

March 31, 2014

**CARE RATES INDIA'S FIRST MBS TRANSACTION BACKED BY MORTGAGE
GUARANTEE
CARE ASSIGNS PROVISIONAL RATING TO PTC SERIES A ISSUED BY
NIRMAAN RMBS TRUST - SERIES IV -2014 BACKED BY HOUSING LOAN RECEIVABLES
ORIGINATED BY DEWAN HOUSING FINANCE CORPORATION LTD.**

Obligation	Principal Outstanding (Rs. Cr)	Structure	Yield term	Tenure* (months)	Provisional Rating ¹	Credit Collateral (Rs. Cr)	Guarantee
Series A PTC	37.83	Par	Floating	297	CARE AAA (SO)	2.84	Contract Level shortfall borne by IMGC up to 30.0% (as % of loan POS) and at pool level shortfall capped at 10.0% (as % of POS)

**Tenure / Door to Door maturity may change due to prepayments or changes in interest rates, if any.*

CARE has assigned a provisional rating of 'CARE AAA(SO)' [pronounced as CARE Triple 'A' (Structured Obligation)] to the Series A PTCs issued by Nirmaan RMBS Trust - Series IV – 2014 backed by housing loan receivables originated by Dewan Housing Finance Corporation Limited (DHFL) and carrying a mortgage guarantee from India Mortgage Guarantee Corporation Private Limited (IMGC).

The rating is based on the reduced credit risk of the underlying loans due to mortgage guarantee; strong origination and servicing capability of DHFL; the transaction structure and defined payment mechanism; support in the form of credit cum liquidity enhancement facility and the sound legal structure.

Commenting on this rating, Mr. D. R. Dogra (MD, CARE) said, "It is a path breaking transaction which will pave the way for the growth of the MBS market in India. Mortgage guarantee can be an effective tool to reduce the credit risk on the housing loans."

DHFL has purchased mortgage guarantee from IMGC for contracts in the pool. Subsequently DHFL, the originator has assigned the identified pool of loan receivables (including mortgage guarantee receivables) to a special purpose vehicle (SPV)/ Trust, by Nirmaan RMBS Trust - Series IV - 2014. The transaction is structured at par. DHFL will act as the collection & paying agent to service the loan receivables. The Credit cum liquidity enhancement includes subordinated excess interest spread and credit collateral in the form of fixed deposit with a lien marked in favor of the Trust or in the form of guarantee as per CARE's criteria. DHFL will invoke the guarantee by serving demand certificate within one month as soon as the loan becomes NPA as per NHB guidelines. The mortgage guarantee shall cover up to 30% of principal outstanding for a particular contract that becomes NPA subject to a total cap of 10% of the principal outstanding of the pool. Any shortfalls beyond the mortgage guarantee as per the clauses mentioned above shall be covered by the credit collateral.

¹ "Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications".

The assigned pool consists of 288 housing loan contracts given to individuals. All the underlying loans are variable interest rate loans having original loan amount not exceeding Rs.25 lakh. The average original loan amount is Rs.14.56 lakhs. The pool has weighted average Original Loan to Cost ratio of 78.40% and weighted average net seasoning of 21.09 months. All the contracts in the pool are current on payment as on the cut-off date. The pool is concentrated in terms of geographical spread. The top 3 states contribute 98.42% of the pool principal.

CARE has analyzed the recent performance of DHFL's housing loan portfolio as well as the performance of similar mortgage asset classes in the industry. Based on this, CARE has computed the base case shortfalls on the current transaction. CARE has applied stresses on key factors like amount of default, timing of default, recovery rate, time to recovery, the prepayment rate and the resulting average pool rate compression. CARE has found that the credit cum liquidity enhancement provided is commensurate with the assigned rating.

Dewan Housing Finance Corporation Ltd. (DHFL) (rated at CARE AA+ for long term and medium term obligations) was incorporated in 1984. Mr. Kapil Wadhawan is its chairman and managing director. With more than two decades of experience, DHFL is among the oldest private sector Housing Finance Companies (HFC) in India. It is the third-largest HFC with the total asset size of around Rs.35,801 crore as on March 31, 2013. DHFL, since inception, has been focusing on the niche market segment of the Low and Middle Income group and over the years has established its niche market in this segment and expertise in serving the segment wherein the average ticket size is between Rs.8-10 lakh and focuses mainly on salaried individuals.

DHFL continued to show steady growth in business during FY13 (refers to the period April 1 to March 31). DHFL's loan book increased by 75% during FY13 to Rs.33,902 crore mainly on account of FBHFL amalgamation, of which Rs.29,538 crore are housing loans. The company reported PAT of Rs.452 crore on total income of Rs.4,141 crore. DHFL's CAR was comfortable at 16.65% as on March 31, 2013.

IMGC was incorporated in September 2006 to carry out the business of offering mortgage guarantee products to provide residential mortgage credit default protection to residential mortgage lenders and charge fees as mortgage guarantors. IMGC is India's first mortgage guarantee company (MGC) with major shareholding of (i.e. 38%) of National Housing Bank (NHB 'rated CARE AAA'), Genworth Financial Inc, USA (GFI, shareholding of 36%), International Finance Corporation (IFC, shareholding of 13%) and Asian Development Bank (ADB, shareholding of 13%). IMGC received the certificate of registration from RBI on April 18, 2013, permitting IMGC to commence and carry on the business of mortgage guarantee company in India.

IMGC derives strength from the strong parentage support in the form of managerial, financial as well as technical and operational front. The promoters of IMGC have infused Rs.155 crore till September 30, 2013, in the proportion of their shareholding. Association of NHB - being the apex financial institution for the housing sector and regulator of housing finance companies in India will have a positive impact for IMGC. Currently IMGC has outstanding rating of CARE AA+ (Issuer Rating).

Note:- Shri V. K. Chopra, is on the Board of Dewan Housing Finance Corporation Ltd. is one of CARE's Rating Committee Members. To comply with the regulations the member is required not to participate in the rating process and the rating committee meeting and press disclosure about the same is to be made by CARE.

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