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RESERVE BANK OF INDIA
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The Chairman and Managing Director / Chief Executive Officer of
All Scheduled Commercial Banks
(Excluding RRBs and Local Area Banks) and
All-India Term Lending and Refinancing Institutions
(Exim Bank, NABARD, NHB and SIDBI)

Dear Sir,

Revisions to the Guidelines on Securitisation Transactions

Please refer to the paragraph 107 (extract enclosed) of the Monetary Policy Statement 2012-13 announced on April 17, 2012 on issuance of final guidelines on securitisation. With a view to developing an orderly and healthy securitisation market and ensuring greater alignment of the interests of the originators and the investors, it was considered necessary to prescribe a minimum lock-in-period and minimum retention criteria for securitised loans originated and purchased by banks and NBFCs. Accordingly, a discussion paper and draft guidelines on securitisation transactions were issued in April 2010 for public comments. After considering the feedback received and international developments during the intervening period, revised draft guidelines were issued for public comments in September 2011. Taking into account comments received from various stakeholders, the guidelines have now been finalised and are enclosed in **Annex.** These guidelines also cover prudential treatment of transfer of assets through direct assignment of cash flows and the underlying securities, if any.

2. The guidelines are organised in three Sections. **Section A** contains the provisions relating to securitisation of assets. A separate circular would be issued in due course on reset of credit enhancements in case of securitisation transactions. **Section B** contains

बैंकिंग परिचालन और विकास विभाग, केंद्रीय कार्यालय, 12वीं मंजिल, केंद्रीय कार्यालय, शहीद भगत सिंह मार्ग, मुंबई 400001
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stipulations regarding transfer of standard assets through direct assignment of cash flows. **Section C** enumerates the securitisation transactions which are currently not permissible in India.

3. All other guidelines on securitisation of assets including those contained in our ‘Master Circular on New Capital Adequacy Framework’ dated July 1, 2011 remain unchanged.

Yours faithfully,

(Deepak Singhal)
Chief General Manager-in-Charge

Encl.: as above

Extract from Monetary Policy Statement 2012-13

Lock-in Period and Minimum Retention for Securitisation Exposures

107. With a view to developing an orderly and healthy securitisation market and ensuring greater alignment of the interests of the originators and the investors, it was considered necessary to prescribe a minimum lock-in-period and minimum retention criteria for securitised loans originated and purchased by banks and NBFCs. Accordingly, a discussion paper and draft guidelines on securitisation transactions were issued in April 2010 for public comments. After considering the feedback received and international developments during the intervening period, revised draft guidelines were issued for public comments in September 2011. Taking into account comments received from various stakeholders, it is proposed:

- to issue the final guidelines on securitisation by end-April 2012.

ANNEX

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

INTRODUCTION

Securitisation involves pooling of homogeneous assets and the subsequent sale of the cash flows from these asset pools to investors. The securitisation 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 provide an additional source of funding. The recent crisis in the credit markets has called into question the desirability of certain aspects of securitisation 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 securitisation framework in India has been reasonably prudent, certain imprudent practices have reportedly developed like origination of loans with the sole intention of immediate securitisation and securitisation of tranches of project loans even before the total disbursement is complete, thereby passing on the project implementation risk to investors.

With a view to developing an orderly and healthy securitisation market, to ensure greater alignment of the interests of the originators and the investors as also to encourage the development of the securitisation 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 securitisation 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 securitisation 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 homogeneous pool of obligors[1]. Subject to this condition, all on-balance sheet standard assets[2], **except the following**, will be eligible for securitisation by the originators:

(i) Revolving credit facilities (e.g. Cash Credit accounts, Credit Card receivables etc.)

(ii) Assets purchased from other entities

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

(iv) Loans with bullet repayment of both principal and interest[3].

1.2 Minimum Holding Period (MHP)

1.2.1 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.

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

[2] In these guidelines the term loans/assets have been used to refer to loans, advances and bonds which are in the nature of advances 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

[3] Loans with tenor up to 24 months extended to individuals for agricultural activities (as defined by Rural Planning and Credit Department of the Reserve Bank of India, in the Master Circular - Lending to Priority Sector) where both interest and principal are due only on maturity and trade receivables with tenor up to 12 months discounted/purchased by banks from their borrowers will be eligible for securitisation. However, only those loans/receivables will be eligible for securitisation where a borrower (in case of agricultural loans) /a drawee of the bill (in case of trade receivables) has fully repaid the entire amount of last two loans/receivables (one loan, in case of agricultural loans with maturity extending beyond one year) within 90 days of the due date.

1.2.2 Banks can securitise loans only after a MHP counted from the date of full disbursement of loans for an activity/purpose; acquisition of asset (i.e., car, residential house etc.) by the borrower or the date of completion of a project, as the case may be. MHP would be defined with reference to the number of instalments to be paid prior to securitisation. MHP applicable to various loans depending upon the tenor and repayment frequency is given in the following table[4].

Minimum Holding Period

	Minimum number of instalments to be paid before securitisation			
	Repayment frequency – Weekly	**Repayment frequency – Fortnightly**	**Repayment frequency – Monthly**	**Repayment frequency – Quarterly**
Loans with original maturity up to 2 years	Twelve	Six	Three	Two
Loans with original maturity of more than 2 years and up to 5 years	Eighteen	Nine	Six	Three
Loans with original maturity of more than 5 years	-	-	Twelve	Four

1.2.3 The MHP will be applicable to individual loans in the pool of securitised loans. MHP will not be applicable to loans referred to in foot note 3 of para 1.1.

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 may also include a vertical tranche of securitised paper in addition to

[4] Where the repayment is at more than quarterly intervals, loans can be securitised after repayment of at-least two instalments.

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. The originating banks should adhere to the MRR detailed in the Table below while securitising loans:

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 securitisation involves **neither credit tranching nor any first loss credit enhancement** by originators	Investment in the securities issued by the Special Purpose Vehicle (SPV) equal to 5% of the book value of the loans being securitised.
		(ii) Where securitisation involves no credit tranching, but involves **originators providing first loss credit enhancements** e.g. off-balance sheet supports, cash collaterals, overcollateralisation 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 securitisation involves **credit tranching but no first loss credit enhancement** from originator	5% in equity tranche. If equity tranche is less than 5%, then balance pari-passu in remaining tranches.
		(iv) Where securitisation involves **credit tranching and first loss credit enhancements by originator** (off-balance sheet supports, cash collaterals, overcollateralisation etc.)	If the first loss credit enhancement is less than 5%, then balance in equity tranche. If first loss credit enhancement plus equity tranche is less than 5%, then remaining pari-passu in other tranches.
Loans with original maturity of more than 24 months	**10%** of the book value of the loans being securitised	(i) Where securitisation involves **neither credit tranching nor any first loss credit enhancement**	Investment in the securities issued by the SPV equal to 10% of the book value of the loans being securitised.
		(ii) Where securitisation involves no **credit tranching**, but involves **first loss credit**	The originator would be providing required credit enhancement. If this is less than 10%, then balance in

Type of Loan	MRR	Description of MRR	
		enhancements from originators e.g., off-balance sheet supports, cash collaterals, overcollateralisation etc.	the securities issued by the SPV.
		(iii) Where securitisation involves **credit tranching but no first loss credit enhancement from originator**	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.
		(iv) Where securitisation involves **credit tranching as well as the first loss credit enhancements by originators** (off-balance sheet supports, cash collaterals, overcollateralisation etc.)	i) If the first loss credit enhancement is more than 5% but less than 10%, then balance pari-passu in securities including equity tranche issued by the SPV. ii) If the first loss credit enhancement is less than 5%, then in equity tranche so that first loss plus equity tranche is equal to 5%. Balance pari-passu in other tranches (excluding equity tranche) issued by the SPV so that the total retention is 10%.
Bullet repayment loans/receivables referred to in foot note 3 of para 1.1	**10%** of the book value of the loans being securitised	(i) Where securitisation involves **neither credit tranching nor any first loss credit enhancement** by originators	Investment in the securities issued by the SPV equal to 10**%** of the book value of the loans being securitised.
		(ii) Where securitisation involves no credit tranching, but involves **originators providing first loss credit enhancements** e.g. off-balance sheet supports, cash collaterals, overcollateralisation etc.	The originator would be providing the required credit enhancement. If the first loss credit enhancement required is less than 10%, then the balance should be in the securities issued by the SPV.
		(iii) Where securitisation involves **credit tranching**	10% in equity tranche. If equity tranche is less than

Type of Loan	MRR	Description of MRR	
		but no first loss credit enhancement from originator	10%, then balance pari-passu in remaining tranches.
		(iv) Where securitisation involves **credit tranching and first loss credit enhancements by originator** (off-balance sheet supports, cash collaterals, overcollateralisation etc.)	If the first loss credit enhancement is less than 10%, then balance in equity tranche. If balance is greater than equity tranche, then remaining pari-passu in other tranches.

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 of credit risk or selling the retained interest. The MRR as a percentage of unamortised principal should be maintained on an ongoing basis except for reduction of retained exposure due to proportionate repayment or through the absorption of losses. The form of MRR should not change during the life of securitisation.

1.3.5 For complying with the MRR under these guidelines banks should ensure that proper documentation in accordance with law is made.

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 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%[5].

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.

1.4.4 The 20% limit on exposures will not be deemed to have been breached if it is exceeded due to amortisation of securitisation instruments issued.

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

[5] 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.

been decided to allow higher recognition of cash profits during a year based on amortisation of principal and losses incurred as well as specific provision requirements on the securitisation exposures as explained below:

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 amortisation of cash profit arising out of securitisation transaction will be done at the end of every financial year and calculated as under:

Profit to be amortised = Max{L, [(X*(Y/Z))], [(X/n)]}

X = amount of unamortised cash profit lying in the account 'Cash Profit on Loan Transfer Transactions Pending Recognition' at the beginning of the year
Y = amount of principal amortised during the year
Z = amount of unamortised principal at the beginning of the year
L = Loss[6] (marked to market losses incurred on the portfolio + specific provisions, if any, made against the exposures to the particular securitisation transaction + direct write-off) excluding loss incurred on credit enhancing interest only strip[7]
n = residual maturity of the securitisation transaction

1.5.2 The above method of amortisation of profit can be applied to outstanding securitisation transactions as well. However, the method can be applied only with respect to the outstanding amortisable profit and un-amortised principal outstanding as on the date of issuance of this circular.

1.5.3 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

[6] The losses, including marked-to-market losses, incurred by banks, specific provisions, if any, and direct write-offs to be made on the MRR and any other exposures to the securitisation transaction (other than credit enhancing interest only strip) should be charged to Profit and Loss account. However, the amortisation formula would ensure that these debits to Profit and Loss account are offset to the extent there is balance in *"Cash Profit on Loan Transfer Transactions Pending Recognition* Account". Banks should also hold capital against securitisation exposures in terms of extant guidelines of RBI without taking into account balance in "*Cash Profit on Loan Transfer Transactions Pending Recognition* Account".

[7] For accounting of losses in respect of credit enhancing interest only strip, please see para 1.5.3.

sheet asset. Normally, a bank would recognise an unrealised gain in its Profit and Loss account 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 Profit and Loss account; instead they should 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 credit enhancement for the securitisation transaction[8]. The profit may be recognised in Profit and Loss 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. This method of accounting of Interest Only Strip can be applied to outstanding securitisation transactions as well.

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 securitised 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 securitisation programme would be considered

[8] 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 Profit and Loss 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 Profit and Loss account.

appropriate. 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. The above periodical disclosures should be made separately for each securitisation transaction, throughout its life, 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 and total amount of exposures retained by the bank as on the date of balance sheet to comply with the MRR. These figures should be based on the information duly certified by the SPV's auditors obtained by the originating bank from the SPV. 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 of credits should be applied by the originators.

1.8 Treatment of Securitised Assets not Meeting the Requirements Stipulated above

All instructions contained in this paragraph will be applicable only to the new transactions unless explicitly stated otherwise. If an originating bank fails to meet the requirement laid down in the paragraphs 1.1 to 1.7 above, it will have to maintain capital for the securitised assets as if these were not securitised. This capital would be in addition to the capital which the bank is required to maintain on its other existing exposures to the securitisation 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) has explicitly disclosed to the credit institution that it has adhered to MHP and MRR stipulated in these guidelines and will adhere to MRR guidelines on an ongoing basis.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 securitisation positions, that they have a comprehensive and thorough understanding of risk profile of their proposed / existing investments in securitised positions. 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 securitisation, on 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 securitisation 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 securitisations, and fairness in selecting exposures for securitisation;

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 securitised instruments 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, fall in rating of the credit enhancers resulting in fall in market value of securities (Asset Backed Securities/Mortgage Backed Securities) and drying of liquidity of the securities resulting in higher prudent valuation adjustments. The results of stress test should be taken into account in Pillar II exercise under Basel II framework and additional capital be held to support any higher risk, if required.

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 and take appropriate action, if any, required. Action may include modification to exposure ceilings to certain type of asset class underlying securitisation transaction, modification to ceilings applicable to originators etc. 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 securitisation exposures.

2.4 Treatment of Exposures not Meeting the Requirements Stipulated above

The investing banks will assign a risk weight of 1111% to the securitisation exposures where the requirements in the paragraphs 2.1 to 2.3 above are not met. While banks should make serious efforts to comply with the guidelines contained in paragraphs 2.1 to 2.3, the higher risk weight of 1111% will be applicable with effect from October 01, 2012. Banks should put in place necessary systems and procedures to implement the requirements in paragraphs 2.1 to 2.3 before September 30, 2012.

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[9]

1.1.1 Under these guidelines, banks can transfer a single standard asset[10] or a part of such asset or a portfolio of such assets to financial entities through an assignment deed with the **exception** of the following:

(i) Revolving credit facilities (e.g. Cash Credit accounts, Credit Card receivables etc.)

(ii) Assets purchased from other entities

(iii) Assets with bullet repayment of both principal and interest[11].

1.1.2 However, these guidelines do not apply to:

(i) Transfer of loan accounts of borrowers by a bank to other bank/FIs/NBFCs and vice versa, at the request/instance of borrower;

(ii) Inter-bank participations;

(iii) Trading in bonds;

(iv) Sale of entire portfolio of assets consequent upon a decision to exit the line of business completely. Such a decision should have the approval of Board of Directors of the bank;

(v) Consortium and syndication arrangements and arrangement under Corporate Debt Restructuring mechanism;

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[9] In these guidelines, transfer would mean transfer of assets through direct sale, assignment and any other form of transfer of assets. The generic term used for transfers would be sale and purchase.

[10] In these guidelines, the term loans/assets have been used to refer to loans, advances or bonds which are in the nature of an advances 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

[11] Loans with tenor up to 24 months extended to individuals for agricultural activities (as defined by Rural Planning and Credit Department of the Reserve Bank of India, in the Master Circular - Lending to Priority Sector) where both interest and principal are due only on maturity and trade receivables with tenor up to 12 months discounted/purchased by banks from their borrowers will be eligible for direct transfer through assignment. However, only those loans/receivables will be eligible for such transfer where a borrower (in case of agricultural loans) /a drawee of the bill (in case of trade receivables) has fully repaid the entire amount of last two loans/receivables (one loan, in case of agricultural loans with maturity extending beyond one year) within 90 days of the due date.

(vi) Any other arrangement/transactions, specifically exempted by the Reserve Bank of India.

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 assets to other financial entities:

Type of asset	MRR
Assets with original maturity of 24 months or less	Retention of right to receive 5% of the cash flows from the assets transferred on pari-passu basis.
i) Assets with original maturity of above 24 months; and ii) Loans referred to in foot note 11 of para 1.1 of Section B.	Retention of right to receive 10% of the cash flows from the assets transferred on pari-passu basis.

1.3.2 In the case of partial sale of assets, if the portion retained by the seller is more than the MRR required as per para 1.3.1 above, then out of the portion retained by the seller, the portion equivalent to 5% of the portion sold or 10% of the portion sold, as the case may be, would be treated as MRR. However, all exposures retained by the selling bank including MRR should rank pari-passu with the sold portion of the asset.

1.3.3 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 1.3.1 above. Banks' retention of partial interest in the loans transferred to comply with the MRR indicated in para

1.3.1 should be supported by a legally valid documentation. At a minimum, a legal opinion regarding the following should also be kept on record by the originator:

(a) legal validity of amount of interest retained by the originator;

(b) such arrangement not interfering with assignee's rights and rewards associated with the loans to the extent transferred to it; and

(c) the originator not retaining any risk and rewards associated with the loans to the extent transferred to the assignee.

1.3.4 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.

1.3.5 The level of commitment by originators i.e., MRR should not be reduced either through hedging of credit risk or selling the retained interest. The MRR as a percentage of unamortised principal should be maintained on an ongoing basis except for reduction of retained exposure due to proportionate repayment or through the absorption of losses. The form of MRR should not change during the life of transaction.

1.3.6 For complying with the MRR under these guidelines, banks should ensure that proper documentation in accordance with law is made.

1.4 Booking of Profit Upfront

1.4.1 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 and amortised over the life of the transaction. The amortisation of cash profit arising out of loan assignment transaction will be done at the end of every financial year and calculated as under:

Profit to be amortised = Max {L, [(X*(Y/Z)], [(X/n)]}

X = amount of unamortised cash profit lying in the account 'Cash Profit on Loan Transfer Transactions Pending Recognition' at the beginning of the year
Y = amount of principal amortised during the year
Z = amount of unamortised principal at the beginning of the year

L = Loss (specific provisions to be made on retained exposures for credit losses plus direct write-off plus any other losses, if any)[12] incurred on the portfolio
n = residual maturity of the securitisation transaction

1.4.2 **Accounting, Asset Classification and provisioning norms for MRR**

The asset classification and provisioning rules in respect of the exposure representing the MRR would be as under:

a) The originating bank may maintain a consolidated account of the amount representing MRR if the loans transferred are retail loans. In such a case, the consolidated amount receivable in amortisation of the MRR and its periodicity should be clearly established and the overdue status of the MRR should be determined with reference to repayment of such amount. Alternatively, the originating bank may continue to maintain borrower-wise accounts for the proportionate amounts retained in respect of those accounts. In such a case, the overdue status of the individual loan accounts should be determined with reference to repayment received in each account.

b) In the case of transfer of a pool of loans other than retail loans, the originator should maintain borrower-wise accounts for the proportionate amounts retained in respect of each loan. In such a case, the overdue status of the individual loan accounts should be determined with reference to repayment received in each account.

c) If the originating bank acts as a servicing agent of the assignee bank for the loans transferred, it would know the overdue status of loans transferred which should form the basis of classification of the entire MRR/individual loans representing MRR as NPA in the books of the originating bank, depending upon the method of accounting followed as explained in para (a) and (b) above.

1.5 Disclosures by the Originating Banks

Same as in para 1.6 of Section A.

1.6 Loan Origination Standards

Same as in para 1.7 of Section A.

[12] The specific provisions to be made as well as direct write-offs and other losses, if any, on the retained exposures should be charged to Profit and Loss account. In addition 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 *"Cash Profit on Loan Transfer Transactions Pending Recognition"* 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.*

1.7 Treatment of Assets sold not Meeting the Requirements stipulated above

All instructions contained in this paragraph except in para 1.4.2 will be applicable only to the new transactions undertaken on or after the date of this circular. Instructions in para 1.4.2 will be applicable to both existing and new transactions[13]. If an originating bank fails to meet the requirement laid down in paragraphs 1.1 to 1.6 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 in India only if the seller has explicitly disclosed to the purchasing banks that it will adhere to the MRR indicated in para 1.3 on an ongoing basis. In addition, for domestic transactions, purchasing banks should also ensure that the originating institution has strictly adhered to the MHP criteria prescribed in the guidelines in respect of loans purchased by them. The overseas branches of Indian banks may purchase loans in accordance with the regulations laid down in those jurisdictions.

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. In this regard the purchasing banks should adhere to the following guidelines:

a) Banks with the approval of their Board of Directors, should formulate policies regarding the process of due diligence which needs to be exercised by the banks' own officers to satisfy about the Know Your Customer requirements and credit quality of the underlying assets. Such policies should *inter alia* lay down the methodology to evaluate credit quality of underlying loans, the information requirements etc.

b) 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.

[13] For existing transactions para 1.4.2 would apply to credit enhancements or any other type of retained exposures.

c) If a bank wishes to outsource certain activities like collection of information and documents etc., then this should be subject to the extant Reserve Bank of India (RBI) guidelines on outsourcing of non-core activities by banks, which would *inter alia* imply that banks would continue to retain full responsibility in regard to selection of loans for purchase and compliance with Know Your Customer requirements.

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 loans/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 assigned 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 and 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. The results of stress test should be taken into account in Pillar II exercise under Basel II framework and additional capital be held to support any higher risk, if required.

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 and take appropriate action required, if any. Action may include modification to exposure ceilings to certain type of asset classes, modification to ceilings applicable to originators etc. 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 band widths 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[14]

2.5.1 The **'sale'** (*this term would hereinafter include direct sale, assignment and any other form of transfer of asset, but does not include loan participation through Inter-Bank Participation Certificates, bills rediscounted, outright transfer of loan accounts to other financial entities at the instance 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'**[15] (*this term hereinafter would include direct selling bank, assigning bank and the bank transferring assets through any other mode*), from the assets[16] 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 except those specifically permitted under these guidelines. 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

[14] For true sale criteria for securitisation transaction, please refer to Annex 7 of our Master Circular – New Capital Adequacy Framework dated July 01, 2011.

[15] In this para, the term 'selling bank' will include other financial entities selling loans to banks.

[16] In case of sale of a part of an asset, true sale criteria will apply to the part of the asset sold.

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.

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 the seller 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 para 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 assets. Where the following conditions are met the seller 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 seller 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 seller 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 asset (or any parts of them) sold, on grounds covered in the representation or warranty, must be:

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

(f) A seller 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 seller, specifying the basis for the claim; and

* damages are limited to losses directly incurred as a result of the breach.

(g) A seller 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 seller 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 treatment for direct purchase of corporate loans will be as per the rules applicable to corporate loans directly originated by the banks. Similarly, the capital adequacy treatment for direct purchase of retail loans, will be as per the rules applicable to retail portfolios directly originated by banks except in cases where the individual accounts have been classified as NPA, in which case usual capital adequacy norms as applicable to retail NPAs will apply. No benefit in terms of reduced risk weights will be available to purchased retail loans portfolios based on rating because this is not envisaged under the Basel II Standardized approach for credit risk[17]. However, banks may, if they so desire, have the pools of loans rated before purchasing so as to have a third party view of the credit quality of the pool in addition to their own due diligence. However, such rating cannot substitute for the due diligence that the purchasing bank is required to perform in terms of para 2.2 of this Section.

2.8.2 In purchase of pools of both retail and non-retail loans, income recognition, asset classification, provisioning and exposure norms for the purchasing bank will be applicable based on individual obligors and 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

[17] Investment in tranches of securitised loans, will attract capital adequacy and other prudential norms as applicable to securitisation transactions.

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. Bank's 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.

2.8.3 The purchased loans will be carried at acquisition cost unless it is more than the face value, in which case the premium paid should be amortised based on straight line method or effective interest rate method, as considered appropriate by the individual banks. The outstanding/unamortised premium need not be deducted from capital. The discount/premium on the purchased loans can be accounted for on portfolio basis or allocated to individual exposures proportionately.

2.9 Treatment of Exposures not Meeting the Requirements Stipulated Above

The investing banks will assign a risk weight of 1111% to the assignment exposures where the requirements in paragraphs 2.1 to 2.8 above are not met. While banks should make serious efforts to comply with the guidelines contained in paragraphs 2.1 to 2.4, the higher risk weight of 1111% for non-compliance of these paragraphs will be applicable with effect from October 01, 2012. Banks should put in place necessary systems and procedures to implement the requirements in paragraphs 2.1 to 2.4 before September 30, 2012.

Section C
SECURITISATION ACTIVITIES/EXPOSURES NOT PERMITTED

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

1.1 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).

1.2 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.

1.3 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 amortisation 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.

2. The appropriateness and suitability of transactions prohibited in the above guidelines would be revisited in due course.

Appendix 1

Format for Disclosure Requirements in offer documents, servicer report, investor report, etc.[18]

Name/Identification No. Of securitisation transaction[19]:

	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 securitised 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 securitised and outstanding on the date of disclosure	
		(ii)	Actual retention as a percentage of book value of assets securitised and outstanding on the date of disclosure	

[18] This appendix will also be applicable to direct transfer of loans. For that purpose the worlds 'securitised assets'/'asset securitised' may be interpreted to mean 'loans directly transferred/assigned'. Banks should disclose/report the information in respect of securitisation and direct transfers separately.

[19] These disclosures should be made separately for each securitisation transaction throughout the life of the transaction

	Nature of disclosure		Details	Amount / percentage/ years
		(iii)	Types of retained exposure constituting MRR in percentage of book value of assets securitised (percentage of book value of assets securitised and outstanding on the date of disclosure)[20]	
			a) Credit Enhancement (i.e. whether investment in equity/subordinate tranches, first/second loss guarantees, cash collateral, overcollateralisation	
			b) Investment in senior tranches	
			c) Liquidity support	
			d) Any other (pl. specify)	
		(iv)	Breaches, if any, and reasons there for	
4	Credit quality of the underlying loans			
		(i)	Distribution of overdue loans	
			a) Percentage of loans overdue up to 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 portfolio of 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 (%)	

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

	Nature of disclosure		Details	Amount / percentage/ years
			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(%)	

	Nature of disclosure		Details	Amount / percentage/ years
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[21]	
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	

[21]Only the SPVs relating to outstanding securitisation transactions may be reported here