

# Committee Report Summary

## Development of Housing Finance Securitisation Market

- The Reserve Bank of India (RBI) had constituted a Committee (Chair: Dr. Harsh Vardhan) on the Development of Housing Finance Securitisation Market in May 2019. The Committee aimed to review the existing state of mortgage securitisation market in India. The Committee submitted its report to the RBI on September 5, 2019.
- The Committee observed several challenges related to housing finance. It noted that eight to ten crore of additional housing units will be required by 2022 to achieve India's "Housing for All" target. These will cost between 100 to 115 lakh crore rupees. Housing finance companies (HFCs) play a major role in providing credit for home loans to economically weaker sections. However, home loans suffer from a structural asset liability management challenge for the lenders due to mismatch in the maturity period of home loans (typically, long term maturity) and funding sources for HFCs (typically, short term maturity). To overcome this, HFCs raise funds by pooling the home loans to issue securities backed by these loans. This process is known as securitisation.
- The regulatory framework of securitisation covers two types of transactions: (i) direct assignment (DA) and (ii) pass through certificates (PTC). Both involve pooling of loans and selling to a third party, thereby transferring credit risk. However, in case of securitisation through PTC, the pooled loans are sold through an intermediary, set up as a special purpose vehicle. The Committee observed that the growth in securitisation market has been dominated by DA transactions (PTC transactions were just a quarter of total transactions in 2019). The Committee noted that securitisation done through the DA route involves customised, bilateral transactions which keeps the details of transaction (such as valuation, pool performance, prepayment) in private domain. This inhibits other participants (such as mutual funds, insurance and pension funds) from participating in transactions. Further, these transactions have very little standardisation.
- Another major challenge associated with securitisation is the added transaction cost which arises from legal and regulatory requirements, uncertainty in taxation, and accounting standards. In view of these challenges, the Committee made the following recommendations:
  - **Relaxing stamp duty and registration requirements:** The central government can exempt mortgage based securitisation transactions from stamp duty. Further, the government can exempt registration of mortgage loans as they are essentially movable assets, unlike the underlying assets.
  - **Separation of regulatory guidelines:** Regulatory treatment should be different for mortgage-backed securitisation and asset-backed securitisation. For mortgage-backed securitisation, the regulatory norms for minimum holding period (MHP) and minimum retention requirement (MRR) should be relaxed. MHP is the minimum period for which the originator (i.e. the original lender of the loan) must hold its assets for it to be included in the securitisation pool. MRR is the minimum amount of interest which the originator must have in the securitised asset pool.
  - The regulatory treatment for DA and PTC should be distinct with separate guidelines. Guidelines on securitisation should only apply to PTC transactions. DA transactions should not be treated as securitisation as it does not involve issuance of securities. Further, PTCs issued in mortgage-based securitisation should be mandatorily listed if the securitisation pool is over Rs 500 crore.
  - **Government sponsored intermediary:** An intermediary should be setup through the National Housing Bank to promote housing finance securitisation. The intermediary will be responsible for market making and standard setting.
  - **Standardisation:** To improve standardisation, specific standards should be setup for loan origination, loan servicing, loan documentation, and loan eligibility for securitisation. Further, standard formats should be established for data collection and aggregation for housing loan related data.
  - **Bankruptcy remoteness:** Currently, securitisation transactions are bankruptcy remote, which means that in the event the originator of loans becomes insolvent and undergoes bankruptcy, the securitised pool of assets is excluded from the assets of the originator during the liquidation process. The Committee recommended that any law for resolving bankruptcy of financial firms should ensure that assets underlying a securitisation transaction are bankruptcy remote, to ensure that investors are not discouraged from participating in securitisation transactions.

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