credit enhancement and release of collateral/guarantee/ any other exposure constituting the credit enhancement should be based on the compliance with all the following terms and conditions/triggers as defined as under:

a. At least 50% of the total principal amount assigned at the time of securitization has been repaid.

[8] Only the rating agency which had rated the securitization transaction initially shall re-rate it for the purpose of reset of credit enhancement.

b. No reset should happen if the 'Delinquency Trigger' is breached. The Delinquency Trigger for this purpose shall be treated as having been breached if:

- total amount of all overdues plus all written-off as well as accumulated losses(which are yet to be written-off) exceed 50% of the 'amortisation-adjusted amount of first loss and second position cover'[9].

- total amount of all overdues plus any accumulated losses experienced by the underlying pool of loans (which are yet to be written-off) exceed 50% of the 'available first loss and second position cover'[10]; or

(vi) The excess credit enhancement allowed to be withdrawn at any point in time should not exceed the minimum of :

a. Reserve floor as a percentage of the initial credit enhancement. The stipulation of the floor may be based on the transaction structure, depending on asset class, the track record of the originator and other pool specific factors such as concentration of long term contracts in pool, and in no case should be less than 33% of the initial credit enhancement.

b. Only 50% of the credit enhancement in excess of that required to retain the credit rating of all the tranches as referred to in para (ii) assigned to them at the time of the securitization transaction, can be considered for release, at any point of time.

c. The reset should not lead to exposures retained by originators along with credit enhancements offered by them falling below the level of MRR prescribed in para 1.3.1.[11]

[9] Amortisation adjusted amount of first loss and second position cover is 'the original amount of first loss and second position cover available at the time of undertaking securitisation transaction' multiplied by 'percentage of principal already amortised'.

[10] Available first loss and second position cover is the amount of first loss and second position cover remaining after any prior reset or absorption of losses.

[11] An illustration of reset of credit enhancement is given in **Appendix 3**.

1.9 Treatment of Securitised Assets not Meeting the Requirements Stipulated in Paragraph 1

If an originating bank fails to meet the requirement laid down in the above paragraphs, it will have to maintain capital for the securitized assets as if these were not securitized. This capital would be in addition to the capital which the bank is required to maintain on its other existing exposures to the securitization transaction.

2. REQUIREMENTS TO BE MET BY BANKS OTHER THAN ORIGINATORS HAVING SECURITISATION EXPOSURES

2.1 Standards for Due Diligence

2.1.1 Banks can invest in or assume exposure to a securitisation position **only if** the originator (other banks/FIs/NBFCs or any other entity in India) has explicitly disclosed to the credit institution that it will adhere to the MHP and MRR stipulated in these guidelines. The overseas branches of Indian banks should also not invest or assume exposure to securitisation positions in other jurisdictions which have not laid down any MRR. However, they can invest in such instruments in the jurisdictions where the MRR has been prescribed, though it may be different from that prescribed in this circular.

2.1.2 Before investing, and as appropriate thereafter, banks should be able to demonstrate for each of their individual securitization positions, that they have a comprehensive and thorough understanding of risk profile of their proposed / existing investments in securitised positions. The banks will also have to demonstrate that for making such an assessment they have implemented formal policies and procedures appropriate to banking book and trading book for analysing and recording the following:

a) information disclosed by the originators regarding the MRR in the securitization, on an at least half yearly basis;

b) the risk characteristics of the individual securitisation position including all the structural features of the securitisation that can materially impact the performance of the investing bank's securitisation position *(i.e. the seniority of the tranche, thickness of the subordinate tranches, its sensitivity to pre-payment risk and credit enhancement resets, structure of repayment water-*

falls, waterfall related triggers, the position of the tranche in sequential repayment of tranches(time-tranching), liquidity enhancements, availability of credit enhancements in the case of liquidity facilities, deal-specific definition of default, etc.);

c) the risk characteristics of the exposures underlying the securitization position *(i.e. the credit quality, extent of diversification and homogeneity of the pool of loans, sensitivity of the repayment behavior of individual borrowers to factors other than their sources of income, volatility of the market values of the collaterals supporting the loans, cyclicality of the economic activities in which the underlying borrowers are engaged, etc.);*

d) the reputation of the originators in terms of observance of credit appraisal and credit monitoring standards, adherence to MRR and MHP standards in earlier securitizations, and fairness in selecting exposures for securitization;

e) loss experience in earlier securitisations of the originators in the relevant exposure classes underlying the securitisation position, incidence of any frauds committed by the underlying borrowers, truthfulness of the representations and warranties made by the originator;

f) the statements and disclosures made by the originators, or their agents or advisors, about their due diligence on the securitised exposures and, where applicable, on the quality of the collateral supporting the securitised exposures; and

g) where applicable, the methodologies and concepts on which the valuation of collateral supporting the securitised exposures is based and the policies adopted by the originator to ensure the independence of the valuer.

2.1.3 When the bonds or other liabilities of the securitisation are subsequently purchased in the secondary market by a bank, it should, at that point in time, ensure that the originator has explicitly disclosed that it will retain a position that meets the MRR.

2.2 Stress Testing

Banks should regularly perform their own stress tests appropriate to their securitisation positions. For this purpose, various factors which may be considered include, but are not limited to, rise in default rates in the underlying portfolios in a situation of economic downturn, rise in pre-payment rates due to fall in rate of interest or rise in income levels of the borrowers leading to early redemption of exposures and fall in rating of the credit enhancers resulting in fall in market value of

securities (Asset Backed Securities/Mortgage Backed Securities), drying of liquidity of the securities resulting in higher prudent valuation adjustments.

2.3 Credit Monitoring

Banks need to monitor on an ongoing basis and in a timely manner performance information on the exposures underlying their securitisation positions. For this purpose, banks should establish formal procedures appropriate to their banking book and trading book and commensurate with the risk profile of their exposures in securitised positions as stipulated in para 2.1.2. Where relevant, this shall include the exposure type, the percentage of loans more than 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure, collateral type and occupancy, and frequency distribution of credit scores or other measures of credit worthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with bandwidths that facilitate adequate sensitivity analysis. Banks may *inter alia* make use of the disclosures made by the originators in the form given in **Appendix 1** to monitor the securitization exposures.

2.4 Treatment of Exposures not Meeting the Requirements Stipulated in Paragraph 2

The investing banks will assign a risk weight of 1111% to the securitization exposures where the requirements in paragraph **2** above are not met.

Section B

Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities

1. REQUIREMENTS TO BE MET BY THE ORIGINATING BANKS

1.1 Assets Eligible for Transfer

Under these guidelines[12], banks can transfer any single standard asset or portfolio of assets that represents the debt obligations of their borrowers[13], such as through an assignment deed, to financial entities, **except the following**:

(i) The revolving credit facilities such as cash credit accounts and credit card receivables

(ii) Loans/bonds in the nature of an advance purchased from other entities, which have remained in the books of the bank for less than 3 years[14].

1.2 Minimum Holding Period (MHP)

Same as in para 1.2 of Section A.

1.3 Minimum Retention Requirement (MRR)

1.3.1 The originating banks should adhere to the MRR detailed in the Table below while transferring loans to other financial entities:

[12] These guidelines do not apply to :

(i) transfer of loan accounts of borrowers by a bank to another entity and vice versa, with the consent of the borrower

(ii) Inter-bank participations

(iii) Sale and purchase of traded bonds other than those in the nature of advance.

[13] Loans and bonds in the nature of advance as defined in Para 2.1 (vii) of Master Circular – Prudential norms for classification, valuation and operation of investment portfolio by banks dated July 1, 2011.

[14] Loans cannot be re-transferred to the same entities from whom these were purchased.

Type of Loan	MRR
Loans with original maturity of 24 months or less	Retention of right to receive 5% of the cash flows from the loans transferred on pari-passu basis.
Loans with original maturity of above 24 months	Retention of right to receive 10% of the cash flows from the loans transferred on pari-passu basis.

As indicated in para 1.4 below, banks will not be permitted to offer credit enhancements to loans directly transferred to other entities. Therefore, the MRR would generally create an exposure for the originator to the asset transferred pari-passu with the transferee. The underlying documentation (e.g. assignment deed) supporting the transfer of assets should clearly provide that the transferring bank assigns the entire assets along with underlying security and the originating bank should retain right to receive part of cash flows('repayment' and 'recovery in case of default') from the loans transferred to the extent of MRR through a separate agreement.

1.3.2 MRR will have to be maintained by the entity which sells the loans. In other words, it cannot be maintained by other entities which are treated as 'originator' in terms of para 5(vi) of the circular dated February 1, 2006 containing guidelines on securitisation of standard assets.

1.3.3 The level of commitment by originators i.e. MRR should not be reduced either through hedging or selling the retained interest. However, the level of commitment will not be deemed to have been affected (reduced) by either the amortisation of such interest due to proportionate repayment or through the absorption of losses. The form of MRR should not change during the life of the loans transferred.

1.4 Limit on Total Retained Exposures

Banks should not offer credit enhancements in any form and liquidity facilities in the case of loan transfers through direct assignment of cash flows, as the investors in such cases are generally the institutional investors who should have the necessary expertise to appraise and assume the exposure after carrying out the required due diligence. Banks should also not retain any exposures through investment in the

Interest Only Strip representing the Excess Interest Spread/ Future Margin Income from the loans transferred. However, the originating banks will have to satisfy the MRR requirements stipulated in para 1.3 above.

1.5 Booking of Profit Upfront

The amount of profit in cash on direct sale of loans may be held under an accounting head styled as *"Cash Profit on Loan Transfer Transactions Pending Recognition"* maintained on individual transaction basis. The amount lying in this account may be amortised over the life of the loans transferred, in a straight line method. The losses incurred by originators on the MRR pertaining to the direct sale transaction may be charged to this account to the extent this account has positive balance, as per the following rules[15]:

a) As and when a particular account(s) constituting the sale transaction is/are classified as NPA by the purchaser, the corresponding proportionate amount of that account(s) reflected in the books of the originator as part of MRR should also be classified as NPA.

b) Specific provisions required to be made on NPA accounts by the originator should be charged to the P&L A/c.

c) If in any year, the amount of incremental specific provisions made on these accounts are less than the amount due for amortisation, the amortisation amount due for that year may be transferred to P&L account from "*Cash Profit on Loan Transfer Transactions Pending Recognition" A/c*.

d) If in a financial year, the amount of incremental specific provisions exceeds the amortisable amount for that year, an amount equivalent to the incremental specific provisions may be transferred to P&L from the "*Cash Profit on Loan Transfer Transactions Pending Recognition" A/c* subject to balance being available in this account. No further amount should be transferred from this account to P&L Account that year as amortisation.

d) At the end of every financial year, the amount of amortisation for future years may be recalculated taking into account the balance outstanding in this account after adjusting for losses, if any, charged to the account.

[15] Even though banks may charge the losses incurred in MRR to *"Cash Profit on Loan Transfer Transactions Pending Recognition" A/c,* banks should hold capital against the exposure retained as part of MRR as required in terms of extant guidelines of RBI without taking into account balance in this account. Banks will also be required to separately maintain 'standard asset' provisions on MRR as per existing instructions which should not be charged to the *"Cash Profit on Loan Transfer Transactions Pending Recognition" A/c.*

1.6 Disclosures by the Originating Banks

Same as in para 1.6 of Section A.

1.7 Loan Origination Standards

Same as in para 1.7 of Section A.

1.8 Treatment of Assets sold not Meeting the Requirements in Paragraph 1

If an originating bank fails to meet the requirement laid down in paragraph **1** above, it will have to maintain capital for the assets sold as if these were still on the books of the bank (originating bank).

2. REQUIREMENTS TO BE MET BY THE PURCHASING BANKS

2.1 Restrictions on Purchase of loans

Banks can purchase loans from other banks/FIs/NBFCs or any other entity in India only if the seller has explicitly disclosed to the purchasing banks that it will adhere to the MRR indicated in paragraph 1.3 on an ongoing basis. The overseas branches of Indian banks should also not purchase loans in other jurisdictions which have not laid down any MRR. However, they can purchase loans in the jurisdictions where the MRR has been prescribed, though it may be different from that prescribed in this circular.

2.2 Standards for Due Diligence

2.2.1 Banks should have the necessary expertise and resources in terms of skilled manpower and systems to carry out the due diligence of the loans/portfolios of loans before purchasing them. The due diligence of the purchased loans cannot be outsourced by the bank and should be carried out by its own officers with the same rigour as would have been applied while sanctioning new loans by the bank. However, in case of purchase of portfolios of retail loans, if banks engage the services of specialized firms to aid them in the process of due diligence, the use of

such firms should be limited to collecting, compiling and certifying the relevant objective information to support the due diligence process. Under no circumstances, banks should seek or rely on the opinion of such firms regarding the credit worthiness of the individual borrowers. If a bank uses services of specialized firms in the process of due diligence, its own officers should carry out a verification check of information of at least 5% of the randomly selected obligors collected by the firms and document the findings.

2.2.2 Before purchasing individual loans or portfolio of loans, and as appropriate thereafter, banks should be able to demonstrate that they have a comprehensive and thorough understanding of and have implemented formal policies and procedures commensurate with the risk profile of the loans purchased analysing and recording:

a) information disclosed by the originators regarding the MRR, on an ongoing basis;

b) the risk characteristics of the exposures constituting the portfolio purchased *(i.e. the credit quality, extent of diversification and homogeneity of the pool of loans, sensitivity of the repayment behavior of individual borrowers to factors other than their sources of income, volatility of the market values of the collaterals supporting the loans, cyclicality of the economic activities in which the underlying borrowers are engaged, etc.);*

c) the reputation of the originators in terms of observance of credit appraisal and credit monitoring standards, adherence to MRR and MHP standards in earlier transfer of portfolios and fairness in selecting exposures for transfer;

d) loss experience in earlier transfer of portfolios by the originators in the relevant exposure classes underlying and incidence of any frauds committed by the underlying borrowers, truthfulness of the representations and warranties made by the originator;

e) the statements and disclosures made by the originators, or their agents or advisors, about their due diligence on the securitised exposures and, where applicable, on the quality of the collateral supporting the loans transferred; and

f) where applicable, the methodologies and concepts on which the valuation of loans transferred is based and the policies adopted by the originator to ensure the independence of the valuer.

2.3 Stress Testing

Banks should regularly perform their own stress tests appropriate to the portfolios of loans purchased by them. For this purpose, various factors which may be considered include, but are not limited to, rise in default rates in the underlying portfolios in a situation of economic downturn, rise in pre-payment rates due to fall in rate of interest or rise in income levels of the borrowers leading to early redemption of exposures.

2.4 Credit monitoring

2.4.1 The purchasing banks need to monitor on an ongoing basis and in timely manner performance information on the loans purchased. For this purpose, banks should establish formal procedures appropriate and commensurate with the risk profile of the purchased loans. Such procedures should be as rigorous as that followed by the bank for portfolios of similar loans directly originated by it. In particular, such procedures must facilitate timely detection of signs of weaknesses in individual accounts and identification of non-performing borrowers as per RBI guidelines as soon as loans are 90 days past due. The information collected should include the exposure type, the percentage of loans more than 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure, collateral type and occupancy, and frequency distribution of credit scores or other measures of credit worthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with bandwidths that facilitate adequate sensitivity analysis. Such information, if not collected directly by the bank and obtained from the servicing agent, should be certified by the authorized officials of the servicing agent. Banks may *inter alia* make use of the disclosures made by the originators in the form given in **Appendix 1** to monitor the exposures.

2.4.2 Depending upon the size of the portfolio, credit monitoring procedures may include verification of the information submitted by the bank's concurrent and internal auditors. The servicing agreement should provide for such verifications by the auditors of the purchasing bank. All relevant information and audit reports should be available for verification by the Inspecting Officials of RBI during the Annual Financial Inspections of the purchasing banks.

2.5 True Sale Criteria

2.5.1 The **'sale'** (*this term would hereinafter include direct sale, assignment, novation and any other form of transfer of asset, but does not include loan participation through Inter-Bank Participation Certificates, outright transfer of loan accounts to other financial entities with the consent of the borrower and sale of bonds other than those in the nature of advance*) should result in immediate legal separation of the **'selling bank'**[16] (*this term hereinafter would include direct selling bank, assigning bank, novating bank and the bank transferring assets through any other mode*), from the assets which are sold. The assets should stand completely isolated from the selling bank, after its transfer to the buyer, i.e., put beyond the selling bank's as well as its creditors' reach, even in the event of bankruptcy of the selling/assigning/transferring bank.

2.5.2 The selling bank should effectively transfer all risks/ rewards and rights/ obligations pertaining to the asset and shall not hold any beneficial interest in the asset after its sale. An agreement entitling the selling bank to any surplus income on the sold assets at the end of the life of the underlying assets would not be deemed as a violation of the true sale criteria. The buyer should have the unfettered right to pledge, sell, transfer or exchange or otherwise dispose of the assets free of any restraining condition. The selling bank shall not have any economic interest in the assets after its sale and the buyer shall have no recourse to the selling bank for any expenses or losses except those specifically permitted under these guidelines.

2.5.3 There shall be no obligation on the selling bank to re-purchase or fund the re-payment of the asset or any part of it or substitute assets held by the buyer or provide additional assets to the buyer at any time except those arising out of breach of warranties or representations made at the time of sale. The selling bank should be able to demonstrate that a notice to this effect has been given to the buyer and that the buyer has acknowledged the absence of such obligation.

[16] In this paragraph, the term 'selling bank' will include other entities selling loans to banks

2.5.4 The selling bank should be able to demonstrate that it has taken all reasonable precautions to ensure that it is not obliged, nor will feel impelled, to support any losses suffered by the buyer.

2.5.5 The sale shall be only on cash basis and the consideration shall be received not later than at the time of transfer of assets. The sale consideration should be market-based and arrived at in a transparent manner on an arm's length basis.

2.5.6 If an originator of loans acts as the servicing agent for the loans, it would not detract from the 'true sale' nature of the transaction, provided such service obligations do not entail any residual credit risk on the sold assets or any additional liability for them beyond the contractual performance obligations in respect of such services.

2.5.7 An opinion from the selling bank's Legal Counsel should be kept on record signifying that: (i) all rights, titles, interests and benefits in the assets have been transferred to the buyer; (ii) selling bank is not liable to the buyer in any way with regard to these assets other than the servicing obligations as indicated in paragraph 2.5.6 above; and (iii) creditors of the selling bank do not have any right in any way with regard to these assets even in case of bankruptcy of the selling bank.

2.5.8 Any re-schedulement, restructuring or re-negotiation of the terms of the underlying agreement/s effected after the transfer of assets to the buyer, shall be binding on the buyer and not on the selling bank except to the extent of MRR.

2.5.9 The transfer of assets from selling bank must not contravene the terms and conditions of any underlying agreement governing the assets and all necessary consents from obligors (including from third parties, where necessary) should have been obtained.

2.5.10 In case the selling bank also provides servicing of assets after the sale under a separate servicing agreement for fee, and the payments/repayments from the

borrowers are routed through it, it shall be under no obligation to remit funds to the buyer unless and until these are received from the borrowers.

2.6 Representations and Warranties

An originator that sells assets to other financial entities may make representations and warranties concerning those loans. Where the following conditions are met the originator will not be required to hold capital against such representations and warranties.

(a) Any representation or warranty is provided only by way of a formal written agreement.

(b) The originator undertakes appropriate due diligence before providing or accepting any representation or warranty.

(c) The representation or warranty refers to an existing state of facts that is capable of being verified by the originator at the time the assets are sold.

(d) The representation or warranty is not open-ended and, in particular, does not relate to the future creditworthiness of the loans/underlying borrowers.

(e) The exercise of a representation or warranty, requiring an originator to replace loans (or any parts of them) sold, on grounds covered in the representation or warranty, with the other than must be:

* undertaken within 120 days of the transfer of assets; and
* conducted on the same terms and conditions as the original sale.

(f) An originator that is required to pay damages for breach of representation or warranty can do so provided the agreement to pay damages meets the following conditions:

* the onus of proof for breach of representation or warranty remains at all times with the party so alleging;
* the party alleging the breach serves a written Notice of Claim on the originator , specifying the basis for the claim; and
* damages are limited to losses directly incurred as a result of the breach.

(g) An originator should notify RBI (Department of Banking Supervision) of all instance where it has agreed to replace assets sold to another financial entity or pay damages arising out of any representation or warranty.

2.7 Re-purchase of Assets

In order to limit the extent of effective control of transferred assets by the originator in the case of direct assignment transactions, banks should not have any re-purchase agreement including through “clean-up calls” on the transferred assets.

2.8 Applicability of Capital Adequacy and other Prudential Norms

2.8.1 The capital adequacy, income recognition, asset classification, provisioning and exposure norms will be applicable based on individual obligors, not based on portfolio. Banks should not apply the asset classification, income recognition and provisioning norms at portfolio level, as such treatment is likely to weaken the credit supervision due to its inability to detect and address weaknesses in individual accounts in a timely manner. If the purchasing bank is not maintaining the individual obligor-wise accounts for the portfolio of loans purchased, it should have an alternative mechanism to ensure application of prudential norms on individual obligor basis, especially the classification of the amounts corresponding to the obligors which need to be treated as NPAs as per existing prudential norms. One such mechanism could be to seek monthly statements containing account-wise details from the servicing agent to facilitate classification of the portfolio into different asset classification categories. Such details should be certified by the authorized officials of the servicing agent. Banks’ concurrent auditors, internal auditors and statutory auditors should also conduct checks of these portfolios with reference to the basic records maintained by the servicing agent. The servicing agreement should provide for such verifications by the auditors of the purchasing bank. All relevant information and audit reports should be available for verification by the Inspecting Officials of RBI during the Annual Financial Inspections of the purchasing banks.

2.8.2 Any discount/premium paid on the purchased loans should be allocated to individual exposures proportionately and amortised based on straight line method. The outstanding/unamortized premium need not be deducted from capital.

2.9 Treatment of exposures not meeting the requirements/guidelines in paragraph 2

The investing banks will assign a risk weight of 1111% to the securitization exposures where the requirements in paragraph **2** above are not met.

Section C

SECURITISATION ACTIVITIES/EXPOSURES NOT PERMITTED

At present, banks in India including their overseas branches, are not permitted to undertake the securitisation activities or assume securitisation exposures as mentioned below.

1. Re-securitisation of Assets

A re-securitisation exposure is a securitisation exposure in which the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation exposure. In addition, an exposure to one or more re-securitisation exposures is a re-securitisation exposure. This definition of re-securitised exposure will capture collateralised debt obligations (CDOs) of asset backed securities, including, for example, a CDO backed by residential mortgage-backed securities (RMBS).

2. Synthetic Securitisations

A *synthetic securitisation* is a structure with at least two different stratified risk positions or tranches that reflect different degrees of credit risk where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of funded (e.g. credit-linked notes) or unfunded (e.g. credit default swaps) credit derivatives or guarantees that serve to hedge the credit risk of the portfolio. Accordingly, the investors' potential risk is dependent upon the performance of the underlying pool.

**3. Securitisation with Revolving Structures
(with or without early amortisation features)**

These involve exposures where the borrower is permitted to vary the drawn amount and repayments within an agreed limit under a line of credit (e.g. credit card receivables and cash credit facilities). Typically, revolving structures will have non-amortising assets such as credit card receivables, trade receivables, dealer floor-

plan loans and some leases that would support non-amortising structures, unless these are designed to include early amortization features. Early amortisation means repayment of securities before their normal contractual maturity. At the time of early amortisation there are three potential amortisation mechanics: (i) Controlled amortisation; (ii) Rapid or non-controlled amortisation; and (iii) Controlled followed by a subsequent (after the completion of the controlled period) non-controlled amortisation phase.

Appendix 1

Format for Disclosure Requirements in offer documents, servicer report, investor report, etc.

	Nature of disclosure		Details	Amount/ percentage/ years
1	Maturity characteristics of the underlying assets (on the date of disclosure)	(i)	Weighted average maturity of the underlying assets (in years)	
		(ii)	Maturity-wise distribution of underlying assets:	
			a) Percentage of assets maturing within one year	
			b) Percentage of assets maturing within one to three year	
			c) Percentage of assets maturing within three to five years	
			d) Percentage of assets maturing after five years	
2	Minimum Holding Period (MHP) of securitised assets	(i)	MHP required as per RBI guidelines (years/months)	
		(ii)	a) Weighted average holding period of securitised assets at the time of securitisation (years / months) b) Minimum and maximum holding period of the securitized assets	
3	Minimum Retention Requirement (MRR) on the date of disclosure	(i)	MRR as per RBI guidelines as a percentage of book value of assets securitized and outstanding on the date of disclosure	
		(ii)	Actual retention as a percentage of book value of assets securitized and outstanding on the date of disclosure	
		(iii)	Types of retained exposure constituting MRR in percentage of book value of assets securitized (percentage of book value of assets securitized and outstanding on the date of disclosure)[17]	
			a) Credit Enhancement (i.e. whether investment in equity/subordinate tranches, first/second loss guarantees, cash collateral, overcollateralization	
			b) Investment in senior tranches	
			c) Liquidity support	
			d) Any other (pl. specify)	
		(iv)	Breaches, if any, and reasons therefor	

[17] This item is not relevant for direct transfer of loans, as there will be no credit enhancement, liquidity support and tranching.

4	Credit quality of the underlying loans			
		(i)	Distribution of overdue loans	
			a) Percentage of loans overdue upto 30 days	
			b) Percentage of loans overdue between 31-60 days	
			c) Percentage of loans overdue between 61-90 days	
			d) Percentage of loans overdue more than 90 days	
		(ii)	Details of tangible security available for the underlying loans (vehicles, mortgages, etc.)	
			a) Security 1(to be named) (% loans covered)	
			b) Security 2……..	
			c) Security 'n'	
		(iii)	Extent of security cover available for the underlying loans	
			a) Percentage of loans fully secured included in the pool (%)	
			b) Percentage of partly secured loans included in the pool (%)	
			c) Percentage of unsecured loans included in the pool (%)	
		(iv)	Rating-wise distribution of underlying loans(if these loans are rated)	
			a) Internal grade of the bank/external grade (highest quality internal grade may be indicated as 1)	
			1/AAA or equivalent	
			2	
			3	
			4....	
			N	
			b) Weighted average rating of the pool	
		(v)	Default rates of similar portfolios observed in the past	
			a) Average default rate per annum during last five years	
			b) Average default rate per annum during last year	
		(vi)	Upgradation/Recovery/Loss Rates of similar portfolios	
			a) Percentage of NPAs upgraded (average of the last five years)	
			b) Amount written-off as a percentage of NPAs in the	

			beginning of the year (average of last five years)	
			c) *Amount recovered during the year as a percentage of incremental NPAs during the year (average of last five year)*	
		(vii)	Frequency distribution of LTV ratios, in case of housing loans and commercial real estate loans)	
			a) *Percentage of loans with LTV ratio less than 60%*	
			b) *Percentage of loans with LTV ratio between 60-75%*	
			c) *Percentage of loans with LTV ratio greater than 75%*	
			d) *Weighted average LTV ratio of the underlying loans(%)*	
5	Other characteristics of the loan pool	(i)	Industry-wise breakup of the loans in case of mixed pools (%)	
			Industry 1	
			Industry 2	
			Industry 3....	
			Industry n	
		(ii)	Geographical distribution of loan pools (state-wise) (%)	
			State 1	
			State 2	
			State 3	
			State 4	

Appendix 2

Disclosures to be made in Notes to Accounts by banks

S. No.	Particulars	No / Amount in Rs. crore
1	No of SPVs sponsored by the bank for securitisation transactions[18]	
2	Total amount of securitised assets as per books of the SPVs sponsored by the bank	
3	Total amount of exposures retained by the bank to comply with MRR as on the date of balance sheet	
	a) Off-balance sheet exposures • First loss • Others	
	b) On-balance sheet exposures • First loss • Others	
4	Amount of exposures to securitisation transactions other than MRR	
	a) Off-balance sheet exposures *i) Exposure to own securitisations* • First loss • Others *ii) Exposure to third party securitisations* • First loss • Others	
	b) On-balance sheet exposures *i) Exposure to own securitisations* • First loss • Others *ii) Exposure to third party securitisations* • First loss • Others	

[18] Only the SPVs relating to outstanding securitization transactions may be reported here

Appendix 3

Reset of Credit Enhancement

Sr. No.		Particulars		Compliance		Non-compliance	
				Scenario I		Scenario II	
1		**Amount of Loans transferred**		**1000**			
2		**Ratings** a. Senior tranche b. Liquidity facility **c.** Second Loss		 **AA** **AA** **BB**			
3		**Amount of first loss credit enhancement** a. By originator b. By third parties	 50% 50%	**150** 75 75			
4		**Amount of second loss credit enhancement** a. By originator **b.** By third parties	 50% 50%	**50** 25 25			
5		**Liquidity facility provided by third parties**		**50**			
6		**Amount of PTC issued**		**1000**			
7		**Any other liabilities of SPV outstanding**		**20**			
8		**Investment by originator as part of MRR (10% of 1000)** a. First loss b. Second loss c. Senior tranches	 75 25 20	**120**			

		Position at the time of reset of credit enhancement				Position at the time of reset of credit enhancement	
9		**Amount of Loans outstanding**		**400**		**400**	
10		**Amount of first loss credit enhancement available** a. By originator b. By third parties		**100** 50 50		**80** 40 40	
11		**Amount of second loss credit enhancement available** a. By originator **b.** By third parties		**50** 25 25		**50** 25 25	
12		**Liquidity facility drawn and overdue**		**10**		**10**	
13		**Amount of PTC outstanding**		**420**		**500**	
14		**Amount of interest and principal over due**		**25**		**45**	
15		**Amount of losses already incurred**		**20**		**70**	
16		**Amount of accumulated losses not yet written-off**		**10**		**10**	
		Compliance with various terms and conditions					
17	Para Section A. 1.8(i)	**Ratings** a. Senior tranche b. Liquidity facility c. Second Loss		 AA AA BB	 Complied	 AA AA BB	 Complied
18	1.8(ii)	**Amount of credit enhancement required to retain the original**		**100**		**120**	

		rating of all the tranches as determined by the Rating Agency					
		a. First Loss		50		**60**	
		b. Second Loss		50		**60**	
19	1.8(iii)	**Whether the reset was contemplated in the original terms of the contract**		Yes	Complied	Yes	Complied
20	1.8(iv)	**Form of credit enhancement**		External	Complied	External	Complied
21	1.8(v) (a)	**Amount of principal amortised**		600	Complied	600	Complied
22	1.8(v) (b)	**<u>(i)Trigger 1</u>**					
		a. Loans Over due	25			45	
		b. Written off losses	20			70	
		c. Accumulated losses	10			10	
		d. Total overdues /losses		55	**Trigger I** is not breached as 55<60	125	**Trigger I** is breached as 125>60
		e. Amortisation-adjusted Credit Enhancement	((600/1000 of 200)	120		120	
		f. 50% of Amortisation-adjusted Credit Enhancement		60		60	
		<u>(ii)Trigger 2</u>					
		a. Over dues	25			45	
		b. Accumulated losses	10			10	
		c. Total overdues/losses		35	Trigger 2 is not breached as 35<75	55	**Trigger 2** is not breached as 55<65
		d. Available Credit enhancement		150 [10 +11]		130	
		e. 50% of Available Credit enhancement		75		65	

13	1.8(vi) (a)	**Reserve Floor (33% of 200)**		**66**	Complied as 66< 150	66	Not relevant as no reset can take place due to breach of Trigger 1
		Amount which can be withdrawn					
14	1.8(v) (b)	**a. Excess credit enhancement**	**(150-100) [22(i) (b)-18]**	**50**			
		b. Withdrawable amount	**(50% of 50) [50% of 14(a)]**	**25**			
15	1.8(v) (c)	**a. MRR required**	**(10% of 400) [10% of 9]**	**40**	Complied with as 40< 77.5		
		b. Amount available after withdrawal from First loss	**100-25= 75 [10-14(b)]**	**75**			
		c. Share of originator	**50% of 75 [50% of 15(b)]**	**37.5**			
		d. Amount invested in second loss and senior tranche	**25+20 [11(a)+8(c)]**	**45**			
		e. Total investment by the originator	**37.5+45**	**82.5**			
16		**Amount of first loss credit enhancement which is finally withdrawable**		**25**			