

PRESS RELEASE

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Formation of a new entity for supporting residential mortgage-backed securities could provide much-needed impetus for growth in this sector: ICRA

- ***RMBS Development Company Limited is expected to be incorporated by March 2024 with the intention of promoting and developing the residential mortgage-backed securitisation space***
- ***The issuance of pass-through certificates for mortgage-backed loans has traditionally been outpaced by other asset classes, primarily vehicle loans and microfinance loans***

ICRA highlighted that the recent announcement of the proposed new entity – RMBS Development Company Limited (RDCL) – focused on promoting and developing the residential mortgage-backed securities (RMBS) in the country could be a much-needed tipping point for the growth of the pass-through certificate (PTC) market backed by mortgage loans. This segment has otherwise been a laggard in comparison to other major asset classes, mainly vehicle and microfinance loans. As per ICRA's estimate, the share of RMBS would be modest, at less than 15% of the overall Rs. 1 trillion market in FY2024 (i.e. mortgage-backed securitisation (MBS) and asset-backed securitisation (ABS) combined, where securitisation is done through issuance of PTCs). The development of the domestic RMBS market is much desired to help raise funds for the housing finance companies and thus achieve the broader developmental goal of meeting the country's housing needs.

Mr. Abhishek Dafria, Senior Vice President and Group Head, Structured Finance Ratings, at ICRA, said: *"The Reserve Bank of India, through its revised securitisation guidelines of September 2021, had provided relaxations to the originators issuing the RMBS in terms of lower minimum holding period required for loans being securitised and lower retention amounts to be maintained by the originators. While the measures helped improve the RMBS space, with volumes improving to ~Rs 10,000 crore in 9M FY2024 against ~Rs 6,000 crore in FY2023, more still needs to be done. The formation of RDCL could help in widening the investor base as they have traditionally been wary of investing in these securities due to its long tenure, prepayment risks, interest rate risks and absence of a secondary market. Presence of an entity such as RDCL would reduce some of the investor apprehensions and most likely kick-start a growth story in the MBS market."*

RDCL would be involved in investing in RMBS, facilitating investment/ issuance/ trade of the RMBS, extending credit enhancements for RMBS transactions and providing liquidity support in the secondary market. Established financial sector entities such as HDFC Bank Limited, ICICI Bank Limited and Bajaj Finance Limited among others would be participating as minority shareholders. The finer details on the business plans of RDCL and its evaluation metrics for the RMBS are awaited. The entity is expected to be incorporated before March 2024. It is likely to have a net worth of Rs 500 crore during incorporation.

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