**Introduction**

**Safeguarding The Future For Millions Through Risk Mitigation!**

IMGC's Mortgage Guarantee (MG) products provide Loss Protection to Indian mortgage lending institutions or residential mortgage backed securities investors against borrower default caused by inability to service their home loan. We strive to provide housing finance lenders with whom we join hands, the security and certainty of an expert risk mitigation partner and the benefit of capital relief that affords incremental earnings sans incremental risk; enabling lenders to provide home loans with better terms that encourages early home ownership.

The credit enhancement value of our Mortgage Guarantee products is consistent with the principles of Basel II. Our credit risk mitigation product indirectly empowers lenders to reap the benefits of lower capital charges for those loans that have qualified for Mortgage Guarantee Protection.

Need more product information? [Click here!](http://www.imgc.com/index.php/mortgage-guarantee-product/the-product)

**MORTGAGE GUARANTEE PRODUCT CONCEPT**



**Representative Illustration Only**

Today, a borrower can get 75% LTV (Loan-To-Value) loan and has to organise 25% down-payment to make a purchase of a home worth Rs. 20 Lakhs. With Mortgage Guarantee on the loan, the borrower may get up to 90%\* of LTV provided the borrower has the repayment capacity.

* Borrower down-payment is reduced from 25%
(Rs. 5,00,000) to 10% (Rs. 2,00,000)
* Earning Assets of the Lender increase by 20% to Rs. 18,00,000 (90%) vs. Rs. 15,00,000 (75%)
* IMGC takes a high LTV risk exposure of Rs. 6,00,000

*\*will be defined by prevailing RBI guidelines*

**What is Mortgage Guarantee?**

Mortgage Guarantee (also known as mortgage insurance in some parts of the world) is a financial product which compensates lending institutions or housing finance companies for losses that may arise when a home owner defaults on a mortgage loan.

IMGC is the first company of its kind to introduce this kind of product in the Housing sector in India. The intention is to mitigate risk taken by lenders, banks and housing finance companies, over time making it easier for people to get access to home loans of higher values (or with lower down-payment amounts) earlier in life than would have been possible without IMGC's involvement.

Traditionally, when buying a home (with a home loan), lenders require borrowers to put down a deposit (down-payment) of at least 20% of the Total Home Value. However, the added security of an IMGC Mortgage Guarantee promises to re-define the way Lenders and borrowers look at housing finance.

**Here's how it works!**

IMGC's Mortgage Guarantee is a financial risk mitigation tool that encourages lenders to fulfil housing policy, without increasing risk in financial system. IMGC's Mortgage Guarantee offers benefits to multiple stakeholders.

(For more information about stakeholder benefits [click here!](http://www.imgc.com/index.php/mortgage-guarantee-product/the-product#benefits))





**Characteristics of an IMGC Mortgage Guarantee!**

The following characteristics of IMGC's Mortgage Guarantee enables lenders to manage the risks involved in their business.

**Contingency Reserves**

IMGC builds contingency reserves during normal times and draws them down only when losses exceed statutory thresholds or regulators otherwise authorise reductions.

**Geographic Diversification**

Geographic diversification serves as a bulwark against regional housing slumps by enabling IMGC to use premiums collected in more stable regions to off-set losses incurred in distressed regions.

**Lender Diversification**

Because IMGC's insure loans originate by many different lenders, they are less vulnerable than individual lenders to lender-specific operational or other problems affecting loan quality.

**Delayed Loss Realisation**

Because the covered loss amount is not established and payable until foreclosure, IMGC can build up reserves as a loan first goes delinquent, while continuing to generate premiums from other policies to offset the expected loss.

**Acquaintance With Relevant Risks**

By virtue of their close involvement in underwriting, loss mitigation, and claims management activities, IMGC is relatively well-positioned to understand the risks associated with high-LTV mortgage loans.

**Incentives To Avoid Foreclosure**

While not a form of institutional risk management per se, a financial institution’s incentives to modify loans or take other measures to avoid foreclosure impact financial stability. Because IMGC does not generally incur claims obligations unless a borrower defaults, the interests of IMGC are closely aligned with those of borrowers in this area.

**The Product**

**The Essential Risk Mitigation Tool In Housing Finance**

Mortgage Guarantee coverage is most commonly placed on loans with higher LTV’s; typically with mortgages that have Loan To Value Ratios in excess of 75-80% at the time of origination of the mortgage. Loans to be guaranteed are based on discussions and agreement between the Mortgage Guarantee company and the Lender on the characteristics of the MG product and the underwriting parameters.

Mortgage Guarantees are not to be confused with 'property insurance' as it does not provide protection against damages to the residential property caused by fire or floods. It also does not insure lenders against borrower life events, such as death, sickness or loss of employment.

**Types of Products**

Mortgage Guarantee products are designed to cover both Principal Outstanding and Accrued Interest. Mortgage Guarantee fee is based on the coverage.

The Mortgage Guarantee products available through IMGC include Top Cover & Quota Share., The Lender has the option of selecting the type of product and coverage best suited for its borrowers (can be between 25% and 50%), while maximizing e the benefits on their books.



**Top Cover**

In the Top Cover coverage option, the MG Company takes a first-loss position up to the agreed coverage amount.

**Quota Share**

In the Quota Share coverage option, the loss is shared in proportion to the coverage based on pre-agreed upon terms and percentages.



**Understanding The Capital Benefit**

The following example demonstrates how the product works to a Lenders advantage.

|  |  |  |
| --- | --- | --- |
|  | **Top Cover 33%** | **Quota Share 50%** |
| **Proxy Portfolio** | **Normal RW** | **Covered RW** | **Adjusted RW** | **Benefit** | **Covered RW** | **Adjusted RW** | **Benefit** |
| Loans With LTV <= 75%, Loan <= 30 Lac | 50% | 30% | 43% | -7% | 30% | 40% | -10% |
| Loans With LTV <= 75%, Loan > 30 Lac | 75% | 30% | 60% | -15% | 30% | 53% | -23% |
| Loans With LTV > 75%, Loan < 75 Lac | 100% | 30% | 77% | -23% | 30% | 65% | -35% |
| Loan >= 75 Lac | 125% | 30% | 94% | -31% | 30% | 78% | -48% |

The above example is done at different risk brackets as defined by the current regulations

* For “AA” rated Mortgage Guarantee Company
* For two variants of the product
* At 33% for Top Cover and 50% for Quota Share coverage

As per the existing guidelines the applicable Risk weight to IMGC guaranteed loans is 30% based on the ‘AA’ rating of the company. In case the rating improves to ‘AAA’, the risk weight will also improve to 20%.

The capital benefit increases proportionately in the higher risk bracket. In the highest risk bracket, the Risk Weight can reduce from 125% to 78%, which is a gain of 48%. This reduction in Risk Weight will lead to a lower capital requirement. The example above only demonstrates the gain from reduction in Risk Weight, and only for one year. The gains are significantly higher if all aspects ( e.g. loss and provisioning gains, securitization benefits etc.) are considered while building the benefit model.

**Benefit To The Home Buyer (Borrower)**

**Lower Down-payment Amounts & Accelerated Home Ownership**

By allowing people to get home loans with a lower down-payment, IMGC effectively enables more people to own a home earlier in life than they would have without a Mortgage Guarantee product that provides default coverage.

**Accessibility To Loans With Better Terms**

By supporting Lenders and Investors, and shouldering part of the loan default risk, IMGC makes it easier for Lenders to offer Home Buyers loans with improved terms.

**Benefit to The Lender**

**Higher Capital Relief**

Provide Lenders with opportunities for higher leverage, higher business volume and focussed growth.

**Increases Earning Assets Without Incremental Risk**

Helps lenders and housing finance companies to prevent, detect and mitigate losses caused by borrower default.

**Ability to Test and Learn**

Enables the extension of loans to new market segments, encourages the release of new products, and opens up avenues for increased revenue volumes.

**Improved Profitability**

Enables Lenders to keep higher profit margins and develop earlier relationships with consumers due to lower losses which are covered by IMGC.

**Lower Write-offs & Lower Loss Provisions**

Enables Lenders and Investors to mitigate default risk on Low Down-payment Residential Mortgages by transferring and bearing a portion of the risk over the long term, thereby reducing the Lenders Loss Provision requirement.

**Securitisation & Rating Benefits**

Risk mitigation is readily recognised by Investors and Rating Agencies, thereby increasing the possibility of flexible funding. IMGC's Mortgage Guarantee products are in accordance with the principals of Basel II and RBI regulations.

**Improves The Lender's Processes**

Our collaborative approach with lenders results in a positive outcome as it brings into play the additional credit expertise and discipline of our Company's processes to the lending process. This in turn serves to enhance the rigour and reliability of the lender's processes

**How IMGC Helps!**

**Discover How IMGC Could Help You!**

**Most people dream of being able to own a home sooner rather than later in life. But with the rapid increase in housing prices over the last few decades, this goal is becoming a daunting process.**

**Given here are hypothetical representations that depict how IMGC makes it easier for people to make home ownership a real possibility.**

**Mortgage Guarantee Could Transform Expense Into Asset! \***

Take for example, a newly married couple Aditi and Shyam Sharma who have just started out their life together in a rented apartment. Shyam, being the sole breadwinner of the family unit, would naturally want to secure his family's future with an asset by buying a home of his own.

[**Read More**](http://www.imgc.com/index.php/mortgage-guarantee-product/how-imgc-helps/45-case-study-two)

**IMGC Could Help You Preserve & Build Assets! \***

In the case of one Mr. Ravi Iyer, a businessman who operates from home, an expanding client base would mean that he would need an extra room that could be utilised as a home-office.

[**Read More**](http://www.imgc.com/index.php/mortgage-guarantee-product/how-imgc-helps/62-preserve)

**Mortgage Guarantee Could Make Bigger, Better Homes A Real Possibility! \***

Another example would be the case of Anil and Madhuri Patil, a couple who have been married for 15 years; with 2 children in their teens; but who still live in a rented apartment. With 2 growing kids and elderly parents who visit frequently, this couple needs to find a bigger place that provides more family stability without drastically increased rent costs.

**Mortgage Guarantee Could Make Bigger, Better Homes A Real Possibility! \***

What they would need to do is locate a home for sale which is bigger than their current rented apartment; one which is priced within their budget (for e.g. at Rs. 75 Lacs) but which has modern amenities and infrastructure.

In this case, most Banks would agree to give a couple in their situation a loan of roughly Rs. 55 Lacs. That, combined with their savings of approximately Rs. 10 Lacs still leaves them with a Rs. 10-Lac gap; an unreachable target to achieve in time to buy the home of their choice.

IMGC could help a couple like Anil and Madhuri overcome this hurdle. With IMGC guaranteeing their Home Loan, the couple would be able to buy the bigger home that they dreamed of by simply utilizing the monthly rent they had been paying (Rs. 42,000), to pay their home loan EMIs. With IMGC stepping in, this couple could possibly benefit over time by around Rs. 20 Lacs as a result of increased property prices.

\* All the above cases are hypothetical in nature and have been provided as mere examples in order to better understand the benefits that IMGC's Mortgage Guarantee product could provide.

Reserve Bank of India
Department of Non-Banking Supervision
Central Office, Centre 1
World Trade Centre
Cuffe Parade, Colaba
Mumbai - 400 005

Notification DNBS(PD)MGC No.3 /CGM (PK) - 2008 dated February 15, 2008

Guidelines on Registration and Operations of Mortgage Guarantee Company
under Section 45L(1)(b) of the Reserve Bank of India Act, 1934

The Reserve Bank of India, in terms of [Notification No. DNBS. (MGC) 1 /CGM (PK)- 2008 dated January 15, 2008](http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=4013&Mode=0#1), issued in terms of Section 45I(f)(iii) of the Reserve Bank of India Act, 1934 (2 of 1934) and on being satisfied that it is necessary so to do, in exercise of the powers conferred under Section 45 L(1)(b) of the said Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby issues these guidelines for compliance of the same by every non-banking financial company undertaking the business of Mortgage Guarantee as defined herein.

1. Short title, commencement and applicability of the directions:

(i) These guidelines shall be known as the "Mortgage Guarantee Company (Reserve Bank) Guidelines, 2008".

(ii) These guidelines shall come into force with immediate effect.

Scope

(iii) These guidelines provide a framework for the registration and operation of mortgage guarantee companies in India.

Definitions

2. (1) In these guidelines unless the context otherwise requires,

(a) "bank" means-

(i) a banking company; or

(ii) a corresponding new bank; or

(iii) the State Bank of India; or

(iv) a subsidiary bank; or

(v) such other bank which the Reserve Bank may, by notification, specify for the purposes of these guidelines; and

(vi) a cooperative bank as defined under the Banking Regulation Act, 1949 (10 of 1949);

(b) "banking company" means a banking company as defined in Section 5(c) of the Banking Regulation Act, 1949 (10 of 1949);

(c)"borrower" means any person or any entity who has been granted a housing loan by any creditor institution or any other entity which may be specified by Reserve Bank of India from time to time;

(d) “creditor institution” means a bank or housing finance company;

(e)"company" means a company registered under Section 3 of the Companies Act, 1956;

(f) "corresponding new bank" means as defined in clause (da) of Section 5 of the Banking Regulation Act, 1949;

(g) "default" means non-payment on the due date of any principal debt or interest thereon payable by a borrower to any creditor institution ;

(h)"guarantee" means a contract of guarantee as defined in the Indian Contract Act, 1872 (9 of 1872);

(i) "housing finance company" means a company which primarily transacts or has as one of its principal objects, the transacting of the business of providing finance for housing, as defined in the National Housing Bank Act, 1987;

(j) "housing loan" means any loan or advance granted to an individual or any other entity which may be specified by Reserve Bank of India from time to time for the purpose of construction / repairs/ upgradation of a house or.residential property or acquisition of a house or residential property or both i.e. house and residential property;

Explanation:- 'Other entities' would include housing societies and housing co-operatives in the above definition of 'housing loan'.

(k) "mortgage guarantee" means a guarantee provided by a mortgage guarantee company for the repayment of an outstanding housing loan and interest accrued thereon up to the guaranteed amount to a creditor institution, on the occurrence of a trigger event;

(l) "mortgage guarantee company" means a company which primarily transacts the business of providing mortgage guarantee;

(m) “mortgage guarantee contract” means a tri-partite contract among the borrower, the creditor institution and the mortgage guarantee company, which provides the mortgage guarantee;

(n) "National Housing Bank" means the National Housing Bank established under the National Housing Bank Act, 1987 (53 of 1987);

(o) “net owned fund” is as notified in the Prudential Norms for Mortgage Guarantee Companies;

(p) "non-performing asset" means account of a borrower, which has been classified by a creditor institution as sub-standard, doubtful or loss asset, in accordance with the directions or guidelines relating to asset classification issued by the Reserve Bank or the National Housing Bank as the case may be;

(q) "Reserve Bank" means the Reserve Bank of India constituted under the Reserve Bank of India Act, 1934 (2 of 1934);

(r) "substantial interest" means holding of a beneficial interest by an individual or his spouse or minor child, whether singly or taken together in the shares of a company, the amount paid up on which exceeds ten percent of the paid up capital of the company; or the capital subscribed by all partners of a partnership firm;

(s) “trigger event” means classification of the account of a borrower as non-performing asset in the books of the creditor institution;

(t) ‘turnover or business turnover’ means the total mortgage guarantee contracts entered during the year together with the volume of business arising out of other activities (specially permitted by RBI), undertaken during the year;

2. (2) Words or expressions used but not defined herein and defined in the Companies Act, 1956 (1 of 1956) or Accounting Standards issued by the Institute of Chartered Accountants of India, shall have the same meaning as assigned to them in that Act / Accounting standards.

Registration with the Reserve Bank of India

3. A mortgage guarantee company shall commence the business of providing mortgage guarantee after -

1. obtaining a certificate of registration from the Reserve Bank of India; and
2. having a net owned fund of one hundred crore rupees or such other higher amount, as the Reserve Bank of India may, by notification, specify.

4. Every mortgage guarantee company shall make an application for registration to the Reserve Bank of India in such form as may be specified by the Reserve Bank of India for the purpose.

5. The Reserve Bank of India, for the purpose of considering the application for registration, shall require to be satisfied that the following conditions are fulfilled:-

1. that the mortgage guarantee company shall primarily transact the business of providing mortgage guarantee. A mortgage guarantee company shall be deemed to comply with the above when at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business (which includes the income derived from reinvesting the income generated from mortgage guarantee business);
2. that the mortgage guarantee company is or shall be in a position to pay its liabilities arising from the contracts of guarantee it may enter into;
3. that the mortgage guarantee company has adequate capital structure as stipulated in paragraphs 11 to 13 below and adequate earning prospects from mortgage guarantee business;
4. that the general character of the management or the proposed management of the mortgage guarantee company shall not be prejudicial to the public interest;
5. that the Board of Directors of such mortgage guarantee company does not consist of more than half of its total number of directors who are either nominees of any shareholder with substantial interest or associated in any manner with the shareholder with substantial interest or any of the subsidiaries of the shareholder with substantial interest if such a shareholder is a company;
6. (i) Mortgage guarantee company shall have a well diversified shareholding;

(ii) Mortgage guarantee company shall not be a subsidiary of any other company including a company registered or incorporated under any law in force outside India;

(iii) No individual, association or body of individuals whether incorporated or not, partnership firm, company or company registered or incorporated under any law in force outside India shall, directly or indirectly, have any controlling interest in mortgage guarantee company;
7. the Foreign Direct Investment to be eligible for investment in the equity of a mortgage guarantee company should have prior approval of FIPB. If the foreign entity which has received FIPB / FED approval is having substantial interest in the applicant mortgage guarantee company, it should be regulated by a home country financial regulator and should itself preferably be a mortgage guarantee company and have a good track record of operating as a mortgage guarantee company. However, the above clauses would not be applicable if the investor in the equity of a mortgage guarantee company is international financial institution;
8. that the public interest shall be served by the grant of certificate of registration to the mortgage guarantee company to commence or to carry on the business in India;
9. that the grant of certificate of registration shall not be prejudicial to the operation and growth of the housing finance sector of the country;
10. that the mortgage guarantee company is compliant with the applicable norms for foreign investment in such companies; and
11. any other condition, fulfillment of which in the opinion of the Reserve Bank of India, shall be necessary to ensure that the commencement of or carrying on the business in India by a mortgage guarantee company shall not be prejudicial to the public interest and the housing finance sector in India.

6. The Reserve Bank of India may, after being satisfied that the conditions specified in sub paragraphs of paragraph 5 are fulfilled, grant a certificate of registration subject to such conditions which it may consider fit to impose.

7. The mortgage guarantee company shall be under the regulatory and supervisory jurisdiction of the Reserve Bank of India.

8. The Reserve Bank of India may cancel a certificate of registration granted to a mortgage guarantee company, if such company-

1. ceases to carry on the business of providing mortgage guarantee in India; or
2. has failed to comply with any condition subject to which the certificate of registration has been issued to it; or
3. has failed to honour, in a timely manner, the claims arising from the contract of guarantee it has entered into or may enter into; or
4. at any time fails to fulfill any of the conditions referred to in paragraphs 5 and 6; or
5. fails to -

i)comply with any direction issued by the Reserve Bank of India; or

ii) maintain accounts, publish and disclose its financial position in accordance with the requirements of any law or any direction or order issued by the Reserve Bank of India; or

iii) submit or offer for inspection its books of account or other relevant documents when so demanded by the Reserve Bank of India.

Essential features of a mortgage guarantee

9. The essential features of a mortgage guarantee contract shall be as follows:

1. it shall be a contract of guarantee under Section 126 of the Indian Contract Act, 1872;
2. the mortgage guarantee contract shall be unconditional and irrevocable and the guarantee obtained shall be free from coercion, undue influence, fraud, misrepresentation, and/or mistake under Indian Contract Act, 1872 ;
3. it shall guarantee the repayment of the principal and interest outstanding in the housing loan account of the borrower, up to the amount of guarantee;
4. the guarantor shall pay the guaranteed amount on invocation without any adjustment against the realisable value of the mortgage property;
5. it shall be a tri-partite contract among the borrower, the creditor institution and the mortgage guarantee company, which provides the mortgage guarantee.

10. The mortgage guarantee company shall not carry on insurance business.

Minimum Capital requirement

11. A mortgage guarantee company shall have a minimum net owned fund of Rs.100 crore at the time of commencement of business, which shall be reviewed for enhancement after 3 years.

Capital Adequacy

12. A mortgage guarantee company shall maintain a capital adequacy ratio of ten percent (10%) of its aggregate risk weighted assets of on balance sheet and of risk adjusted value of off-balance sheet items or any other percentage that may be prescribed by the Reserve Bank of India for the purpose, from time to time.

13. A mortgage guarantee company shall maintain at least six percent (6%) of its aggregate risk weighted assets of on balance sheet and of risk adjusted value of off-balance sheet items as Tier I capital.

Prudential and accounting norms

14. The mortgage guarantee company shall be required to comply with various prudential guidelines including those relating to income recognition, asset classification, provisioning, classification and valuation of investments and prudential exposures that are issued by the Reserve Bank of India from time to time.

15. The mortgage guarantee company shall also comply with all the relevant Accounting Standards and Guidance Notes issued by the Institute of Chartered Accountants of India from time to time.

16. No single guarantee shall exceed 10% of the company's Tier I and Tier II capital.

Funding options

17. (1) Acceptance of public deposits - Mortgage guarantee companies shall not accept public deposits.

17. (2) External Commercial Borrowings - Mortgage guarantee companies shall not avail External Commercial Borrowings.

Creation and maintenance of Reserves

Contingency Reserves:

18. A mortgage guarantee company shall create and maintain a “Contingency Reserve” on an ongoing basis. The mortgage guarantee company:

1. Shall appropriate each year at least forty percent (40%) of the premium or fee earned during that accounting year or twenty five percent (25%) of the profit (after provisions and tax), whichever is higher, to the Contingency Reserve;
2. In case of inadequate profits, such appropriation shall either result in or increase the amount of carry forward loss;
3. May appropriate a lower percentage of the premium or fee earned during any accounting year when the provisions made each year towards losses on account of settlement of mortgage guarantee claims exceeds thirty-five percent (35%) of the premium or fee earned during that accounting year;
4. Shall ensure that the Contingency Reserve is built up to at least five percent (5%) of the total outstanding mortgage guarantee commitments;
5. Shall retain the amounts appropriated each year to the Contingency Reserve for a minimum period of seven (7) subsequent years which shall be eligible for reversal only in the eighth year subject to the condition in 18(d) above;
6. Shall utilize the Contingency Reserve only with the prior approval of the Reserve Bank of India;
7. Shall show the amount of ‘Contingency Reserve’ as a separate line item on the liability side of the balance sheet; however, Contingency Reserve may be treated as 'free reserve' for the purpose of net owned fund.

Accounting of Unearned Premium

19. A mortgage guarantee company shall account the premium or fee on the mortgage guarantee contracts as an income in the profit and loss account in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India. The amount of unearned premium shall be shown as a separate line on the liability side of the balance sheet.

Provision for losses on invoked guarantees

20. A mortgage guarantee company is exposed to a potential loss when its guarantee is invoked. Mortgage guarantee companies shall hold provisions for losses in respect of such invoked guarantees pending recovery of assets. The amount of provisions required to be held shall be equal to the contract-wise aggregate of ‘amount of invocation’ after adjusting the realisable value of the assets held by the company in respect of each housing loan where the guarantee has been invoked. In case the realisable value of the assets held in respect of any invoked guarantee is more than the amount of invocation, the excess shall not be adjusted against the shortfall in other invoked guarantees. In case the amount of provisions already held is in excess of the amount as computed above, the excess shall not be reversed. The amount of provisions made each year shall be shown as a separate line item in the Profit and Loss Account. The amount of provision held for losses on settlement of invoked guarantees shall be shown as a separate line item on the liability side of the balance sheet.

Provision for ‘Incurred But-Not-Reported (IBNR) losses’

21. A mortgage guarantee company is exposed to a potential loss when there is a default in a housing loan guaranteed by it. Mortgage guarantee companies shall hold provisions in respect of such defaulted housing loans where the trigger event is yet to occur or the guarantee is yet to be invoked. The potential loss to which the guarantee company is exposed to is referred to as ‘Incurred-But-Not-Reported (IBNR) losses’. The amount of provisions required to be held shall be arrived at on an actuarial basis depending upon the estimates of loss frequency and loss severity for incurred but not reported losses which are derived from historic data, trends, economic factors and other statistical data in relation to paid claims, the provisions held for claims settled, risk statistics, etc. In case the amount of provisions already held is in excess of the amount as computed above, the excess shall not be reversed. The amount of provisions made each year shall be shown as a separate line item in the Profit and Loss Account. The amount of provision held for Incurred But-Not-Reported (IBNR) losses shall be shown as a separate line item on the liability side of the balance sheet.

Requirement of maintaining Register of guarantees

22. Every mortgage guarantee company shall keep one or more registers in which shall be entered the particulars of guarantee provided by the company, namely,

1. name and address of the borrower/co-borrower,
2. date and amount of loan sanctioned to the borrower,
3. brief description of the property including the site/location of the property,
4. the nature of security available for the loan,
5. tenure of the loan,
6. amount of each installment and due date for the payment of each installment,
7. name and address of the bank or housing finance company to whom the guarantee has been provided,
8. date and amount of the guarantee, and
9. duration of the guarantee.

Mortgage guarantee company's obligations

23. The liability of the mortgage guarantee company in respect of a secured housing loan granted by a creditor institution where the mortgage guarantee company has provided a guarantee shall be as stipulated in the contract of guarantee entered into by and between the mortgage guarantee company, the creditor institution and the borrower.

24. On any day after a trigger event, the creditor institution, which has obtained a mortgage guarantee from a mortgage guarantee company, shall be entitled to invoke the guarantee against the mortgage guarantee company.

25. The mortgage guarantee company shall make good the guarantee liability without demur as and when a notice of demand for the payment of the guarantee liability in respect of the mortgage guarantee provided by it in favour of a bank or a housing finance company is received by it.

26. If a housing loan turns into a non-performing asset and the creditor institution prefers first to realize the loan by resorting to speedy recovery procedures prescribed in the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and the creditor institution, realizes some amount of the loan from the borrower, the liability of the mortgage guarantee company in respect of the loan, will stand reduced to that extent.

27. As scheduled commercial banks are expected to seek mortgage guarantee for their housing loans, it has been decided to align the regulatory prescription of LTV ratio for mortgage guarantee companies with that of commercial banks and revise it downwards from 90% to 80% for housing loans exceeding Rs. 20 lakhs. However for small value housing loans i.e housing loans up to Rs. 20 lakh (which get categorized as priority sector advances), LTV ratio should not exceed 90%.[1](http://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=7316#1)

Due diligence to be exercised by a mortgage guarantee company

28. Before offering to provide a guarantee for the repayment of a housing loan, the mortgage guarantee company shall be required to be satisfied, amongst others, with the following;

1. that the loans are secured by a valid mortgage;
2. that the creditor institution has verified title to the property, marketability of the property and credit worthiness of the borrower;
3. that the creditor institution has verified the use of the land on which a house or residential property is constructed or proposed to be constructed out of the loan obtained from it;
4. that the creditor institution has verified and obtained a copy of the permission obtained by the borrower from the proper authorities for the purpose of construction of the house or residential property; and
5. that the loan granted by a creditor institution to a borrower is not more than 90% of the value of the property.

**Prohibitions**

29.(1) A housing loan which is not secured by a valid mortgage of the house / residential property that is or is proposed to be acquired by such loan shall not be eligible for a mortgage guarantee from a mortgage guarantee company.

No commissions, rebates or inducements

29.(2) A mortgage guarantee company shall not pay commissions, rebates, or other inducements for referral of mortgage guarantee business to any person.

Prohibition on guaranteeing mortgage originations of Related Party

29.(3) A mortgage guarantee company shall not provide guarantees on mortgage originations of promoters, its / their subsidiaries, associates and related parties or subsidiaries, associates and related parties of mortgage guarantee company including companies where the mortgage guarantee company has a material investment or interest of five percent (5%) or more of the shareholding.

Investments

29.(4) A mortgage guarantee company shall not invest in notes or other evidences of indebtedness secured by a mortgage or other lien upon real property. This section shall not apply to obligations secured by real property, or contracts for the sale of real property, which obligations or contracts of sale are acquired in the course of the good faith settlement of claims under policies issued by the mortgage guarantee company, or in good faith disposition of real property so acquired.

Constitution of Audit Committee

30. A mortgage guarantee company shall constitute an Audit Committee consisting of not less than three non-executive Directors of the Board of the company, at least one of whom will be a Chartered Accountant.

Policy for grant of guarantee

31. The Board of Directors of a mortgage guarantee company shall frame a policy for the company for providing mortgage guarantee to creditor institutions. Such policy shall, inter alia, stipulate the following:-

1. the fee or premium chargeable for providing a mortgage guarantee based on specific identified criteria including the quantum of loan; LTV ratio; credit quality of the borrower; and credit appraisal / credit risk management skills of the bank or housing finance company,
2. delegation of power for providing a mortgage guarantee and to enter into a contract of guarantee,
3. delegation of power for taking a decision to make good the claims received from banks and housing finance companies, and
4. delegation of power for initiating proceedings for the recovery of its dues from the borrowers.

Scheme of Mortgage Guarantee

32. For the purpose of providing mortgage guarantee, the mortgage guarantee company shall prepare a detailed scheme duly approved by its Board of Directors. The scheme shall contain, amongst others, the following matters:

1. the quality of a housing loan,
2. the maximum portion of a housing loan granted by a bank or a housing finance company to a borrower, that may be covered under the contract of guarantee,
3. the minimum and the maximum LTV ratio of a housing loan proposed to be covered under the contract of guarantee,
4. the fee or premium or charge indicating the manner for the payment there of, payable by a borrower to the mortgage guarantee company in consideration for the contract of guarantee,
5. the liability of the mortgage guarantee company as to whether the liability will be co-extensive with that of the borrower or otherwise, and
6. the conditions governing the issue as to which party of the mortgage guarantee company or a bank/ housing finance company will be required to effect recoveries from the borrower after the mortgage guarantee is invoked and the guarantee liability is made good by the mortgage guarantee company to the bank or housing finance company.

Counter-guarantee

33. Whenever a mortgage guarantee company obtains counter-guarantee cover in respect of the housing loans guaranteed by it from another mortgage guarantee company, the mortgage guarantee company and the counter-guarantee company shall establish and maintain the reserves required for a mortgage guarantee company in India in appropriate proportions in relation to the risk retained by the original mortgage guarantee company and ceded to the assuming counter-guarantee company so that the total reserves established shall not be less than the reserves required under Indian law for a mortgage guarantee company. In case the counter-guarantee company is not regulated by the regulator(s) in India, the mortgage guarantee company guaranteeing the claim shall hold relevant reserves and provisions in respect of all outstanding mortgage guarantee contracts issued by it.

Exemptions

34. The Reserve Bank of India may, if it considers necessary for avoiding any hardship or for any other just and sufficient reason, grant extension of time to comply with or exempt any mortgage guarantee company or class of mortgage guarantee companies or all mortgage guarantee companies, from all or any of the provisions of these guidelines either generally or for any specified period, subject to such conditions as the Reserve Bank of India may impose.

35. The Reserve Bank of India can give any clarification in respect of the above guidelines and such clarification shall be treated as part of these guidelines. The guidelines can be amended by the Bank from time to time.

(P. Krishnamurthy)
Chief General Manager-in-Charge

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| **IMGC inks first guarantee deal** |
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| India Mortgage Guarantee Corporation (IMGC) has announced the closure of itsfirst mortgage guarantee contract. The transaction offers a first loss guarantee on a pool of priority sector housing loans of Dewan Housing Finance Limited (DHFL). Under this, DHFL has securitised 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.The pool has been provisionally rated “AAA (SO)” by CARE Ltd. (Mortgage guarantee is a financial product which compensates lending institutions or housing finance companies for losses that may arise when there is a default on mortgage loans.) The cash flow and first loss support provided by IMGC to the pool of housing loans would enable 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 provide for 100 per cent equivalent of the credit enhancement to be reduced from capital funds).As per existing structure of a securitisation 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 collateralisation (also called subordination). 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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**NHB mulls incentives for home financiers**

**BS Reporter  |  Mumbai**

**April 3, 2014** Last Updated at 00:41 IST

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National Housing Bank is exploring ways to incentivise [housing finance](http://www.business-standard.com/search?type=news&q=Housing+Finance) companies (HFCs) to offer [loans](http://www.business-standard.com/search?type=news&q=Loans) backed by [mortgage guarantee](http://www.business-standard.com/search?type=news&q=Mortgage+Guarantee). The advantage of such loans for [borrowers](http://www.business-standard.com/search?type=news&q=Borrowers) would be higher loan-to-value or long-term fixed interest rate loans, said [R V Verma](http://www.business-standard.com/search?type=news&q=R+V+Verma), chairman, [NHB](http://www.business-standard.com/search?type=news&q=Nhb).

Announcing the first mortgage guarantee transaction, between India Mortgage Guarantee Corporation (IMGC) and Dewan Housing Finance Ltd ([DHFL](http://www.business-standard.com/search?type=news&q=Dhfl)), Verma said this would help in mitigating risk for lenders and also provide capital enhancement by reducing the requirement for provisioning and risk weights.

"Today, lenders are not going to a certain segment of borrowers. But with mortgage guarantee they can be encouraged to lend to such borrowers also,'' Verma said. Mortgage guarantee is provided only for home loans and not for loan against property or loans to builders.

Currently, the loan to value (LTV) for loans up to Rs 20 lakh is 90 per cent, for loans between Rs 20 lakh and Rs 75 lakh it is 80 per cent and for loans above Rs 75 lakh it is 75 per cent.

However, if the loans are backed by a guarantee, then the LTV can be increased to 90 per cent even for the higher ticket size loans. So, the borrower will have to put in less money. Besides, since the guarantee is for a period of 25 years, it may encourage lenders to offer long-term fixed rate loans, as they will not have to worry about mismatch in their asset-liability. In the transaction between DHFL and IMGC, a pool of Rs 37.8 crore worth of loans of DHFL has been contracted for mortgage guarantee. The pool is for priority sector loans up to Rs 25 lakh.

This offers DHFL a first-loss guarantee on its pool of priority sector housing loans.

DHFL has securitised this pool of priority sector housing loans to ICICI Bank. This guarantee has enabled DHFL to reduce the level of credit enhancement that would have otherwise been required for securitisation, thereby releasing capital that can be redeployed.

Currently, for any securitisation transaction, the originator of the pool is required to provide credit enhancement, including liquidity support in the form of cash collateral.

This being the first mortgage guarantee contract and since it was done at a pool level, DHFL is bearing the cost of the cover. But if it was a new loan, the cost of guarantee would be borne by the home loan borrower, said Amitava Mehra, CEO, IMGC. The cost will depend on the risk perception. It may be lower for better performing lenders.

For borrowers, the choice would be between choosing a mortgage with a cover which may allow a longer repayment period and loans with a higher LTV, even if they have to bear the cost of the guarantee.

**NHB plans to allow lenders to offer 90% of property value as home loan**

Saikat Das, ET Bureau Apr 2, 2014, 08.21PM IST





Tags:

(The National Housing Bank…)

MUMBAI: The National Housing Bank is considering a proposal that seeks to allow lenders to give up to 90% of the property value as home loan. The proposal is for the above Rs 20 lakh category of loans that carry mortgage guarantee cover.

At present, lenders offer maximum 80% of the property value as home loan.

**DHFL enters into mortgage guarantee contract with IMGC**

CHENNAI: Housing finance company Dewan Housing Finance has entered into a [mortgage guarantee contract](http://timesofindia.indiatimes.com/topic/mortgage-guarantee-contract) with [IMGC](http://timesofindia.indiatimes.com/topic/IMGC) (Indian Mortgage Guarantee Corporation). This offers Dewan Housing a first loss guarantee on its pool of priority sector housing loans.

In a first-of-its-kind transaction, the company has securitized this pool of priority sector housing loans with a mortgage guarantee to [ICICI Bank](http://economictimes.indiatimes.com/icici-bank-ltd/stocks/companyid-9194.cms).

The pool has been rated AAA (SO) by CARE. This guarantee has enabled [DHFL](http://timesofindia.indiatimes.com/topic/DHFL) to reduce the level of credit enhancement that would have otherwise been required for securitization, thereby releasing capital which can be redeployed to earn higher returns.

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 1st 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.

Press Release

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.

Press Release

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

For media queries, please contact: Irani Srivastava Roy at Irani.roy@imgc.com