Note

Direct assignments and securitisation under the RBI guidelines

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Note

The RBI Securitisation Guidelines of 2012 introduced regulation on direct assignments, prohibiting credit enhancements on direct assignments. While there was a lot of interest on direct assignments under the 2006 Guidelines, it seems that the interest has completely waned under the new Guidelines.

We hold the view that securitisation and loan transfers, aka direct assignments in India, have their own merits. Direct assignments are much simpler and do not have a lot of hassles that securitisation involves.

To alleviate a lot of confusion that prevails over the two, we have tabulated similarities and dissimilarities between the two.

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	Securitisation	Direct assignments
Legal format	Assignment required	Assignment required
True sale	Yes	Yes, but probability of a true sale being questioned is much remote
Bankruptcy remoteness	Yes, provided SPV does not get consolidated	Yes
Special purpose vehicle	Yes	No
Participation by multiple investors	Yes	Yes, but as a joint ownership
Nature of investment made by the investor	Purchase of the securities of the SPV	Purchase of the underlying pool
MHP	Applies	Applies
Risk retention	Usually by credit enhancement	Pari passu
Rating of the securities	Usually uplifted, and may go upto AAA	No question, as investor buys a pool of loans
Upfront encashment	Possible	Required

Note

of profit		
Due diligence by investor	Only based on the evaluation of the securities of spv	Based on individual loans
Use of excess spread to meet losses	Most commonly yes	No
Servicing fee	Yes	Yes
Subordination of servicing fee	Not common	Yes, possible
Cap on the extent of investment	20%	No such cap
Partial assignment	Yes	Necessarily yes
Exposure of the investor for concentration norms	On the underlying loans	On underlying loans
Accounting in the books of the investor	Purchase of a security	Purchase of loans
MTM requirements	Applicable	Not applicable
Capital relief	Capital eaten up to the extent of first loss support	Full capital relief, as originator provides no credit enhancement
Pricing	Based on the rating of the resulting securities	May be worked out after considering losses and prepayments upto a certain level
Simplicity	Not usually very simple to execute	Very simple to execute
Tax issues	Tax issues currently faced on taxation of SPVs	No tax issues at all, as direct transfer of the asset
Off balance sheet treatment	Yes, subject to conditions	Yes, subject to conditions