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RBI forms two panels to strengthen sale of stressed corporate assets and housing loan portfolios

BY ASHWIN MANIKANDAN, ET BUREAU | MAY 29, 2019, 09.07 PM IST

Mumbai: The Reserve Bank of India has appointed two separate six-member panels to create a more transparent framework for the sale of bad corporate assets and securitisation of housing loans in a bid to make these processes more open and structural.

These panels have been asked to review the existing market operations and come up with recommendations aligning them with global best practices, the central bank said in two separate statements released late Wednesday evening. The regulators deemed the existing state of both markets dominated only by certain players due to lack of clarity on operating mechanisms.

The panel on secondary market for corporate loans, headed by Canara Bank Chairman T N Manoharan, has been asked to gauge the possibility of setting up a loan transaction platform for the sale stressed asset and creation of a loan contract registry to standardise information.

“A well-developed secondary market for debt would also aid in transparent price discovery of the inherent riskiness of the debt being traded,” according to the RBI statement, adding that the current market lacks any formalised mechanism and is largely restricted to sale of bad debts by banks to asset restructuring companies (ARCs) and “ad hoc sales” to peer lenders.

“A vibrant, deep and liquid secondary market for debt would go a long way in increasing the efficiencies of the debt market in general and would aid in resolution of stressed assets in particular,” RBI said.

Additionally, RBI’s panel for housing loan securitisation, headed by Bains and Co. advisor Harsh Vardhan, has been mandated to review the current market operations and recommend policy interventions.

“...it is imperative that the market moves to a broader issuance model with suitable structuring of the instruments for diverse investor classes…as the international experience shows, it is critical to address the issues of misaligned incentives and agency problems resulting from information asymmetry problems between the originators and investors in the market, which can exacerbate systemic risk,” according to the RBI statement.

Data from rating company ICRA showed that the securitisation volume in FY19 more than doubled as against FY18 to Rs.2 lakh crore, of which major chunk of loans sold were by housing finance companies (HFCs) to banks in order to raise funds owing to tough liquidity conditions.

“The mortgage securitisation market in India is primarily dominated by direct assignments among a limited set of market participants on account of various structural factors impacting both the demand and the supply side, as well as certain prudential, legal, tax and accounting issues,” RBI said.