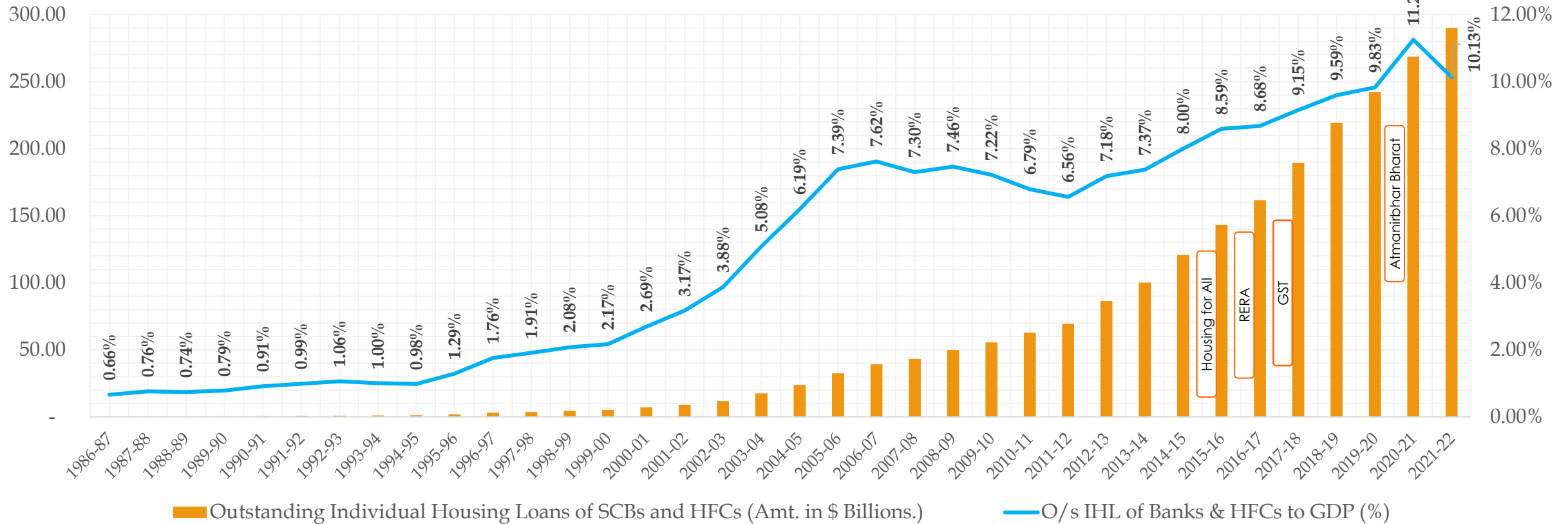




**Scope and necessity for
development of Residential
Mortgage-Backed
Securitization- RMBS
In India**

Housing Finance Scenario in India

Outstanding Individual Housing Loans of SCBs and HFCs



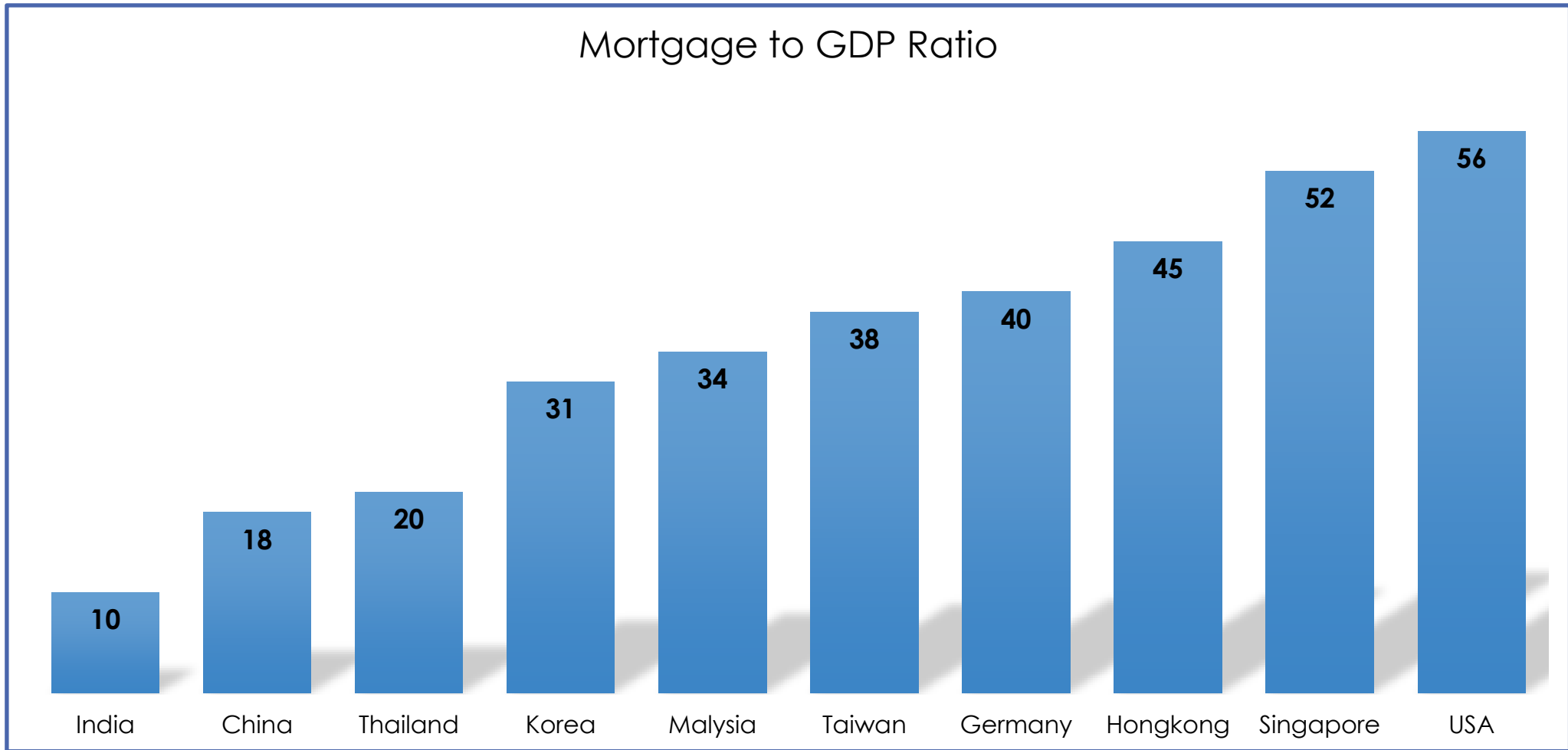
- Individual Home Loan of HFCs and SCBs has grown from **0.8% of GDP in 1990** to **11.25% in 2021** and to **10.13% in 2022 (estimated)**
- Launch of “Housing for All” mission (PMAY) in 2015 followed by RERA & GST are major milestones for the Housing Sector.
- Outstanding home loans rose from **~USD 120 Billion** at **Mar 2015** to **USD 294 Billion** at **March 2022(estimated)**; more than doubled with a CAGR of 13%

GDP Data up till FY21 is sourced from RBI Handbook on Indian Economy & for FY22 is Provisional Estimate as published by [NSO](#)

Housing Sector – Scenario In India

- Housing loan market increased from USD 120 Billion outstanding in March 2015 to USD 262 Billion by March 2021. This has further gone up to USD 294 Billion as at the end of March 2022 (Estimated); more than doubled since 2015 with a CAGR of 13%. This growth in the housing loan market is notwithstanding the impact of COVID 19 during the period. Housing finance as a percentage of GDP has grown from 7.30% in 2014-15 to 10.13% during 2021-22 (Estimated).
- The long-term benefits of Real Estate Regulation Act (RERA) and Goods and Services Tax(GST) have started playing out, providing the much-needed protection to homebuyers under a regulated regime. With consistent thrust on affordable housing and series of measures taken by Government and the Regulators, the sector bounced back to a more organized growth with consistent improvement in sales as well as new launches.
- While interest subvention under PMAY-CLSS has been a key driver of demand in the affordable housing space, low interest rate, streamlined policies to increase the credit flow has helped in creation of a consumer friendly eco system for housing finance.

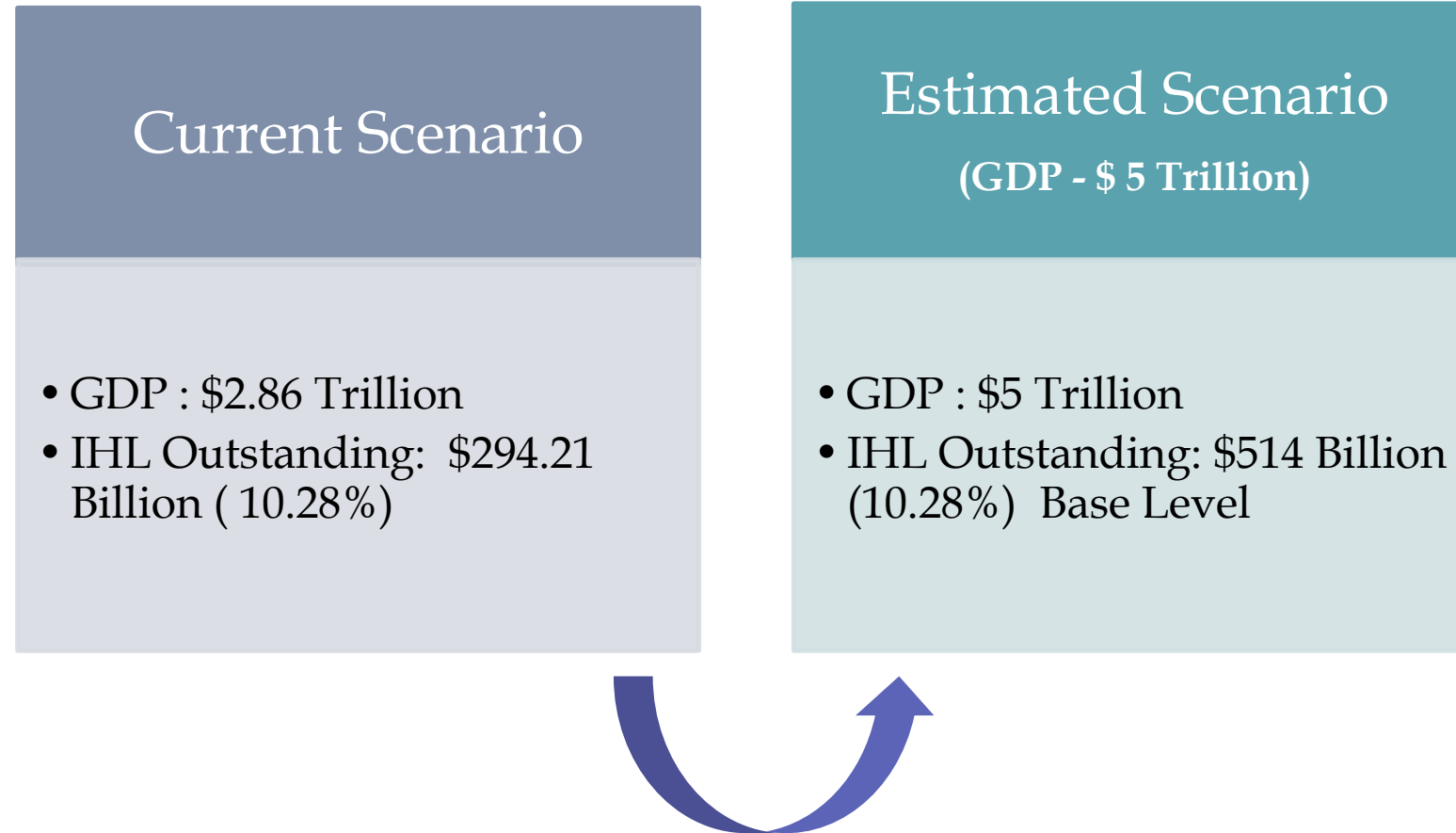
Mortgage as % of GDP in Developing Economies



Fiscal Year-ends 2017

Source: [Reserve Bank of India - Reports \(rbi.org.in/\)](https://www.rbi.org.in/)

Five Trillion Economy..... Role of Housing Finance Sector



Five Trillion Economy.... Role of Housing Finance Sector

Current Scenario

- GDP : \$2.86 Trillion
- IHL Outstanding: : \$294.21 Billion (10.28%)

Targeted Scenario

(GDP - \$ 5 Trillion)

- GDP : \$5 Trillion
- IHL Outstanding: \$1Trillion (20%) of GDP
- IHL Outstanding: \$750 Billion (15%) of GDP



Estimated Demand for IHL

- Estimated increase in IHLs :
\$456 Billion (*Assuming India will see IHL to GDP ratio of 15%*)

Expected Sources to fund the growth

- For Banks –
 - Deposits from Public- CA,SB FD
- For HFCs
 - ✓ Term Loan from Banks
 - ✓ NCDs
 - ✓ Deposits from Public- FD
 - ✓ Refinance from NHB
 - ✓ Others – ECB etc

Having seen the quantum of funds required for the growth of the sector, Securitisation or RMBS can be an effective solution.

The two major features of the funds should be :

- long tenor, matching with the tenor of the asset
- cost of funds should be competitive

Why Residential Mortgage Backed Securitisation

For Investor :

- ✓ More secure , because of tranching and retention of the first loss piece by the originator as MRR
- ✓ It can be secured further by creating a mezzanine tranche or Second loss piece
- ✓ The trust that securitizes the pool will sanitise the pool for the quality of the pool and also certifies the origination standards like the LTV or the credit score of the borrower
- ✓ The responsibility of recovering from the originator/ Service agent will that of the trust and monthly pay-out will be accordingly serviced by the trust as per the holding of the PTC
- ✓ Long tenor investors like Pension Funds and Insurance Companies can have matching assets.
- ✓ Under the IBC Code, Securitised pool will be not part of Corporate Insolvency Resolution Process (CIRP) in case of bankruptcy

Why Residential Mortgage Backed Securitisation

For Originator :

- ✓ The tenor of the PTC can almost match with the tenor of the underlying asset.
- ✓ The tenor(door-to-door) of home loan will be around 15 years and the weighted average tenor maybe around 8 years
- ✓ Often, lender will not be able to borrow for such long tenor and thus there could be Asset-Liability Mismatch
- ✓ Being a long tenor source at fixed rate, lender can price his Asset, or the Home Loan, at a fixed price for long tenor, say 10 years . (This will reduce the refinancing that is likely to be seen over such a long tenor asset).
- ✓ As this requires less retention on the book of the originator(only MRR Component), more loans can be originated and securitized. Consumes less capital.
- ✓ There can be an increase in the return on Capital as the originator takes more risk.

For borrower or Individual Housing Loan

- ✓ As the funding cost is likely to be lower for the lender and for long tenor, ultimate borrower will get long term Housing Loan and fixed rates for very competitive price, thus avoiding the need for refinancing

Special Purpose Vehicle for RMBS

NHB proposes to set up a Special Purpose Vehicle for promotion and Development of RMBS
As a part of this process , M/s Deloitte Touche Tohmatsu India LLP has been engaged as consultant for setting up the SPV and also develop the product i.e. RMBS

The SPV will undertake the following tasks:

1. Origination Standards for Securitisation
2. Securitisation
3. Credit enhancement for the Structure through subscription to Mezzanine Tranche
4. Dissemination of information on the underlying Pool performance
5. Creating Liquidity for PTC through market making
6. Setting up standard for servicing of the loan pools , so that servicing can be deinked from originator

Thank You
