Securitization with Mortgage Guarantee - A New Beginning

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Mortgage Guarantee in India

Overview

- In line with its objective to increase homeownership, NHB initiated development of MG in 2002
- RBI guidelines announced early 2008 specifying MG company and product requirements
  - Regulated By The Reserve Bank Of India
  - Minimum net owned fund of INR 100 Cr; MG within regulatory LTV
  - Primarily transact business of mortgage guarantee, >=90% of gross income from MG
  - Diverse investor base, no shareholder shall have a controlling interest of MG company

Benefits similar to International markets though focus is different

- As the product matures it helps shorten time & lowers savings required to buy a home
- Capital relief through differentiated risk weight with MG
- Prudently grows earning assets with expanded LTVs
- Transfers credit risk outside banking system

Strong Partnership

- NHB, Genworth, ADB and IFC are focused on the developing the market through the JV relationship

Market validation key to success … research to support product construct

Global Role

MI / MG Plays An Important Role In The World's Largest And Most Efficient Mortgage Markets…

Mortgage Guarantors Bring Capital, Credit Expertise, Diversification & Underwriting Discipline

Structure

- Organized as mono line companies
- Diversification of risk
- Private capital discipline

Competencies

- Focused specialized expertise
- Capital maintained in direct correlation with risk
- Ability to pay claims in severe economic stress

- Better risk dispersion over geography, lenders, products and time
- Disciplined approach to underwriting and risk
- Profit motive encourages growth … but not relaxation of standards

Benefits

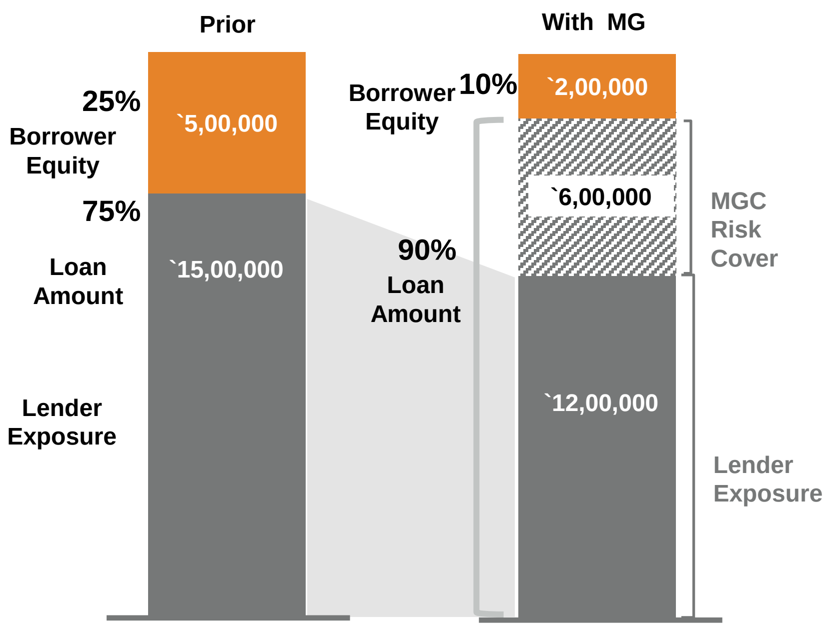
- Increased home ownership on better terms
- Capital relief: higher leveraging for incremental assets
- Incremental earning assets without incremental risk
- "Risk transfer" for lenders
- Improved lender & borrower liquidity
- State of art risk management techniques
- Replaces use of personal guarantors or more expensive secondary financing

Allows lenders to increase earning assets with significant mitigation of the risk

How it Works

MG Product

Mortgage Guarantee covers credit default losses on mortgage loans



Example: `20,00,000 Home Purchase

Key Benefits

Efficient securitization structure to raise capital

Inclusive from a customers perspective

- Enables early home ownership with lower down payments

Growing earning assets without incremental risk

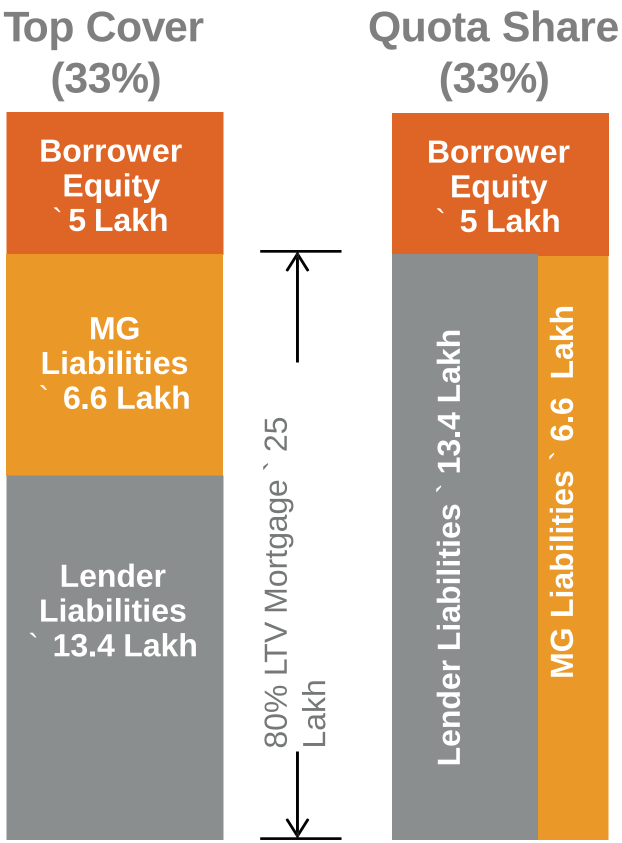
- Broaden target customers base
- Improve average loan to value
- Improve average ticket size

Improved capital efficiency, higher ROE and risk transfer

- Reduction in risk capital supports higher leveraging
- Improved RoE

MG delivers higher risk free financial returns

Product Design



Key Product Features	
Product Options	Top cover & quota share
Coverage	25-50% of outstanding principal balance
Fees	Single premium non-refundable
Loan Amount	> INR 7 lakh
Transaction Type	Existing book/ New sourcing / Securitisation

Flexible product and transaction type to meet lender partner requirements

Economy & MG Value

Every macro market experiences down cycles that affect housing sectors

Unemployment & house prices are key indicators for mortgage default risk

Sometimes stress in micro markets are driven by local conditions & not macro economics

Mortgage defaults can increase as much as 4 folds during down cycles

Mortgage guarantee protects lenders in downturns by minimizing losses

In addition to protecting lender in down cycles, MG adds value with:

- Second Pair of Eyes on underwriting
- Expertise in managing HLTV risk
- Market expansion through product innovation
- Cost reduction thru process efficiency
- Portfolio management through evolved analytics based on global experience

Securitisation with Mortgage Guarantee

India’s First Securitization Transaction with Mortgage Guarantee in a PTC Structure
Executed in March 2014 Between Dewan Housing Finance Limited & ICICI Bank

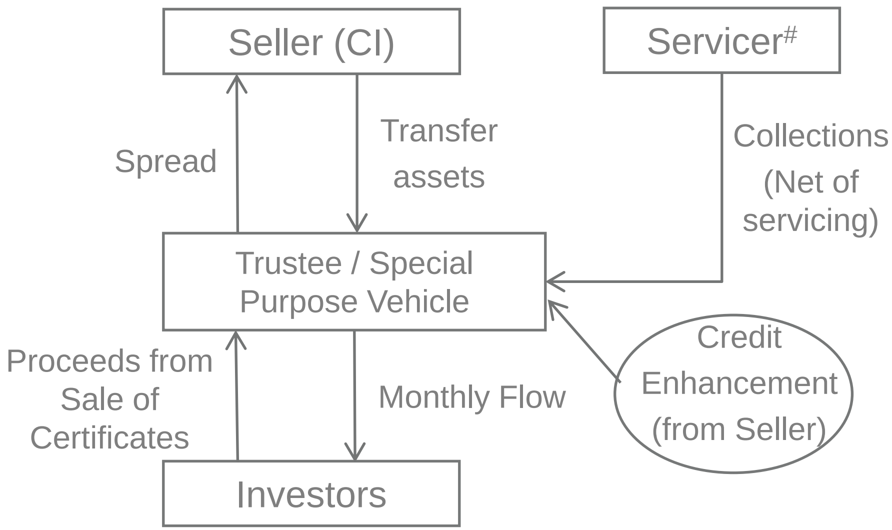
Securitization with MG: Background

- Securitization of residential mortgage loan is an effective tool for providing liquidity to Housing Finance Companies (HFC) who are constrained for equity or debt or both.
- However currently HFC are able to securitize their home loans mostly in the priority sector (PSL) segment only (< INR 2.5 Million)
  - Banks who are major investors in securitization deals are interested only in (PSL) pools for regulatory reasons and make good shortfall in PSL by investing in such pools
  - Due to large demand supply gap in the PSL segment originators are able to get very attractive interest rate margins in these deals
- Current securitization structure in India (PTC) requires the originator to maintain capital equal to the lower of
  - Capital required against the pool of loans prior to securitization or
  - The level of credit enhancement required from the originator for securitization of the pool
- Credit enhancement is in the form of cash deposits (escrow account)

MG cover reduces credit enhancement requirement, resulting in capital relief for the originator post securitization besides providing liquidity support by way of claim payment in delinquent cases and protection from end loss during foreclosure /sale of property

Securitisation Structure Overview

Structure without MG



Credit Enhancement (CE): 10-15%*

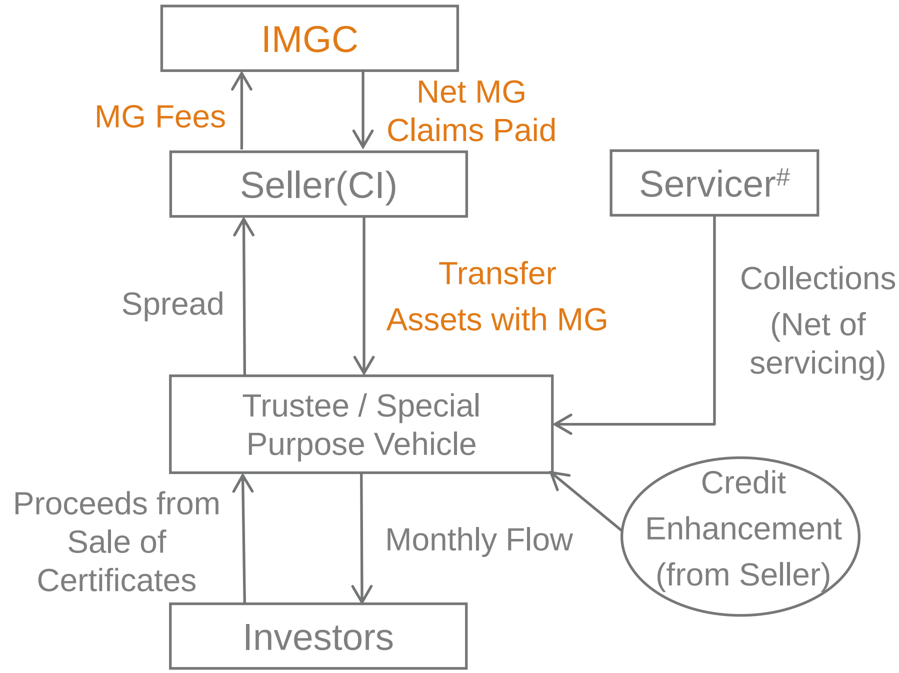
Minimum Retention Requirement (MRR): 10%

- CE is acceptable as MRR

As determined by rating agency for desired rating

 # Servicer/Collections & payments agent/Security agent

Structure with MG



Credit Enhancement (CE): 5-7.5%*

Minimum Retention Requirement (MRR): 10%

Need to invest in the certificates 10%-7.5%

MG Cover *: 30% loan level cover with 10% pool level cap on principal

Legal Structure and Documentation

Structure

- Guarantee cover for a pool of mortgage loans - 30% at loan level, with cap of 10% at pool level
- Service Agreement between Creditor Institution (CI) and IMGC to perform agreed services
- Seller / CI to assign receivables to SPV along with beneficial rights of MG
- Assignment Agreement assigns benefits in favour of the SPV, provides consent to CI to perform its obligations under the Service Agreement and the Trustee agrees to be bound by specific covenants

Documents

1. **Mortgage Guarantee**
   - Executed between IMGC and Seller / CI
   - Seller / CI to Assign beneficial interest in MG to Trust/SPV
   - Seller / CI continues to be responsible for its obligations under MG
2. **IMGC Consent Letter and Assignment Agreement**
   - Executed between IMGC,CI and Trust/ SPV
   - IMGC provides consent CI to assign beneficial interest in MG to Trust/SPV provided, CI continues to be responsible for CI's obligations under the MG
   - Assignment Agreement provides the right to CI to perform its obligation under service agreement.
   - Trust commits to protect IMGC interests (Payment waterfall
3. **Service Agreement**
   - Executed Between IMGC and CI
   - Signed along with and in consideration of MG
   - Provide information on the guaranteed loan accounts, enforce security and generally administer the loan accounts
4. **Deed of Assignment**
   - Executed between CI and Trust/SPV
   - CI assigns receivables of the Housing Loans and beneficial interest of MG to SPV/Trust
5. **Collection and Processing and Security Agent Agreement**
   - Executed between CI and Trust/SPV
   - CI acts as the collection agent of the SPV and oversees general administration of the loans including providing information
   - Act as security agent and hold security/ collateral documents
6. **Cash Collateral Agreement**
   - Executed between CI and Trust/SPV
   - Bank cash deposit by CI as Credit Enhancement
   - Lien on the deposit in favour of Trust/ SPV to enable access in case of shortfall in pay-outs to the investors

Benefit Equation: Securitization with MG

- As per New Capital adequacy framework issued by RBI, credit enhancement on a securitized portfolio needs to be deducted from capital
- Based on estimates from ICRA and experience of the first Securitisation with MG (ratified by CARE) credit enhancement can be lowered by ~ 50%
- With MG, originator needs to maintain reduced cash collateral and balance needs to be invested in PTCs to meet Minimum Retention Requirement (MRR)
- With reduced credit enhancement, additional return generated due to
  - reduction in negative carry on cash collateral
  - return generated on capital released {net of negative carry on investment in PTCs to meet Minimum Retention Requirement (MRR)}
  - Saving in credit loss due to transfer of risk to MG company

The Benefits are positive even net of MG fees paid for Securitization with MG

Net of MG fees, the benefits are positive for a Securitisation structure with MG

In Summary

Other than MG supporting Securitisation with lower credit enhancements

- Supports lenders in home price decline cycles through claim payments
- Cash flow in NPA accounts as claim paid from 90 dpd onwards by MGC
- Risk cover at no additional cost
- Enhanced shareholder value (increased RoE) through reduction in economic capital
- Provides opportunity to deploy capital more efficiently
- Availability of an alternate source of equity funding which becomes critical in difficult market conditions

Leverage MG to supplement future capital plan with a secured mortgage book