

Reset of Credit Enhancement-Example

Capital Structure	Rating	Rs. Crore
Senior Tranche	AAA	1000
Second Loss Credit Enhancement (SLCE)	BBB	50
First Loss Credit Enhancement (FLCE)	NR*	150

* Not Rated

Transaction Balance Sheet			
Liabilities		Assets	
Senior Tranche (PTCs)	1000	Receivables	1000
FLCE+SLCE	200	Reserve	200
	1200		1200

Sr.No.	Circular Para No.	Particulars		Compliance	Non-compliance
I.		Position at the time of Initial Transaction			
				Scenario I	Scenario II
1		Amount of Loans transferred (Original Pool Principal Balance)		1000	
2		Amount of PTCs issued		1000	
3		Ratings a. Senior tranche b. SLCE c. FLCE		AAA BBB NR	
4		Original Credit Enhancement			
A		Amount of first loss credit enhancement		150	

		a. By originator	50%	75			
		b. By third parties	50%	75			
B		Amount of second loss credit enhancement		50			
		a. By originator	50%	25			
		b. By third parties	50%	25			
5		Investment by originator as part of MRR (10% of 1000)		115	MRR Complied		
		a. First Loss	75				
		b. Senior Tranche	40				
II.		Position at the time of reset of credit enhancement				Position at the time of reset of credit enhancement	
6		Amount of Loans outstanding		400		400	
7		Amount of PTC outstanding		420		500	
8		Available Credit Enhancement					
A		Amount of first loss credit enhancement available		100		80	
		a. By originator		50		40	
		b. By third parties		50		40	
B		Amount of second loss credit enhancement available		50		50	
		a. By originator		25		25	
		b. By third parties		25		25	
9		Amount of interest and principal over due for					
		a. delinquencies up to 365 ⁱ days		15		25	
		b. delinquencies in deeper buckets (>365 days) ⁱⁱ		10		20	

10		Amount of future principal outstanding for delinquencies in deeper buckets(>365 days)		25		70	
11		Amount of Other losses not captured in (9) and (10) above		5		10	
		Total [9(a)+9(b)+10+11]		55		125	
III.		Compliance with various terms and conditions					
12	Para 2	Form of Credit Enhancement		External	Complied	External	Complied
13	2 (i)	Ratings a. Senior tranche b. Second Loss		AAA BBB	Complied Complied	AAA BBB	Complied Complied
14	2(iii)	Whether reset is being carried out subject to the consent of trustees		Yes	Complied	Yes	Complied
15	2(iv)	a. Whether the reset was contemplated in the original terms of the contract b. In case No (existing contracts), is reset being carried out subject to the consent of all investors of outstanding securities		Yes NA	Complied		
16	2(ii)	Amount of credit enhancement required to retain the rating of the tranches as determined by the Rating Agency (provided by CRA)		100		120	
17	3 (a)	Amount of principal amortised (pool amortisation)		600 [(1-6)/1]	60% - Complied	600	60%-Complied

18	3 (b)	(i)Trigger 1						
		a. Loans Overdue (Delinquencies up to 365 days)		15			25	
		b. Value at risk for delinquencies in deeper buckets		35 (10+25) [9 (b)+10]			90 (20+70) [9 (b)+10]	
		c. Other losses		5			10	
		d. Total 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	
		(ii)Trigger 2						
		a. Loans Overdue (Delinquencies up to 365 days)		15			25	
		b. Value at risk for delinquencies in deeper buckets		35 (10+25) [9 (b)+10]			90(20+70) [9 (b)+10]	
c. Other losses less write offs		3			5			
d. Total Losses			53	Trigger 2 is not breached as 53<75	120	Trigger 2 is breached as 120>65		
e. Available Credit enhancement			150 [8 A +8 B]		130 [8 A +8 B]			
f. 50% of Available Credit enhancement			75		65			
19	4 (a)	Reserve Floor (30% of 200)		60	Complied as 60<		Not relevant as no reset can	

					100		take place due to breach of Trigger 1 & 2
20	4 (b)	Amount which can be withdrawn a. Excess credit enhancement b. Withdrawable amount	(150-100) [18(ii) (e)-16] (60% of 50) [60% of 20(a)]	50ⁱⁱⁱ 30			
21	4 (c)	a. MRR required b. Amount that can be released from FLCE, such that rating of SLCE is maintained (provided by CRA) c. Amount available after withdrawal from First loss d. Share of originator e. Amount to be released from SLCE f. Amount available after withdrawal from second loss g. Share of originator	10% of 420 (10% of 7) 100-20= 80 [8 A-21(b)] 50% of 80 [50% of 21(c)] 30-20 [20(b)-21(b)] 50-10 [8 B-21(e)] 50% of 40 [50% of 21(f)]	42 20 80 40 10 40 20	Complied with as 42<57 (See 21 (j))		

		h. Investment of Originator in Senior Tranche	$[(40/1000)*420]$ $[(5(b)/1)*7]$	17			
		i. Total investment by the originator	$17+40+20$ $[21(h)+21(d)+21(g)]$	77			
		j. Total investment by the originator eligible for MRR	$17+40$ $[21(h)+21(d)]$	57			
21		a. Amount of first loss credit enhancement which is finally withdrawable		20			
		b. Amount of second loss credit enhancement which is finally withdrawable		10			

ⁱ The tenor of the transaction has been assumed to be greater than 2 years

ⁱⁱ In case, a few assets are rendered irrecoverable even before the completion of 365 days (say after 90 days only), then the entire value at risk (overdues plus future principal outstanding) pertaining to these assets would be captured immediately without waiting till 365 days

ⁱⁱⁱ The excess amount available for reset will be computed subject to the fulfilment of Reserve Floor. So even if Credit Enhancement required to retain the ratings as per this circular is less than 60 (say 40), the reserve floor requirement of 60, as calculated in this example, will still have to be adhered to i.e. the excess amount available for reset would be $150-60=90$ and not $150-40=110$.