

Avanti Microfinance Private Limited

Securitisation of Standard Assets – PTC (Pass through Certificate) Policy

This document was:

Version	Drafted by	Reviewed by	Board approval and adoption date
Version 1	Mr. Ankit Hurkat	Mr. Manish Thakkar, Director	December 16, 2024

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1. BACKGROUND

The Reserve Bank of India has notified *Master Directions - Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021* (“**Directions**”). In line with the Directions and as a matter of good governance, Avanti Finance Private Limited (hereinafter referred to as “**Company**” which term includes its successors and assigns) has sought to adopt this policy towards undertaking securitisation transactions.

2. KEY DEFINITIONS AS PER THE DIRECTIONS

“*securitisation*” means a structure where a pool of assets is transferred by an originator to a SPE and the cash flow from this pool of assets is used to service securitisation exposures of at least two different tranches reflecting different degrees of credit risk, where payments to the investors depend upon the performance of the specified underlying exposures, as opposed to being derived from an obligation of the originator;

“*securitisation notes*” mean securities issued by the special purpose entity as a part of securitisation;

“*special purpose entity (SPE)*” means a company, trust or other entity organised for a specific purpose, the activities of which are limited to those appropriate to accomplish the purpose of the SPE, and the structure of which is intended to isolate the SPE from the credit risk of an originator. Any reference to SPE also refers to the trust settled or declared by the SPE as a part of the process of securitisation;

“*standard assets*” means exposures which are not classified as non-performing asset;

“*originator*” refers to a lender that transfers from its balance sheet a single asset or a pool of assets to an SPE as a part of a securitisation transaction and would include other entities of the consolidated group to which the lender belongs.

Definitions of other terms used in this policy are as stated in the Directions.

3. PERMITTED TRANSFERORS

3.1 Securitisation is permitted to the following entities:

- a) Scheduled Commercial Banks;
- b) All India Financial Institutions (NABARD, NHB, EXIM Bank, and SIDBI);
- c) Small Finance Banks; and
- d) All Non-Banking Finance Companies (NBFCs) including Housing Finance Companies (HFCs).

3.2 Permitted Assets

3.2.1 Except as provided under paragraph 3.2.2, all on-balance sheet exposures of originators, which are in the nature of loans and advances and are classified as standard assets, are eligible as underlying assets in a securitisation transaction.

3.2.2 Following exposures shall not be allowed for the purpose of securitisation:

- a) Re-securitisation exposures;
- b) Structures in which short term instruments such as commercial paper, which are periodically rolled over, are issued against long term assets held by a SPE;
- c) Synthetic securitisation;
- d) Securitisation with the following assets as underlying:
 - (i) revolving credit facilities as underlying – these involve underlying exposures where the borrower is permitted to vary the drawn amount and repayments within an agreed limit under a line of credit (e.g. credit card receivables and cash credit facilities);
 - (ii) Restructured loans and advances which are in the specified period;
 - (iii) Exposures to other lending institutions;
 - (iv) Refinance exposures of AIFIs;
 - (v) Loans with bullet payments of both principal and interest as underlying; and
 - (vi) Loans with residual maturity of less than 365 days.;
- e) subject to Directions, agriculture loan extended to individual where loan tenure is more than 24 months and up to 24 months but both interest and principal are not due on maturity; and
- f) Trade receivables with tenor more than 12 months discounted/purchased by lenders from their borrowers.

4. KEY RESPONSIBILITIES

4.1 Specific responsibility of Originator

- 4.1.1 The originator i.e., Company, of such securitisation shall have satisfied the Minimum Holding Period requirement as per Clause 39 of the *Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021* including the proviso to the above Clause.
- 4.1.2 Company shall adhere to the requirements of Minimum Retention Requirement (MRR) as provided in the Directions while securitising loans leading to issuance of securitisation notes.
- 4.1.3 Company would follow stringent underwriting standards. There shall not be any difference in the criteria for credit underwriting applied by the Company on exposures retained on the balance sheet of the Company vis-a-vis exposures securitised.
- 4.1.4 The total exposure of an originator to the securitisation exposures should be as per Clauses 25, 26 and 27 of the Directions.
- 4.1.5 The minimum ticket size for issuance of securitisation notes shall be INR 1

crore. Listing of securitisation notes, especially in respect of certain product class, such as residential mortgage backed securities (RMBS), and/or generally above a certain threshold is recommended, though not mandatory. Any offer of securitisation notes to fifty or more persons in an issuance would be required to be listed as per *SEBI Regulations (Issue and Listing of Securitised Debt Instruments and Security Receipts)*, 2008.

Priorities of payments for all liabilities have to be clearly defined at the time of securitization with full transparency over any changes to the cash flow waterfall, payment profile or priority of payments that might affect a securitisation and all triggers affecting the cash flow waterfall, payment profile or priority of payments of the securitisation should be clearly and fully disclosed in offer documents and in investor reports.

- 4.1.6 Securitisations featuring a replenishment period shall include provisions for appropriate early amortisation events and/or triggers of termination of the replenishment period and other terms as mentioned in Directions.
- 4.1.7 Company transferring assets to Special Purpose Entity (SPE) may make representations and warranties concerning those assets and undertake to hold capital against such representations and warranties if any of the conditions referred in Clause 32 of the Directions are not satisfied.
- 4.1.8 Company may provide supporting facilities such as credit enhancement facilities, liquidity facilities, underwriting facilities and servicing facilities but should be as per conditions outlined in Chapter IV of the Directions.
- 4.1.9 Company has to maintain capital against the exposures transferred to the SPE, which then forms the underlying for securitisation notes issued by the SPE, i.e., the exposures transferred to the SPE must be included in the calculation of risk-weighted assets of the originator and the consideration received from SPE must be recognised as an advance, unless at least conditions mentioned in Clause 81 of the Directions are satisfied tax and regulation.
- 4.1.10 The transactions undertaken in terms of the Directions must not contravene the rights of underlying obligors. To ensure compliance with this stipulation, enabling clauses must be included in the contract between Company and servicing agent (if any) and all necessary consent from obligors (including from third parties), where necessary as per the respective contracts, should have been obtained.

4.2 Specific responsibility of Company who is Investor in Securitisation:

- 4.2.1 Company should invest in securitised notes only if the originator has explicitly disclosed to the purchasing lenders that it has adhered to the MRR and MHP requirements and will adhere to MRR on an ongoing basis, as applicable and advised in the Directions.
- 4.2.2 Company should be able to access performance information on the underlying pools on an ongoing basis. Such information may include:

- (a) the average credit quality through average credit scores,
- (b) extent of diversification of the pool of loans,
- (c) volatility of the market values of the collaterals supporting the loans,
- (d) prepayment rates,
- (e) property types,
- (f) occupancy, etc.

4.2.3 Company should take note of, analyse and record the following while taking the decision regarding a securitisation exposure:

- (a) Reputation of originators,
- (b) Loss ratio of originators,
- (c) Valuation concept and methodology of collateral;
- (d) Disclosures made by the originator.

4.2.4 Company will share with the Board the valuation approach being adopted and the process of credit monitoring proposed before investing in securitisation notes. This will, *inter alia*, include:

- (a) the models used for valuation,
- (b) the assumptions underpinning the models, the policy regarding back-testing, and
- (c) stress testing the valuation model and its parameters etc.

4.2.5 Company needs to monitor on an ongoing basis and in a timely manner, performance information on the exposures underlying their securitisation positions and take appropriate action, if any, required. Action may include modification to exposure ceilings to certain type of asset class underlying securitisation, modification to ceilings applicable to originators etc.

4.2.6 Company should maintain capital against all securitisation exposure amounts, including those arising from the provision of credit risk mitigants to a securitisation transaction, investments in asset-backed or mortgage-backed securities, retention of a subordinated tranche, and extension of a liquidity facility or credit enhancement.

For the purpose of computing capital to be maintained and the exposure amount, reference may be drawn to Clauses 73 and 74 of the Directions.

For the purpose of calculating capital requirements, in respect of exposures that do not meet the requirements of Chapter IV of the Directions, transferee shall maintain capital charge equal to the actual exposure acquired.

4.2.7 Company should compute risk-weight for rated securitisation exposures via Securitisation External Ratings Based approach (SEC-ERBA), for unrated securitisation exposures, buyer to maintain capital charge equal to the actual exposure. The capital requirement for any securitisation position should not exceed the securitisation exposure amount.

4.2.8 Company should compute risk weight as per external ratings-based approach (SEC- ERBA) will be determined by multiplying securitisation exposure amounts by the appropriate risk weights as determined by Clauses 102 to 104

of Directions for securitisation exposures that are externally rated, provided that the criteria mentioned in Clause 101 of the Directions are met.

4.2.9 The Directions have laid down clear guidelines on derecognition of transferred assets for capital adequacy. Buyer should ensure that originator should satisfy the conditions below in order to achieve de-recognition:

- a) Originator should not have any control over the transferred exposures. The originator shall be considered to have retained effective control over the exposures if:
 - (i) It is able to repurchase the exposures from the SPE in order to realise the benefits, or
 - (ii) It is obligated to retain the risk of the transferred exposures.
- b) Except for clean-up calls, the originator should not be able to repurchase the exposure.
- c) The securitisation notes issued by SPE are not obligations of the originator. Thus, the investors who purchase the securitisation notes have a claim only to the underlying exposures.
- d) The transferred exposures are legally taken isolated in such a way that they are beyond the reach of the creditors in case of bankruptcy or otherwise.
- e) As per the Directions, the holders of the securitisation notes issued by the SPE against the transferred exposures have the right to pledge or trade them without any restriction, unless the restriction is imposed by a statutory or regulatory risk retention requirement.
- f) The originators must not be obligated to replace loans in the pool in case of deterioration of the underlying exposures to improve the credit quality.
- g) The originator should not be allowed to increase the credit enhancement provided at the inception of the transaction, after its commencement.
- h) The securitisation does not contain clauses that increase the yield payable to parties other than the originator such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the underlying pool.
- i) There must be no termination options or triggers to the securitisation exposures except eligible clean-up call options or termination provisions for specific changes in tax and regulation.

4.2.10 Company may invest in such securitised notes where the originator has explicitly disclosed that the applicable provisions of the *Reserve Bank of India (Know Your Customer (KYC) Directions, 2016* (as amended from time to time) shall be complied within all cases.

5. REPORTING RESPONSIBILITY

Company shall submit the details of the securitisation transactions undertaken, including the details of the securitisation notes issued, to the Reserve Bank of India on a quarterly basis in the format shared by RBI.

6. ACCOUNTING AND DISCLOSURE

- 6.1** Company can sell assets to SPE only on cash basis and the sale consideration should be received not later than the transfer of the asset to the SPE. Further, there should not be a gap of more than 30 days between transfer of the assets and the issuance of securitisation notes. In case of other lenders, any loss, profit or premium realised at the time of the sale should be accounted accordingly and reflected in the Profit & Loss account for the accounting period during which the sale is completed.
- 6.2** Accounting treatment in the case of unrealised gains arising out of sale of underlying assets need to be done as per the Clause 36 of the Directions.
- 6.3** Appropriate disclosures to be made in financial statements as per Clauses 116 and 117 of the Directions.
- 6.4** Disclosure in respect of the weighted average holding period of the assets securitised and the level of their MRR in the securitisation as per Clauses 112 and 113 of the Directions made to investor in investor report should be as per format prescribed in Clause 115 of the Directions.

7. INDEPENDENCE

The functioning and reporting responsibilities of the units and personnel involved in acquisition of loan exposures shall be independent from that of personnel involved in loan origination.

8. IT SYSTEMS

Requisite IT systems for capture, storage and management of data pertaining to the acquired loan exposures and towards meeting the compliance requirements under the Directions shall be established.

9. BOARD OVERSIGHT

The policy shall be reviewed by the Board of Directors on an annual basis and the implementation of this policy shall be monitored and reviewed periodically by the Board of Directors.

10. REGULATORY REFERENCE

Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021

11. RECORD OF UPDATES:

This policy comes into effect immediately on the above date of approval.