



ICRA

A MOODY'S INVESTORS  
SERVICE COMPANY

## STRUCTURED FINANCE RATINGS NOVEMBER 2019

**Securitised home loan pools continue to exhibit stellar collection performance**

- Average collection ratios seen to be around 99% for ICRA-rated MBS transactions
- Nonetheless, change in servicer –where the originator's credit profile has deteriorated—remains critical for ensuring timely payouts on the PTCs

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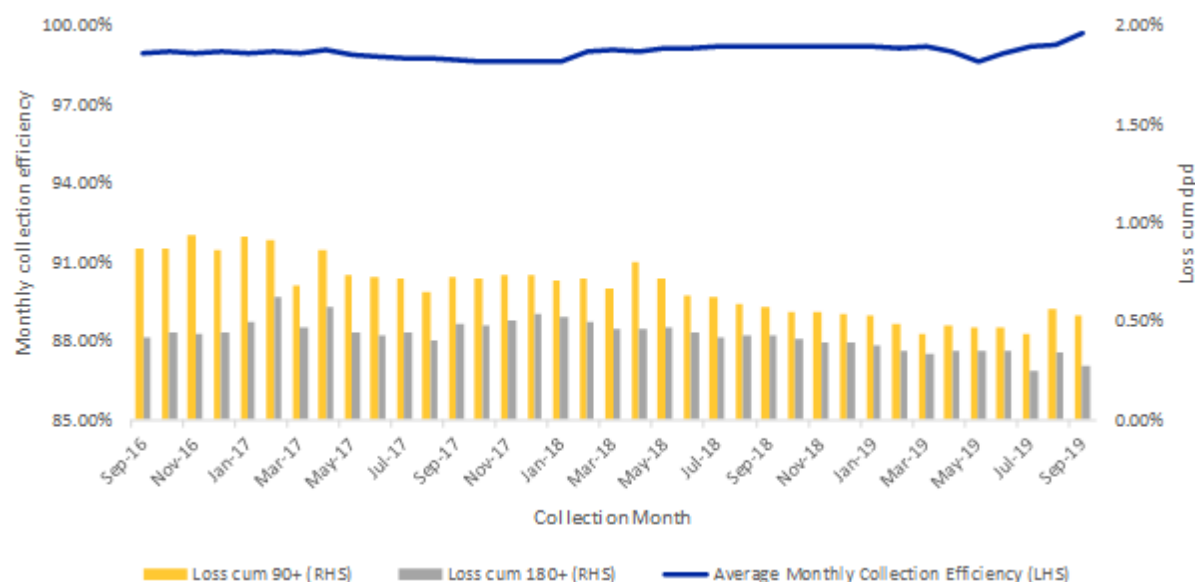
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The underlying loan pools in ICRA rated mortgage-backed securitisation (MBS) transactions continue to exhibit stellar performance with average collection ratios at around 99% as of August 2019. The strong collection performance has led to delinquencies to also remain low for such pools. In October 2019, ICRA downgraded the ratings of three MBS pools to [ICRA]D signifying a default in meeting timely payout obligations to the investors. Even for these transactions, the collection ratios for the underlying pool contracts pertaining to September 2019 were healthy - averaging around 99%.

ICRA does not envisage any material deterioration in its rated mortgage loan pools. The recent spate of downgrades in ICRA-rated MBS transactions for one originator was a result of the originator's inability to transfer the pool collections into the respective collection and payout (C&P) accounts in a timely manner due to on-going legal proceedings coupled with operational roadblocks faced by the trustee while making good the payments due through the available credit collaterals (CC) for each of those transactions. This is a manifestation of the comingling risk or Servicer risk in securitisation transactions.

#### EXHIBIT 1. Collection efficiency and delinquency trends in home loan pools rated by ICRA



Source: ICRA research

Collection efficiencies and delinquencies in the home loan pools have remained largely stable for the past two years. The variation in delinquencies is also low as compared to that for other asset classes like loan against property. The key reason for the superior asset quality seen thus far for home loan pools is the end use where home loans are usually taken to purchase a property for residential use and self-occupation. The build-up of borrower equity in the loan is also faster for this asset class owing to both loan amortisation and a rise in the value of the underlying property which consequently reduces the borrower's propensity to default.

However, given the recent concerns arising from the weakened credit profiles of certain originators, ICRA is witnessing a growing interest in the market to change the servicers for such transactions. Certain investors have already initiated steps to take over the collection / recovery function from the originator (who is typically also the servicer in the Indian transactions).

Where the original servicer's credit profile is under stress, bringing about a servicer change in a timely and effective manner is of paramount importance so as to ensure that the loan collections do not hit the troubled entity's accounts and are rather channeled to the trustee account directly. Such a change in servicer could lead to some drop in collection efficiency for an interim period due to the temporary disruptions it brings in the process, but we believe it will prove fruitful to the investors in the long run, especially given that MBS pools are usually of a longer tenure (15 to 25 years). In addition, the timely utilisation of the credit collateral by the trustee remains critical, not only for MBS pools but for any securitisation transaction, or else the very purpose of providing a credit collateral in such a structure is lost.



## ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

### **Alliance with Moody's Investors Service**

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

### **The ICRA Factor**

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;



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