



**Press Release**

## **India Mortgage Guarantee Corporation (IMGC) concludes first Mortgage Guarantee Transaction**

Gurgaon, March 31, 2014 – IMGC, the first Mortgage Guarantee Company set up to offer mortgage guarantee to lenders against borrower credit default on housing loans announces the successful closure of its first Mortgage Guarantee contract in the Indian mortgage market.

The transaction offers a first loss guarantee on a pool of priority sector housing loans of Dewan Housing Finance Limited ('DHFL'). In a first of its kind transaction, DHFL has securitized this pool of priority sector housing loans with a Mortgage Guarantee to a Trust and the Pass Through Certificates issued by the Trust have been subscribed to by ICICI Bank Ltd. The pool has been provisionally rated "AAA (SO)" by CARE Ltd.

The cash flow and first loss support provided by IMGC to the pool of housing loans has enabled DHFL to reduce the level of credit enhancement (cash collateral) that would have otherwise been required for the transaction. This would result in release of capital (tier I) which can be redeployed to earn higher returns (RBI regulation for Banks under Basel III effective 1<sup>st</sup> April 2013 provide for 100% equivalent of the credit enhancement to be reduced from capital funds). As per existing structure of a securitization transaction, the Originator of the pool is required to provide credit enhancement and liquidity support in the form of cash collateral as a Fixed Deposit with Banks or by over collateralization (also called subordination).

Speaking on the transaction, Mr Amitava Mehra, CEO, IMGC, said, *"The transaction is a first on many counts and we hope that we will be able to bring about some change in the structure of securitisation transaction which is bound to have an impact on the core mortgage market in India. This could not be possible without the support and vision of the DHFL leadership team. We look forward to streamlining the process and offering this solution to a wider base of lenders. Our endeavour in the short term is to provide appropriate coverage on the existing books of lenders and free up their capital for new housing loans. In addition we are working with lenders to provide mortgage guarantee cover on new loans to borrowers and promote early home ownership,"* he added.

IMGC provides mortgage guarantee cover on residential mortgage loans. On the occurrence of a trigger event (which is classification of the loan as NPA), IMGC pays the creditor institution all outstanding principal and interest on the loan to the extent of the guarantee provided. Within this basic offering, the product can be altered for the type and level of cover to meet specific needs of a lender.



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With this transaction, IMGC is able to lay the foundation for the way we look at managing mortgage credit risk in the Indian residential mortgage lending market. Mr R V Verma, Chairman of NHB, who is also the Chairman of IMGC, envisions and reiterates this. In his view *“India’s residential mortgage market can surely capitalise on the scope and availability of a mortgage guarantee product that helps lenders by transferring credit risk to the guarantor. While mitigating credit default risk, lenders get benefit in the form of release of capital which can be deployed for increasing mortgage penetration meeting the social objective of encouraging home ownership in the country. The product was conceived with a view to expand the housing finance industry, improve affordability and induce stability.”*

NHB is a shareholder in the Company with 38% along with IFC and ADB at 13% each and Genworth with 36%.

Mr. Stuart Take, a Genworth board representative, stated: *“This transaction validates the tremendous benefit that mortgage guarantee cover can have for the lender community and creates a template for future securitisation transactions in the residential mortgage space. From Genworth’s experience in International markets, we know that mortgage guarantee assists in the standardisation of industry practices, processes and guidelines, which ultimately helps lenders maintain lending quality and manage risk.”*

Commenting on the rating provided by CARE, Mr D R Dogra (MD, CARE) said, *“It is a path breaking transaction which will pave the way for the growth of the MBS market in India. Mortgage guarantee can be an effective tool to reduce the credit risk on the housing loans.”*

### **About Mortgage Guarantee**

Mortgage guarantee enables expansion in the housing finance sector coupled with stability as it involves commercial and supervisory oversight by the Mortgage Guarantee Company, as well as its regulator.

Mortgage guarantee eligibility requirements for lenders will, among other things, provide norms and guidelines requiring greater discipline and prudence in the lending industry. Mortgage Guarantee operations will improve opportunities for home ownership in the country by making home loans more accessible to a larger segment of the population. The increased access will result from lower down payment requirements for borrowers due to additional security provided by the mortgage guarantee. However, the lenders will be required to adhere to prudent appraisal standards for all borrowers covered by the mortgage guarantees to ensure that the loan portfolio quality is always maintained.



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IMGC is also expected to provide impetus to residential mortgage-backed securitisation and the growth of secondary mortgage market with credit enhancement support that the guarantee will provide resulting in higher protection to investors in residential mortgage-backed securities issued against such loans. It is expected that the mortgage guarantee mechanism will result in expansion and stability of the housing finance market.

**About IMGC**

India Mortgage Guarantee Corporation (IMGC) is a joint venture that combines the developmental mandate of National Housing Bank (NHB), the technical expertise of Genworth Financial, and the resources of International Finance Corporation (IFC) & Asian Development Bank (ADB).

IMGC is the first Mortgage Guarantee Company in India. It was founded with a vision to make early home ownership a real possibility through the provision of Mortgage Guarantee. In other words, we provide Mortgage Guarantees against borrower defaults on housing loans financed by leading Indian mortgage lenders. This kind of risk mitigation partnership provides housing finance institutions support of making housing not only affordable but easily accessible to every Indian at an earlier life stage than would not have been possible otherwise. Additionally, the product enables release of capital for the Lending institution, the benefit of which, over time can be passed on to the consumer. The relief has a direct impact on the leveraging capacity of the lender, and a longer term impact on the ROE of the Institution.

We utilise the global expertise and experience of our founding partners to make early homeownership a possibility for the Indian customers. We are currently working towards making mortgage products available to a larger segment of the population, going beyond those who already have access to a significant down-payment to purchase a home.

For more details please visit us at: [www.imgc.com](http://www.imgc.com)

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