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# CREDIT RATING

**MBS Pools Rated by ICRA**

**December 2023**

Report on MBS Pool Performance till September 2023

## Structured Finance Ratings

Abhishek Dafria  
Senior Vice President  
91 22 6114 3440  
abhishek.dafria@icraindia.com

Sachin Joglekar  
Vice President  
91 22 6114 3470  
Sachin.joglekar@icraindia.com

Anubhav Agrawal  
Assistant Vice President  
91 22 6114 3439  
anubhav.agrawal@icraindia.com

Vishal Oza  
Senior Associate Analyst  
91 22 6114 3432  
vishal.oza@icraindia.com

**ICRA RESEARCH SERVICES**

## Executive Summary

This report provides a pool-wise summary of the performance of all ICRA-rated Mortgage-Backed Securitisation (MBS) transactions that were live between April 2023 and September 2023, i.e. 65 transactions across 17 originators, including residential loans (home loans; HL) and loans against existing property (loans against property; LAP). For each transaction, key performance parameters, including cumulative collection efficiency, static and dynamic delinquency profile, prepayment rate and credit enhancement utilisation are discussed. ICRA's rating actions (new ratings assigned, rating upgrades and rating reaffirmations) between May 01, 2023 and October 31, 2023 are also summarised in the report.

It is also an analysis of the key performance indicators pertaining to all (122) mortgage loan pools that were rated by ICRA between January 2003 and September 2023. These include 95 home loan pools and 27 LAP pools. Of the total, as on September 30, 2023, 62 pools were live and 47 had matured, while the clean-up call option was exercised in 13 pools.

The key observations at an asset class level are listed below:

Till September 2023, ICRA-rated mortgage loan pools continued to demonstrate sturdy performance in line with historically observed trends. Collection efficiency levels have been consistently high with the median cumulative collection efficiency (CCE) being around 99% for the past 10 years. The LAP pools performed weaker in comparison to the HL pools and saw relatively lower collections during the first and second waves of the pandemic, though still enjoying a healthy CCE of 98%. The performance of ICRA-rated MBS remained steady in FY2023 with business operations returning to normalcy with the abatement of concerns regarding the pandemic and pick-up/rebound in broader economic and business activities. The third wave of the pandemic had had a transitory impact on asset quality, and the overall delinquency level further improved in the current fiscal.

With businesses back to normal, the improved outlook for non-banks and limited concerns regarding the pandemic with significant growth in vaccination coverage, the performance of MBS pools is expected to remain healthy over the near to medium term. ICRA does not foresee any material credit pressures on its rated securitisation transaction during FY2024, provided there are no further disruptions. Nonetheless, the presence of credit enhancements is more than adequate for the pools, which enhance the liquidity and buffer to absorb the eventual losses.

- As on September 30, 2023, the average loss-cum-90+dpd and 180+dpd in HL pools stood at 0.6% and 0.6% respectively, at 140 months post securitisation. The 90+ delinquencies for LAP pools were relatively higher at 0.9%, 72 months post securitisation. These levels of delinquencies, however, are low when compared to most of the other retail loan asset classes.
- Consequently, credit enhancement utilisation in most transactions has been low. Cash collateral utilisation in MBS transactions were even lower (nil in 29 out of 65 live transactions analysed), as the shortfalls in collections were absorbed by the excess interest spread.
- Prepayment levels in MBS transactions typically remain higher than in other asset classes rated by ICRA. Moreover, volatility in prepayment rates for LAP pools has been higher than that for home loan pools. Owing to the high prepayment rates, the actual amortisation of MBS pools (specifically to LAP pools) has been much higher than scheduled. The ratio of actual to scheduled amortisation for MBS pools is typically around 3.5 times in the initial three years, post securitisation and then it reduces over time.

- During FY2024 (April 2023 to September 2023), the ratings of ICRA-rated MBS pools were largely stable and were reaffirmed on account of the material build-up in the credit enhancement cover, given a healthy collection performance. Collection efficiency has remained stable for the period considered.
- ICRA notes the rise in lending rates following the recent rate hikes by the Reserve Bank of India (RBI), which could pose a challenge to the MBS pools as the PTC yields would accordingly increase. However, a large portion of the ICRA-rated MBS pools have borrowers with floating interest rates and we expect the housing finance companies (HFCs) to pass on the rate hikes, albeit with a lag, to the borrowers. Further, the excess interest spread (EIS) is typically high in most MBS transactions and thus a marginal decrease in the same would not have a bearing in the credit quality of the MBS pools. Also, at the time of the analysis of any fresh MBS transaction, ICRA identifies the interest rate risks wherever applicable and stresses the EIS component when arriving at the credit rating for the transaction. Additionally, the impact of rising rates on asset quality at an industry level is expected to remain limited.
- ICRA expects the credit quality of ICRA-rated securitised MBS pools to remain largely stable in FY2024 due to the availability of sizeable credit enhancements and expectations of steady collections. While macro-economic and other events, like the pandemic, have had intermittent impact on performance of the MBS segment, the overall performance has been resilient. The focussed collection efforts by originators, particularly due to the tighter asset classification norms introduced by the RBI, coupled with high penetration of online collection methods and increased monitoring etc is expected to support MBS pool cash flows.

The report also provides a comprehensive user's guide enlisting key terms and metrics used by ICRA for rating and monitoring MBS transactions, with a brief description of how these metrics are computed and should be interpreted by the users of this report.

In all, ICRA has rated 139 MBS transactions till date, with the total rated amount exceeding Rs. 25,000 crore<sup>1</sup>.

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<sup>1</sup> Rs. 1 crore = Rs. 10 million = Rs. 100 lakh

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### Pool-wise performance of all live ICRA-rated MBS transactions

- 65 live transactions, across 17 originators that were live as on September 30, 2023.
- Underlying asset class covers residential/commercial property (Home Loans) or loans against existing property (Loans Against Property).
- With respect to each transaction, all the key performance parameters including cumulative collection efficiency, static and dynamic delinquency profile, prepayment rate and credit enhancement utilization are covered (sample format annexed).

### In addition -

- Rating actions (new ratings assigned/ rating upgrades/ rating downgrades and rating reaffirmations) taken by ICRA between May 01, 2023 and October 31, 2023 are also summarised.
- A comprehensive user's guide enlisting key terms/ metrics used by ICRA for rating and monitoring performance of MBS transactions, with a brief description of how these metrics are computed and should be interpreted by the users of this report.

### Summary analysis – MBS Pools

Analysis of the key performance indicators pertaining to all (122) ICRA-rated mortgage loan pools that were rated by ICRA between January 2003 and September 2023. This includes 95 Home Loan pools and 27 Loan against Property pools. As on September 30, 2023, 62 pools were live and 47 pools had matured, while the clean-up call option was exercised in 13 pools. This analysis covers the following-

- Cumulative collection and monthly collection efficiency at a median level and average 90+ and 180+ delinquency levels in the ICRA-rated mortgage loan pools compared separately for home loans and LAP
- Trends in cash collateral utilisation as well as overall credit enhancement utilisation in ICRA-rated MBS transactions vis-a-vis the underlying pools' amortisation levels
- Prepayment levels seen in the mortgage loan pools and a comparison of movement in prepayment rates and pool interest rate in these pools

## Sample Report Format

**Issue Name:** [(Originator) (Asset Class) D.A. (MMM-YY)] / (Name of S.P.V)

**Originator Name :** XYZ Limited

**Trustee/PR:** ABC Trust Ltd.

### Issue details - Pool

Commencement Month
Transaction Structure
Pool Principal (Rs. Cr.)
Number of Contracts
Pool Scheduled Maturity
Average Seasoning (months)
Average Loan to Value

### Issue details – Acquirer Payouts

Acquirer Payouts (Rs. Cr.)
Acquirer Payouts Scheduled Maturity
Acquirer Payouts Yield
Credit / Liquidity Support (% of Acquirer Payouts)
Cash Collateral
Excess Interest Spread
Subordination during Tenor

### Pool performance till Month & Year

Months post securitisation
Amortisation (% of initial pool principal)
Cumulative Collection Efficiency
Average Monthly Prepayment rate
Cumulative Prepayment Rate
90+ Loss cum delinquency
180+ Loss cum delinquency
90+ Delinquency Rate
180+ Delinquency Rate
Cumulative Credit Enhancement Utilisation
Cumulative Cash Collateral Utilisation

### Details of Balance Pool / Acquirer Payouts

Pool Principal Outstanding (Rs. Cr.)
Revised Schedule Maturity for Pool
Weighted Average Pool Interest Rate
Acquirer Payouts (Rs. Cr.)
Revised Scheduled Maturity for Acquirer Payouts
Acquirer Payouts Yield
Break-even collection efficiency
<b>Credit / Liquidity Support (% of Acquirer Payouts)</b>
Cash Collateral
Excess Interest Spread
Subordination during Tenor

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## RELATIONSHIP CONTACT

**L Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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ICRA 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. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in) and [www.icraresearch.in](http://www.icraresearch.in)



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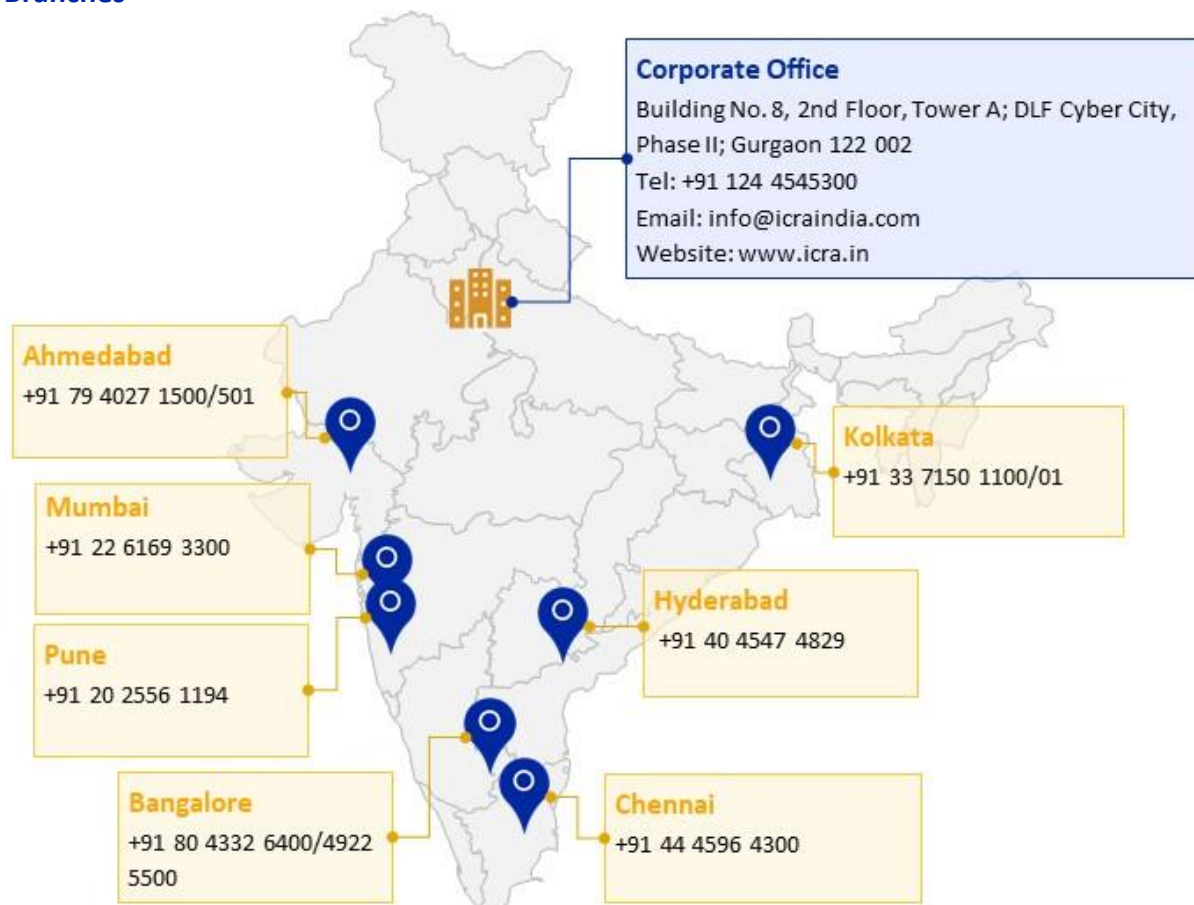


### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



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