

# For capital push to housing-fin securitisation, RBI panel makes a slew of recommendations

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To ensure participation of wider pools of capital in housing finance securitisation, a Reserve Bank of India committee has recommended the setting up of an intermediary to specifically promote mortgage securitisation, reducing the minimum holding period, and a separate investment limit of 5 per cent in provident fund and insurance investment guidelines, among others.

The committee, headed by Harsh Vardhan, Senior Advisor, Bain & Co, said that a government-sponsored intermediary, through the National Housing Bank (NHB), will enable market-making and standards-setting. It suggested developing standards for loan origination, loan servicing, loan documentation, and loans to be eligible for securitisation, including standardised formats for data collection and aggregation.

For mortgage-backed securitisation (MBS), the minimum holding period (MHP) should be reduced to six months/six-monthly instalments. MHP is the minimum length of time that a loan must stay on the books of an originator before it can become part of a pool that will be securitised.

The committee recommended reducing the minimum retention requirement (MRR) to 5 per cent of the pool, from 10 per cent now.

MRR is the minimum amount of ownership of the pool that the originator must retain in a securitisation transaction.

## Suggestions put forth

The committee suggested a separate and specific limit of 5 per cent for MBS in the provident fund investment guidelines and insurance investment guidelines. EPFO, PFRDA, and IRDAI should issue notifications for these new limits, it added. For lenders of home loans, securitisation involves pooling of home loans. Securitisation is a mechanism to convert illiquid loans on the lender's balance sheet into tradeable securities (pass-through-certificates or PTCs). Creation of tradeable securities allows wider pools of capital, especially those that have longer-maturity liabilities (eg, insurance and pension funds) to invest in housing loans.

A well-developed securitisation market can emerge as a reliable complement to other sources of funding for home loan lenders.

The committee felt that it will be useful to separate direct assignment (DA), which is in the nature of a 'loan sale' and PTC transactions in home loans, and treat only the PTC transactions as securitisation.

Securitisation volumes in India have grown significantly since 2006 when the RBI issued its first securitisation guidelines.

The total volume of securitisation has grown from ₹23,545 crore in 2006 to ₹2,66,264 crore in 2019. The growth, especially in the last decade, has been dominated by DA transactions, and the PTC share of the total volume in 2019

was just about a quarter.

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