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MBS transactions rated by ICRA continue to display strong performance

ICRA has released a report on the performance—till December 2009—of the various Mortgage Backed Securitisation (MBS) transactions rated by it.

The performance of the MBS pools rated by ICRA has been in line with ICRA's expectations. Given the good collection performance of the underlying pool, the delinquency build-up has been minimal and the credit enhancement utilisation low for most transactions. Among the various forms of credit support, utilisation has been restricted mostly to "excess interest spread" (EIS), with there being very little or no utilisation of the "cash collateral". Despite some reduction in interest rates on the underlying loans over the last few months, the EIS available in transactions--where the investor yield is fixed resulting in potential interest rate risk--has not been affected much on account of sufficient spread between the pool interest rate and the yield to investors.

The prepayment rate observed in the pools has been high, leading to faster amortisation of the pools and hence significant build-up of cash collateral in proportion to the amount outstanding against the rated instrument. The strong performance of the MBS pools ensures that adequate credit enhancement cover is available for the balance tenure of the transactions, which is a source of comfort for the investors concerned.

This report (available at www.icra.in) presents an overall analysis of the performance of the ICRA-rated MBS pools that were active between October 2009 and December 2009 including a summary on each. The key pool performance indicators are the delinquency profiles of the securitised pools, the collection efficiency ratios and the rates of foreclosure of contracts. Another crucial parameter is the interest spread. In the case of MBS, the underlying pool is likely to get re-priced, while the rated instrument may offer a fixed yield or may be linked with a different benchmark. Besides these pool-specific parameters, ICRA takes into account factors such as maintenance of credit quality of the Originator and performance of the overall portfolio of the Originator during its surveillance of the rated pools. An essential component of the regular monitoring of ratings assigned under MBS issues is evaluation of the adequacy of the available credit enhancement for the balance tenure of the rated instruments. The report would serve as a useful guide to both current and prospective investors.

Till date, ICRA has rated 28 Mortgage Backed Securitisation (MBS) transactions originated by various banks and housing finance companies (HFCs), with the total rated amount exceeding Rs. 67 billion.

Analyst Contacts:

Mr. Kalpesh Gada (Tel. No. +91 22 30470013)

Head- Structured Finance Products

Kalpesh@icraindia.com

Remika Agarwal, (Tel. No. +91 080 43326418)

Senior Analyst

ICRA – Bangalore

remikaa@icraindia.com