

**Press Release**

**31<sup>st</sup> March 2014**

---

**CARE Rates India's First Mortgage Backed Securitization Transaction backed by Mortgage Guarantee**

CARE Ratings has assigned a provisional rating of CARE AAA (SO) to the PTCs issued under an innovative MBS transaction backed by housing loans originated by Dewan Housing Finance Ltd and carrying the mortgage guarantee from India Mortgage Guarantee Corporation Private Limited (IMGC). This is the first ever such transaction carried out in India.

Commenting on the 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."

Mortgage backed securitization refers to securitization of housing loans where a Housing Finance company (HFC) transfers a pool of its housing loans to a Special purpose vehicle (SPV) which issues Pass Through Certificates (PTCs) to the investors backed by the loan receivables. The HFC also provides credit enhancement to cover any shortfall in the payouts to PTCs. If a mortgage guarantee is provided, HFCs will have to provide lower credit enhancement.

This transaction is a land mark development that will enhance the growth prospects for the securitization market for housing loan receivables in India by helping to effectively manage credit risk associated with housing loans. This innovative structure helps to reduce the credit enhancement required for the transaction which in turn improves the cost effectiveness for the originator.

The transaction is the first of its kind in India whereby credit risk of the underlying housing loans is reduced with the help of mortgage guarantee (MG) from India Mortgage Guarantee Corporation Private Limited (IMGC). The rating also takes into account 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.

**The transaction**

DHFL has purchased mortgage guarantee from IMGIC for contracts in the pool. Subsequently DHFL, the originator has assigned the identified pool of loan receivables (including mortgage guarantee receivables) to an SPV. The pool size is Rs. 37.8 cr. The transaction is structured at par. It draws support from the Credit cum liquidity enhancement which includes subordinated excess interest spread and credit collateral in the form of fixed deposit with a lien marked in favor of the SPV. DHFL will invoke the guarantee as soon as the loan becomes NPA as per NHB guidelines. IMGIC shall honour the claim subject to the overall capped guarantee amount being 10% of the pool size. Any shortfalls beyond the mortgage guarantee shall be covered by the credit collateral which is 7.5% of the pool size.

---

**For further information please contact:**

Shri Vijay Agrawal, Joint General Manager, 67543416, 98191 61912