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Reserve Bank of India (Small Finance Banks – Securitisation Transactions) Directions, 2025

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Introduction

Securitisation involves transactions where credit risk in assets are redistributed by repackaging them into tradeable securities with different risk profiles which may give investors of various classes access to exposures which they otherwise might be unable to access directly. While complicated and opaque securitisation structures could be undesirable from the point of view of financial stability, prudentially structured securitisation transactions can be an important facilitator in a well-functioning financial market in that it improves risk distribution and liquidity of lenders in originating fresh loan exposures.

Accordingly, in exercise of the powers conferred by Sections 21 and 35A of the Banking Regulation Act,1949, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest and in the interest of banking policy so to do, hereby, issues the Directions hereinafter specified.

Chapter I - Preliminary

A. Short title and commencement

1. These Directions shall be called the Reserve Bank of India (Small Finance Banks – Securitisation Transactions) Directions, 2025.

2. These Directions shall come into effect on the day these are placed on the official website of the Reserve Bank of India.

B. Applicability

3. These Directions shall be applicable to Small Finance Banks (hereinafter collectively referred to as 'banks' and individually as a 'bank').

   Provided that SFBs will be permitted to participate in securitization market **only** as originators and providers of associated credit enhancements and liquidity supports.

C. Definitions

4. For the purpose of these directions, the following definitions apply:

   (1) “bankruptcy remote" means the unlikelihood of an entity being subjected to voluntary or involuntary bankruptcy proceedings, including by the originator or the creditors to the originator;

(2) “clean-up call” means an option that permits the originator to call the underlying exposures or the securitisation exposures when the outstanding value of the underlying exposures falls below a pre-defined threshold, thereby extinguishing the remaining securitisation exposures of all parties;

(3) “credit enhancement” means a contractual arrangement in which an entity mitigates the credit risk associated with a securitisation exposure and, in substance, provides some degree of added protection to other parties to the transaction so as to mitigate the credit risk of their securitisation exposures;

(4) “early amortisation provision” means a mechanism that, once triggered, accelerates the reduction of the investor’s interest in underlying exposures of a securitisation structure and allows investors to be paid out prior to the originally stated maturity of the securitisation notes issued;

(5) “excess spread (or future margin income)” means the difference between the gross finance charge collections and other income received by the special purpose entity (SPE), and securitisation notes interest, servicing fees, charge-offs, and other senior SPE expenses.

(6) “exposure amount” of a securitisation exposure means the sum of the on-balance sheet amount of the exposure, or carrying value – which takes into account purchase discounts and writedowns/specific provisions the bank took on this securitisation exposure – and the off-balance sheet exposure amount, where applicable.

(7) "first loss facility" means the first level of financial support provided by the originator or a third party to improve the creditworthiness of the securitisation notes issued by the SPE such that the provider of the facility bears the part or all of the risks associated with the assets held by the SPE;

(8) “implicit support” means the protection arising when a bank provides support to a securitisation in excess of its predetermined contractual obligation;

(9) “interest-only strip (I/O)” means an on-balance sheet asset of the originator that represents a valuation of cash flows related to future margin income;

Provided that if the interest-only strip is subordinated, it shall serve the purpose of credit enhancement and shall be referred to as credit-enhancing interest-only strip.

(10) “Lenders” shall mean the following entities unless specifically mentioned otherwise:

(i) Scheduled Commercial Banks (excluding Regional Rural Banks);

(ii) All India Financial Institutions (NABARD, NHB, EXIM Bank, and SIDBI);

(iii) Small Finance Banks (as permitted under these directions); and,

(iv) All Non-Banking Financial Companies (NBFCs) including Housing Finance Companies (HFCs).

(11) “mortgage backed securities” mean securitisation notes issued by the special purpose entity against underlying exposures that are all secured by commercial or residential real estate mortgages;

(12) "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;

Explanation: Originator may not be the same lender which had initially sanctioned one or more of the exposures underlying a securitisation transaction since loans purchased from lenders can also be sold to SPEs for the purpose of securitisation.

(13) “overcollateralisation” means any form of credit enhancement by virtue of which underlying exposures are posted in value which is higher than the value of the securitisation notes;

(14) “replenishment” means the process of using the cash flows from the securitised assets to acquire more assets in the manner disclosed upfront in the prospectus of the scheme, which will continue for a pre-announced replenishment period, following which the securitisation structure switches to an amortising one;

Provided that assets purchased during the replenishment period shall be purchased from the same originator(s) of the assets underlying the securitisation notes already issued under the scheme.

(15) “residential mortgage backed securities (RMBS)” mean securitisation notes issued by the special purpose entity against underlying exposures that are all secured by residential mortgages;

(16) “re-securitisation exposure” means a securitisation exposure where at least one of the underlying exposures is a securitisation exposure;

(17) “standard assets” for the purpose of these directions shall mean exposures which are not classified as non-performing asset;

(18) “second loss facility” means a second level of financial support providing a second (or subsequent) tier of protection to the securitisation notes issued by the special purpose entity against potential losses not covered by the first loss facility, and is invoked only after the first loss facility has been drawn down and repudiated or exhausted, or the first loss provider is under insolvency or bankruptcy or liquidation;

(19) “securitisation” means a structure where a pool of assets are 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;

Provided that the pool containing a single asset eligible to be securitised is also permitted.

Provided further that a securitisation structure may have tranches with different maturities.

(20) “securitisation exposures” include but are not restricted to exposures to securitisation notes issued by the special purpose entity including asset-backed securities and mortgage-backed securities, credit enhancements, underwriting commitments, liquidity facilities, interest rate or currency swaps, credit derivatives and tranched cover;

Explanation: Reserve accounts, such as cash collateral accounts, which is earmarked to absorb credit losses arising from the securitisation and is recorded as an asset by the originator must also be treated as securitisation exposures.

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

(22) “senior tranche” means a tranche which is effectively backed or secured by a first claim on the entire amount of the assets in the underlying securitised pool;

Provided that where all tranches above the first-loss piece are rated, the most highly rated position would be treated as a senior tranche.

Provided that when there are several tranches that share the same rating, only the most senior tranche in the cash flow waterfall would be treated as senior (unless the only difference among them is the effective maturity).

Provided that when the different ratings of several senior tranches only result from a difference in maturity, all of these tranches should be treated as senior tranches.

(23) “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;

Explanation: Any reference to SPE in these directions would also refer to the trust settled or declared by the SPE as a part of the process of securitisation.

(24) “subordinate tranche” means any tranche that is junior to the senior tranche(s);

(25) “synthetic securitisation” means a structure where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of credit derivatives or credit guarantees that serve to hedge the credit risk of the portfolio which remains on the balance sheet of a bank;

Explanation: The above definition does not include the use of instruments permitted to banks for hedging under the current regulatory instructions.

(26) “tranche” means a contractually established segment of the credit risk associated with an exposure or a pool of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in another segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments;

Explanation: Securitisation notes issued by the SPE and credit enhancement facilities available shall be treated as tranches.

Chapter II - General requirements for securitisation

A. Assets eligible for securitisation

5. A bank shall not undertake the securitisation activities or assume securitisation exposures as mentioned below:

(1) Re-securitisation exposures;

(2) 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

(3) Synthetic securitisation; and

(4) 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;

Provided that loans with tenor up to 24 months extended to individuals for agricultural activities (as described in **Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2025**) where both interest and principal are due only on maturity and trade receivables with tenor up to 12 months discounted/purchased by banks from their borrowers shall be eligible for securitisation. However, only those loans/receivables will be eligible for securitisation where a borrower (in case of agricultural loans) /a drawee of the bill (in case of trade receivables) has fully repaid the entire amount of last two loans/receivables (one loan, in case of agricultural loans with maturity extending beyond one year) within 90 days of the due date. In case such assets are securitised, the investors in the securitisation notes issued

against them should be able to verify the compliance of the underlying asset with the above requirement.

6. Subject to the above, all other on-balance sheet exposures of originators, which are in the nature of loans and advances and are classified as Standard, are eligible as underlying assets in a securitisation transaction.

7. The originators of such exposures shall have satisfied the Minimum holding period (MHP) requirement as defined in Reserve Bank of India (Small Finance Banks – Transfer and Distribution of Credit Risk) Directions, 2025.
Provided that for commercial or residential real estate mortgages, MHP shall be counted from the date of full disbursement of the loan, or registration of security interest with Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), whichever is later.

8. The MHP will be applicable to individual loans in the underlying pool of securitised loans. MHP will not be applicable to loans referred to in the proviso to Paragraph 5.

9. The transactions undertaken in terms of these directions must not contravene the rights of underlying obligors. To ensure compliance with this stipulation, enabling clauses must be included in the contract between originator and servicing agent and all necessary consent from obligors (including from third parties), where necessary as per the respective contracts, should have been obtained.

B. Minimum Retention Requirement (MRR)

10. The MRR is primarily designed to ensure that the originators have a continuing stake in the performance of securitised assets so as to ensure that they carry out proper due diligence of loans to be securitised. The originators should adhere to the MRR as detailed below while securitising loans leading to issuance of securitisation notes, other than for residential mortgage backed securities:

(1) For underlying loans with original maturity of 24 months or less, the MRR shall be five per cent of the book value of the loans being securitised.

(2) For underlying loans with original maturity of more than 24 months as well as loans with bullet repayments, as mentioned in proviso to Paragraph 5, the MRR shall be 10 per cent of the book value of the loans being securitised.

11. In the case of residential mortgage backed securities, the MRR for the originator shall be five per cent of the book value of the loans being securitised, irrespective of the original maturity.

12. The MRR shall be retained by the originator as follows:

(1) Up to five per cent of the book value of loans being securitised:

(i) First loss facility, if available;

(ii) If first loss facility is not available, or where retention of the entire first loss facility amounts to less than 5 per cent, balance through retention of equity tranche;

(iii) Where retention of the entire first loss facility, if available, and equity tranche amounts to less than 5 per cent, balance pari passu in remaining tranches sold to investors.

(2) Greater than 5 per cent of the book value of loans being securitised:

(i) First loss facility, or equity tranche or any other tranche sold to investors, in any combination thereof.

Explanation: It is clarified that first loss facility for this purpose shall not include overcollateralization available, if any.

13. Investment in the Interest Only Strip representing the Excess Interest Spread/ Future Margin Income, whether or not subordinated, will not be counted towards the MRR.

14. MRR should not be reduced either through hedging of credit risk or selling or encumbering the retained interest.

(1) MRR has to be maintained by the originating bank itself and not by any of its group entities. The form of MRR should not change during the life of securitisation.

(2) The MRR as a percentage of unamortised principal should be maintained on an ongoing basis except for reduction of retained exposure due to repayment or through the absorption of losses. Specifically, in cases of securitisations featuring replenishment period, MRR should be maintained not only at the initiation of the securitisation but also at the end of the replenishment period.

15. For complying with the MRR under these guidelines, bank should ensure that proper documentation in accordance with law is made.

C. Origination Standards

16. Underwriting standards for exposures securitised should not be less stringent than those applied to exposures retained on the balance sheet of the originator. Where underwriting standards change between the loan origination and till all the claims associated with securitised note are paid-off, the originator should disclose to the entities having securitisation exposures the timing and purpose of such changes.

17. In cases of securitisation of exposures purchased by originator from other lenders, the requirements applicable for underwriting standards shall apply to the standards of due diligence process adopted by the originator which may include verification of sufficiency and consistency of loan origination process of the lender from whom the exposures were purchased by the originator.

D. Payment priorities and observability

18. To prevent investors being subjected to unexpected repayment profiles during the life of a securitisation, the priorities of payments for all liabilities in all circumstances should be clearly defined at the time of securitisation and appropriate legal comfort regarding their enforceability should be provided.

19. To help provide investors with full transparency over any changes to the cash flow waterfall, payment profile or priority of payments that might affect a securitisation, 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, with information in the investor report that clearly identifies the breach status in respect of expected cash flows to the note holders, the ability for the breach to be reversed and the consequences of the breach.

20. To ensure rights and interest of the securitisation note holders are protected, definitions, policies and remedies pertaining to the contours and caveats around the performance of the underlying loans must be suitably communicated. Further, the rights and control of the securitisation note holders must be documented to account for all circumstances, including insolvency of all entities

involved in securitisation, such as the originator SPE, etc. Full disclosure and supporting documentation regarding legal and financial risk factors must be made available to prospective and existing investors within a reasonable period of time, on an ongoing or on demand basis.

21. Securitisations featuring a replenishment period should include provisions for appropriate early amortisation events and/or triggers of termination of the replenishment period, including, notably:

(1) deterioration in the credit quality of the underlying exposures;

(2) a failure to acquire sufficient new underlying exposures of similar credit quality; and

(3) the occurrence of an insolvency-related event with regard to the originator(s).

22. In the event actions of associated institutional stakeholders (originator, SPE, servicing agent, credit enhancement provider and others) that are not prohibited in this framework, result in material alteration of the risk profile of the securitisation notes at any point, the originator shall ensure that same is adequately informed and disclosed to investors, credit rating agencies and other service providers within a maximum time frame of 14 calendar days.

E. Limit on Total Retained Exposures by Originators

23. The total exposure of an originator to the securitisation exposures belonging to a particular securitisation structure or scheme should not exceed 20 per cent of the total securitisation exposures created by such structure or scheme. However, the exposure of originators to credit enhancing interest only strip shall be excluded from this limit.

24. Credit exposure on account of interest rate swaps/currency swaps entered into with the SPE will be excluded from this limit.

25. The 20 per cent limit on total retained exposures will not be deemed to have been breached if it is exceeded due to amortisation of securitisation notes issued.

F. Issuance and Listing

26. The minimum ticket size for issuance of securitisation notes shall be ₹1 crore.

Explanation: Ticket size, for the purpose of these directions, refers to the size of investment by a single investor.

27. The listing of securitisation notes, especially in respect of certain product class, such as RMBS, and/or generally above a certain threshold is recommended, though not mandatory. In any case, any offer of securitisation notes to fifty or more persons in an issuance would be listed in terms of Securities and Exchange Board of India (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008 as amended from time to time.

G. Conditions to be satisfied by the special purpose entity

28. The SPE should meet the following criteria to enable the originator to apply the guidelines on capital adequacy and other aspects as prescribed in these directions with regard to the securitisation exposures assumed by it:

(1) Any transaction between the originator and the SPE should be strictly on arm's length basis.

(2) The SPE and the trustee should not resemble in name or imply any connection or relationship with the originator of the assets in its title or name.

(3) The originator should not have any ownership, proprietary or beneficial interest in the SPE except those specifically permitted under these directions. The originator shall not hold any share capital in the SPE.

(4) The originator should not have more than one representative, without veto power, on the board of the SPE provided the board has at least four members and independent directors are in majority.

(5) If the SPE is set up as a trust, then:

(i) The originator should not exercise control, directly or indirectly, over the SPE and the trustees, and shall not settle the trust deed, if any.

(ii) The originator shall not have any ownership, proprietary or beneficial interest in the trustees.

(iii) The SPE should be bankruptcy remote and non-discretionary.

(iv) The trust deed, if any, should lay down, in detail, the functions to be performed by the trustee, their rights and obligations as well as the rights and obligations of the investors in relation to the securitised assets. The

trust deed should not provide for any discretion to the trustee as to the manner of disposal and management or application of the trust property. In order to protect their interests, investors should be empowered in the trust deed to change the trustee at any point of time.

(v) The trustee should only perform trusteeship functions in relation to the SPE and should not undertake any other business with the SPE.

(vi) A copy of the trust deed, if any, and the accounts and statement of affairs of the SPE should be made available by the originator and/or other lenders, to the RBI, if required to do so.

(6) The originator shall not support the losses of the SPE except under the facilities explicitly permitted under these directions and shall also not be liable to meet the recurring expenses of the SPE.

(7) The SPE should make it clear to the investors in the securitization notes issued by it that these securitisation notes are not insured and do not represent deposit liabilities of the originator, servicer or trustees.

29. In cases where the originator has purchased loans from another lender, the provisions of Paragraph 28 shall apply to the lender from whom the originator has purchased the exposures, as well.

Provided that for the purpose of sub-paragraph (4) of Paragraph 28, only one of either the originator or the lender from whom loans were purchased by the originator, may have the representative on the board of the SPE.

H. Representations and Warranties

30. An originator that sells assets to SPE may make representations and warranties concerning those assets. The originator will hold capital against such representations and warranties if any of the following conditions are not satisfied:

(1) Any representation or warranty is provided only by way of a formal written agreement.

(2) The originator undertakes appropriate due diligence before providing or accepting any representation or warranty.

(3) The representation or warranty refers to an existing state of facts that is capable of being verified by the originator at the time the assets are sold.

(4) The representation or warranty is not open-ended and, in particular, does not relate to the future creditworthiness of the assets, the performance of the SPE and/or the securitisation notes the SPE issues.

(5) The exercise of a representation or warranty, requiring an originator to replace assets (or any parts of them) sold to a SPE, must be:

(i) undertaken within 120 days of the transfer of assets to the SPE; and

(ii) conducted on the same terms and conditions as the original sale.

(6) An originator that is required to pay damages for breach of representation or warranty can do so provided the agreement to pay damages meets the following conditions:

(i) the onus of proof for breach of representation or warranty remains at all times with the party so alleging;

(ii) the party alleging the breach serves a written notice of claim, specifying the basis for the claim; and

(iii) damages are limited to losses directly incurred as a result of the breach.

(7) An originator should notify RBI (Department of Supervision) of all instances where it has agreed to replace assets sold to SPE or pay damages arising out of any representation or warranty.

I. Accounting Provisions

31. Originators shall 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 gap of more than 30 days between transfer of the assets and the issuance of securitisation notes.

32. 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.

33. The following treatment shall be applicable in the case of unrealised gains arising out of sale of underlying assets to the SPE such as that associated with expected future margin income (represented by interest-only strips or otherwise):

(1) The unrealised gains should not be recognised in Profit and Loss account; instead the bank shall hold the unrealised profit under an accounting head styled as "*Unrealised Gain on Loan Transfer Transactions*".

(2) The profit may be recognised in Profit and Loss Account only when such unrealised gains associated with expected future margin income is redeemed in cash. However, if the unrealised gains associated with expected future margin income is credit enhancing (for example, in the form of credit enhancing interest-only strip), the balance in this account may be treated as a provision against potential losses incurred.

(3) In the case of amortising credit-enhancing interest-only strip, a bank would periodically receive in cash, only the amount which is left after absorbing losses, if any, supported by the credit-enhancing interest-only strip. On receipt, this amount may be credited to Profit and Loss account and the amount equivalent to the amortisation due may be written-off against the "Unrealised Gain on Loan Transfer Transactions" account bringing down the book value of the credit-enhancing interest-only strip in the bank's books.

(4) In the case of a non-amortising credit-enhancing interest-only strip, as and when the bank receives intimation of charging-off of losses by the SPE against the credit-enhancing interest-only strip, it may write-off equivalent amount against "Unrealised Gain on Loan Transfer Transactions" account and bring down the book value of the credit-enhancing interest-only strip in the bank's books. The amount received in final redemption value of the credit-enhancing interest-only strip received in cash may be taken to Profit and Loss account.

Chapter III - Simple, transparent and comparable (STC) securitisations

A. STC Securitisations- Criteria for regulatory capital purposes

34. Only securitisations that additionally satisfy all the criteria listed below fall within the scope of the STC framework. The said criteria are based on the prescriptions of the Basel Committee on Banking Supervision. Exposures to securitisations that are STC-compliant can be subject to the alternative capital treatment as determined by Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025.

A.1 Nature of Assets

35. The assets underlying the securitisation should be homogeneous credit claims or receivables eligible under Paragraphs 5 to 9. Credit claims or receivables should have contractually identified periodic payment streams relating to principal, interest, or principal and interest payments. Any referenced interest payments or discount rates should be based on an external benchmark.

36. For this purpose, the “homogeneity” criterion should be assessed taking into account the following principles:

(1) The nature of assets should be such that investors would not need to analyse and assess materially different legal and/or credit risk factors and risk profiles when carrying out risk analysis and due diligence checks of each asset.

(2) Homogeneity should be assessed on the basis of common risk drivers, including similar risk factors and risk profiles.

(3) Credit claims or receivables included in the securitisation should have standard obligations, in terms of rights to payments and/or income from assets and that result in a periodic and well-defined stream of payments to investors.

(4) Repayment of noteholders should mainly rely on the principal and interest proceeds from the securitised assets. Partial reliance on refinancing or resale of the asset securing the exposure may occur provided that refinancing is sufficiently distributed within the pool and the residual values on which the transaction relies are sufficiently low and that the reliance on refinancing is thus not substantial.

A.2 Asset performance history

37. In order to provide investors with sufficient information on an asset class to conduct appropriate due diligence and access to a sufficiently rich data set to enable a more accurate calculation of expected loss in different stress scenarios, verifiable loss performance data, such as delinquency and default data, should be available for credit claims and receivables with substantially similar risk characteristics to those being securitised, for a time period long enough to permit meaningful evaluation by investors.

38. Sources of and access to data and the basis for claiming similarity to credit claims or receivables being securitised should be clearly disclosed to all market participants.

39. The originator of the securitisation or the original lending bank of the exposures that are securitised, as the case may be, must have sufficient experience in originating exposures similar to those securitised. For capital purposes, investors must determine whether the performance history of the originator for substantially similar claims or receivables to those being securitised has been established for an "appropriately long period of time". This performance history must be no shorter than a period of seven years for non-retail exposures. For retail exposures, the minimum performance history is five years.

A.3 Payment status

40. Credit claims or receivables being transferred to the SPE may not, at the time of inclusion in the pool, include obligations that are in default or delinquent or obligations for which the originator, servicer and other parties with a fiduciary responsibility to the securitisation note holders are aware of evidence indicating a material increase in expected losses or of enforcement actions.

41. To ensure that the quality of the securitised credit claims and receivables are not affected by changes in underwriting standards, the originator should demonstrate to investors that any credit claims or receivables being transferred to the SPE have been originated in the ordinary course of the originator's business to materially non-deteriorating underwriting standards.

42. The originator should verify that the underlying credit claims or receivables meet the following conditions:

(1) the credit claims or receivables is not under the monitoring period as defined in defined in the Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2025;

(2) the obligor does not have a credit assessment by a credit rating agency or a credit score indicating a significant risk of default; and

(3) the credit claim or receivable is not subject to a dispute between the obligor and the originator.

43. The assessment of these conditions should be carried out by the originator no earlier than 45 days prior to the date on which the securitisation comes into effect. Additionally, at the time of this assessment, there should, to the best knowledge of the originator, be no evidence indicating likely deterioration in the performance status of the credit claim or receivable.

A.4 Consistency of underwriting

44. Underwriting standards should not be less stringent than those applied to credit claims and receivables retained on the balance sheet. In all circumstances, all credit claims or receivables must be originated in accordance with sound and prudent underwriting criteria based on an assessment that the obligor has the "ability and volition to make timely payments" on its obligations.

45. The originator of the securitisation is expected, where underlying credit claims or receivables have been acquired from third parties, to review the underwriting standards (i.e. to check their existence and assess their quality) of these third parties and to ascertain that they have assessed the obligors' "ability and volition to make timely payments on obligations".

A.5 Asset selection and transfer

46. While assets transferred to a securitisation will be subject to defined criteria as approved by the Board of the originator, the performance of the securitisation should not rely upon the ongoing selection of assets through active management on a discretionary basis of the securitisation's underlying portfolio.
Explanation: As long as they are not actively selected or otherwise cherry-picked on a discretionary basis, the addition of credit claims or receivables during the

replenishment periods or their substitution or repurchasing due to the breach of representations and warranties do not represent active portfolio management.

47. Credit claims or receivables transferred to a securitisation should satisfy clearly defined eligibility criteria. Credit claims or receivables transferred to a securitisation after the date on which securitisation becomes effective may not be actively selected, actively managed or otherwise cherrypicked on a discretionary basis.

48. The securitisation should be such that the underlying credit claims or receivables:

(1) are enforceable against the obligor and their enforceability is included in the representations and warranties of the originator;

(2) are beyond the reach of the seller, its creditors or liquidators and are not subject to material recharacterisation or clawback risks;

(3) are not effected through credit default swaps, derivatives or guarantees, but by a transfer of the credit claims or the receivables to the securitisation;

(4) demonstrate effective recourse to the ultimate obligation for the underlying credit claims or receivables and are not a securitisation of other securitisations; and

(5) for regulatory capital purposes, an independent third-party legal opinion must support the claim that the transfer of assets under the applicable laws comply with the above sub-paragraphs.

49. The originator should provide representations and warranties that the credit claims or receivables being transferred to the SPE are not subject to any condition or encumbrance that can be foreseen to adversely affect enforceability in respect of collections due.

50. To assist investors in conducting appropriate due diligence prior to investing in a new offering, sufficient loan-level data in accordance with applicable laws or, in the case of granular pools, summary stratification data on the relevant risk characteristics of the underlying pool should be available to potential investors before pricing of a securitisation.

A.6 Initial and ongoing data

51. To assist investors in conducting appropriate and ongoing monitoring of their investments' performance and so that investors that wish to purchase a securitisation in the secondary market have sufficient information to conduct appropriate due diligence, timely loan-level data in accordance with applicable laws or granular pool stratification data on the risk characteristics of the underlying pool and standardised investor reports should be readily available to current and potential investors at least quarterly throughout the life of the securitisation. Cut-off dates of the loan-level or granular pool stratification data should be aligned with those used for investor reporting.

52. To provide a level of assurance that the reporting of the underlying credit claims or receivables is accurate and that the underlying credit claims or receivables meet the eligibility requirements, the initial portfolio should be reviewed for conformity with the eligibility requirements by an appropriate legally accountable and independent third party.

    Explanation: The review should confirm that the credit claims or receivables transferred to the SPE meet the portfolio eligibility requirements. The review could, for example, be undertaken on a representative sample of the initial portfolio, with the application of a minimum confidence level. The verification report need not be provided but its results, including any material exceptions, should be disclosed in the initial offering documentation.

A.7 Redemption cash flows

53. To help ensure that the underlying credit claims or receivables do not need to be refinanced over a short period of time, there should not be a reliance on the sale or refinancing of the underlying credit claims or receivables in order to repay the liabilities of the SPE, unless the underlying pool of credit claims or receivables is sufficiently granular and has sufficiently distributed repayment profiles. Rights to receive income from the assets specified to support redemption payments should be considered as eligible credit claims or receivables in this regard.

A.8 Currency and interest rate asset and liability mismatches

54. To reduce the payment risk arising from the different interest rate and currency profiles of assets and liabilities and to improve investors' ability to model cash

flows, interest rate and foreign currency risks should be appropriately mitigated at all times, and if any hedging transaction is executed the transaction should be documented according to industry-standard master agreements. Only derivatives used for genuine hedging of asset and liability mismatches of interest rate and / or currency should be allowed.

(1) For capital purposes, the term “appropriately mitigated” should be understood as not necessarily requiring a completely perfect hedge. The appropriateness of the mitigation of interest rate and foreign currency through the life of the transaction must be demonstrated by making available to potential investors, in a timely and regular manner, quantitative information including the fraction of notional amounts that are hedged, as well as sensitivity analysis that illustrates the effectiveness of the hedge under extreme but plausible scenarios.

(2) If hedges are not performed through derivatives, then those risk-mitigating measures are only permitted if they are specifically created and used for the purpose of hedging an individual and specific risk, and not multiple risks at the same time (such as credit and interest rate risks). Non-derivative risk mitigation measures must be fully funded and available at all times.

A.9 Payment priorities and observability

55. Investor reports should contain information that allows investors to monitor the evolution over time of the indicators that are subject to triggers. Any triggers breached between payment dates should be disclosed to investors on a timely basis in accordance with the terms and conditions of all underlying transaction documents.

56. Following the occurrence of a performance-related trigger, an event of default or an acceleration event, the securitisation positions should be repaid in accordance with a sequential amortisation priority of payments, in order of tranche seniority, and there should not be provisions requiring immediate liquidation of the underlying assets at market value.

57. To assist investors in their ability to appropriately model the cash flow waterfall of the securitisation, the originator should make available to investors, both before pricing of the securitisation and on an ongoing basis, a liability cash flow

model or information on the cash flow provisions allowing appropriate modelling of the securitisation cash flow waterfall.

58. To ensure that debt forgiveness, loan moratoriums, payment holidays, restructurings and other asset performance remedies can be clearly identified, policies and procedures, definitions, remedies and actions relating to delinquency, default or restructuring of underlying debtors should be provided in clear and consistent terms, such that investors can clearly identify debt forgiveness, loan moratoriums, payment holidays, restructuring and other asset performance remedies on an ongoing basis.

A.10 Voting and enforcement rights

59. To help ensure clarity for note holders of their rights and ability to control and enforce on the underlying credit claims or receivables, upon insolvency of the originator, all voting and enforcement rights related to the credit claims or receivables should be transferred to the SPE. Investors' rights in the securitisation should be clearly defined in all circumstances, including the rights of senior versus junior note holders.

A.11 Documentation disclosure and legal review

60. To help investors to fully understand the terms, conditions, legal and commercial information prior to investing in a new offering and to ensure that this information is set out in a clear and effective manner for all programmes and offerings, sufficient initial offering and draft underlying documentation should be made available to investors (and readily available to potential investors on a continuous basis) within a reasonably sufficient period of time prior to pricing, or when legally permissible, such that the investor is provided with full disclosure of the legal and commercial information and comprehensive risk factors needed to make informed investment decisions.

    Explanation: For the purpose of this paragraph, initial offering documentation would typically mean draft offering circular, draft offering memorandum, draft offering document or draft prospectus, such as a "red herring" whereas draft underlying documentation would typically mean asset sale agreement, assignment, novation or transfer agreement; servicing, backup servicing, administration and cash management agreements; trust/management deed,

security deed, agency agreement, account bank agreement, guaranteed investment contract, incorporated terms or master trust framework or master definitions agreement as applicable; any relevant inter-creditor agreements, swap or derivative documentation, subordinated loan agreements, start-up loan agreements and liquidity facility agreements; and any other relevant underlying documentation, including legal opinions.

61. Final offering documents should be available from the closing date and all final underlying transaction documents shortly thereafter. These should be composed such that readers can readily find, understand and use relevant information.

A.12 Fiduciary and contractual responsibilities

62. To ensure that all the documentation of securitisation transactions has been subject to appropriate review prior to publication, the terms and documentation of the securitisation should be reviewed by an appropriately experienced third party legal practice, such as a legal counsel already instructed by one of the transaction parties. Investors should be notified in a timely fashion of any changes in such documents that have an impact on the structural risks in the securitisation.

63. To help ensure servicers have extensive workout expertise, thorough legal and collateral knowledge and a proven track record in loss mitigation, such parties should be able to demonstrate expertise in the servicing of the underlying credit claims or receivables, supported by a management team with extensive industry experience. The servicer should at all times act in accordance with reasonable and prudent standards.

64. Policies, procedures and risk management controls should be well documented and adhere to good market practices and relevant regulatory regimes. There should be strong systems and reporting capabilities in place. In assessing whether “strong systems and reporting capabilities are in place” for capital purposes, well documented policies, procedures and risk management controls, as well as strong systems and reporting capabilities, may be substantiated by a third-party review.

65. The party or parties with fiduciary responsibility should act on a timely basis in the best interests of the securitisation note holders, and both the initial offering

and all underlying documentation should contain provisions facilitating the timely resolution of conflicts between different classes of note holders by the trustees, to the extent permitted by applicable law.

66. The party or parties with fiduciary responsibility to the securitisation and to investors should be able to demonstrate sufficient skills and resources to comply with their duties of care in the administration of the SPE.

67. To increase the likelihood that those identified as having a fiduciary responsibility towards investors as well as the servicer execute their duties in full on a timely basis, remuneration should be such that these parties are incentivised and able to meet their responsibilities in full and on a timely basis.

A.13 Transparency to investors

68. To help provide full transparency to investors, assist investors in the conduct of their due diligence and to prevent investors being subject to unexpected disruptions in cash flow collections and servicing, the contractual obligations, duties and responsibilities of all key parties to the securitisation, both those with a fiduciary responsibility and of the ancillary service providers, should be defined clearly both in the initial offering and all underlying documentation.

Explanation: For the purpose of this paragraph, “initial offering” and “underlying transaction documentation” shall have the same meaning as in the explanation to the Paragraph 60 above.

69. Provisions should be documented for the replacement of servicers, bank account providers, derivatives counterparties and liquidity providers in the event of failure or non-performance or insolvency or other deterioration of creditworthiness of any such counterparty to the securitisation.

70. To enhance transparency and visibility over all receipts, payments and ledger entries at all times, the performance reports to investors should distinguish and report the securitisation’s income and disbursements, such as scheduled principal, redemption principal, scheduled interest, prepaid principal, past due interest and fees and charges, delinquent, defaulted and restructured amounts under debt forgiveness and payment holidays, including accurate accounting for amounts attributable to principal and interest deficiency ledgers.

A.14 Credit risk of underlying exposures

71. At the portfolio cut-off date (Date post which no credit claim or receivable transfer shall happen to SPE except against breach of representation and warranties as permitted under these directions) the underlying exposures have to meet the conditions under the Standardised Approach for credit risk, and after taking into account any eligible credit risk mitigation, for being assigned a risk weight equal to or smaller than:

(1) 40 per cent on a value-weighted average exposure basis for the portfolio where the exposures are loans secured by residential mortgages or fully guaranteed residential loans;

(2) 50 per cent on an individual exposure basis where the exposure is a loan secured by a commercial mortgage;

(3) 75 per cent on an individual exposure basis where the exposure is a retail exposure; or

(4) 100 per cent on an individual exposure basis for any other exposure.

A.15 Granularity of the pool

72. At the portfolio cut-off date, the aggregated value of all exposures to a single obligor shall not exceed one per cent of the aggregated outstanding exposure value of all exposures in the portfolio.

Provided that the applicable maximum concentration threshold could be increased to two per cent if the originator retains subordinated tranche(s) that form credit enhancements that are loss absorbing, and which cover at least the first 10 per cent of losses. These tranche(s) retained by the originator shall not be eligible for the STC capital treatment.

B. Disclosure and Prudential Oversight for STC Securitisations

73. The originator shall disclose to investors all necessary information at the transaction level to allow investors to determine whether the securitisation is STC compliant.

74. For securitisation exposures retained by the originator, where significant credit risk transfer in terms of the requirements of the Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025 have

been achieved by the originator, the determination of compliance with STC requirements shall be made by the originator.

75. STC criteria need to be met at all times. Checking the compliance with some of the criteria might only be necessary at origination (or at the time of initiating the exposure, in case of guarantees or liquidity facilities) of an STC securitisation.

(1) Notwithstanding, investors and holders of the securitisation positions are expected to take into account developments that may invalidate the previous compliance assessment, for example deficiencies in the frequency and content of the investor reports, in the alignment of interest, or changes in the transaction documentation at variance with relevant STC criteria.

76. In cases where the criteria refer to underlying, and the pool is dynamic, the compliance with the criteria will be subject to dynamic checks every time that assets are added to the pool. The criteria for the addition of assets shall be clearly described in relevant transaction documents.

77. RBI would verify the preferential regulatory capital treatment assignments made by the banks, including the originator, as part of the supervisory review. If it is discovered that a transaction does not satisfy the STC criteria for regulatory capital purposes, RBI would take appropriate supervisory action including *inter alia* additional capital under the Pillar 2 framework, and/or by denying preferential regulatory capital treatment for that specific transaction and potentially others as well.

Chapter IV - Provision of facilities supporting securitisation structures

A. General Conditions

78. Lenders may provide supporting facilities such as credit enhancement facilities, liquidity facilities, underwriting facilities and servicing facilities. Apart from lenders, since such facilities may also be provided by entities that are not lenders, entities providing such facilities are referred to in this chapter as “facility providers”. Such facility provider(s) must be regulated by at least one financial sector regulator.

79. The facilities, as above, provided by facility providers should satisfy the following conditions, in addition to the specific conditions applicable to each facility as prescribed in the remaining paragraphs of this Chapter:

(1) Provision of the facility should be structured in a manner to keep it distinct from other facilities and documented separately from any other facility provided by the facility provider. The nature, purpose, extent of the facility and all required standards of performance should be clearly specified in a written agreement to be executed at the time of originating the transaction and disclosed in the offer document.

(2) The facility is provided on an 'arm's length basis' on market terms and conditions and subjected to the facility provider’s normal credit approval and review process.

(3) Payment of any fee or other income for the facility is not subordinated or subject to deferral or waiver.

(4) The facility is limited to a specified amount and duration.

(5) The duration of the facility is limited to the earlier of the dates on which:

(i) all claims connected with the securitisation notes issued by the SPE are paid out; or

(ii) the facility provider's obligations in relation to such facility are otherwise terminated.

(6) There should not be any recourse to the facility provider beyond the fixed contractual obligations. In particular, the facility provider should not bear any recurring expenses of the securitisation.

(7) The facility provider has obtained legal opinion that the terms of agreement protect it from any liability to the investors in the securitisation or to the SPE / trustee, except in relation to its contractual obligations pursuant to the agreement governing provision of the facility.

(8) The SPE and/or investors in the securitisation notes issued by the SPE have the clear right to select an alternative party to provide the facility subject to compliance of instructions in this direction.

B. Credit Enhancement Facilities

80. Credit enhancement is the process of enhancing credit profile of a structured financial transaction through provision of additional security/financial support, for covering losses on securitised assets in adverse conditions. The enhancements can be broadly divided into two types viz. internal credit enhancement and external credit enhancement.

Explanation (1) A credit enhancement which, for the investors, creates exposure to entities other than the underlying borrowers is called the external credit enhancement. For instance, cash collaterals and first/second loss guarantees are external forms of credit enhancements.

Explanation (2) Investment in subordinated tranches, over-collateralisation, excess spreads, credit enhancing interest-only strips are internal forms of credit enhancements.

81. Credit enhancement facilities include all arrangements that could result in a facility provider absorbing losses of the investors in a securitisation transaction. Such facilities may be provided by both originators and third parties. The facility provider providing credit enhancement facilities should ensure that the following conditions are fulfilled failing which credit enhancement provider will be required to hold capital equal to the full value of the securitised assets:

(1) All conditions specified in Paragraphs 78 and 79.

(2) Credit enhancement facility should be provided only at the initiation of the securitisation transaction.

(3) The amount of credit enhancement extended at the initiation of the securitisation transaction should be available to the SPE during the entire life of the securitisation notes in respect of which such credit enhancement is

provided, subject to any resets of such credit enhancement specifically permitted under these directions.

(4) Any utilization / draw down of the credit enhancement should be immediately written-off by debit to the profit and loss account by facility provider.

C. Reset of credit enhancements

82. Resets can be applied to external forms of credit enhancements, which is in first or second loss position. The original amount of external credit enhancements provided at the time of initiation of securitisation transaction can be reset by the credit enhancement provider subject to the conditions enumerated below.

(1) At the time of reset, all the outstanding tranches of securitisation notes should be re-rated (other than equity tranches). The first reset of credit enhancement will not be permitted if the rating of any of the tranches has deteriorated vis-a-vis the original rating of these securitisation positions. Subsequent resets would not be permitted if the rating of any of the tranches has deteriorated vis-à-vis the rating at the time of previous reset.

(2) If reset is permissible in terms of (1) above, the amount of credit enhancement required for retaining the original or current outstanding rating, whichever is higher should be determined by the concerned rating agency for the first reset. Similarly, for subsequent resets, the amount of credit enhancement required for retaining the higher of the rating at the time of previous reset and current outstanding rating should be determined by the concerned rating agency.

Provided that only the rating agency, subject to its continued rating operations, which had rated the securitisation transaction initially shall re-rate it for the purpose of reset of credit enhancement. Enabling clauses and commercial terms must be made part of the initial contract to ensure the implementation of this regulatory advisory failing which credit enhancement reset cannot be executed.

(3) The reset of credit enhancement would be subject to the consent of the investors in the securitisation notes. The consent may either be explicitly obtained during every reset or the transactions documents may contain

general clauses providing implicit consent of the investors for rest of credit enhancement.

(4) The reset of credit enhancement should be provided for in the contractual terms of the transaction and the initial rating of the transaction should take into account the likelihood of resets. Such contractual clause should include clearly defined portfolio-level delinquency triggers, which, if met, should result in the credit enhancement resets not available or possible.

(5) In case such a contractual clause was not available originally, reset of credit enhancement may be carried out subject to the consent of all investors of outstanding securitisation notes.

(6) In structures where external credit enhancements exist providing first loss credit enhancement (FLCE) and second loss credit enhancement (SLCE), the reset may be carried out simultaneously between FLCE and SLCE in a proportion such that the reset maintains at least the outstanding rating [as envisaged in sub-paragraph (2) above] of SLCE.

(7) Reset of equity tranche is not allowed as it would tantamount to a reset of an internal credit enhancement.

83. For all securitisations other than residential mortgage backed-securitisations, at the time of first reset, at least 50 per cent of the total principal amount assigned at the time of initiation of the securitisation transaction must have been amortised. The subsequent resets may be carried out after the pool principal has amortised in steps of 10 per cent, i.e., up to at least 60 per cent, 70 per cent and 80 per cent of the original level. However, a minimum gap of six months should be maintained between successive resets.

84. For residential mortgage-backed securitisations, at the time of first reset, at least 25 per cent of the total principal amount assigned at the time of initiation of the securitisation transaction must have been amortised. The subsequent resets may be carried out at every 10 per cent (of the original level) further amortisation of the pool principal. A minimum gap of six months should be maintained between successive resets.

85. The excess credit enhancement can be released subject to the following conditions:

(1) The release of credit enhancement would be subject to a reserve floor as a percentage of the initial credit enhancement provided at the time of transaction, i.e., at any time, the level of credit enhancement available, following any reset shall not drop below the prescribed reserve floor. Thus, even if the required level of credit enhancement to maintain the ratings, as assessed by the credit rating agency during a reset, is lower than the reserve floor, the excess amount available for reset shall be computed as the difference between the available credit enhancement and the reserve floor.

(2) The stipulation of the floor may be based on the transaction structure, depending on asset class, the track record of the originator and other pool specific factors such as concentration of long-term contracts in a pool, and in no case should be less than:

(i) 30 per cent of the initial credit enhancement for securitisations other than residential mortgage backed-securitisations; and

(ii) 20 per cent of the initial credit enhancement for residential mortgage backed-securitisations.

(3) A maximum of 60 per cent of the credit enhancement in excess of that required to retain the credit rating of all the tranches as referred to in sub-paragraph (2) of Paragraph 82 assigned to them can be considered for release, at any point of time subject to fulfilling the reserve floor indicated at sub-paragraph (1) above.

(4) The reset should not lead to exposures retained by originators along with credit enhancements offered by them falling below the level of MRR prescribed in Paragraphs 10 to 15.

86. In order to facilitate a common understanding amongst stakeholders and to allow the market to understand the linkage between good pool performance and CE reset, credit rating agencies will disseminate information pertaining to CE reset via press release and would confirm that ratings will not be adversely affected by such reset.

D. Liquidity Facilities

87. A liquidity facility is provided to help smoothen the timing differences faced by the SPE between the receipt of cash flows from the underlying assets and the payments to be made to investors. A liquidity facility should meet all of the following conditions to guard against the possibility of the facility functioning as a form of credit enhancement and/ or credit support:

(1) All conditions specified in Paragraphs 78 and 79.

(2) The documentation for the facility must clearly define the circumstances under which the facility may or may not be drawn on.

(3) The facility should be capable of being drawn only where there is a sufficient level of non-defaulted assets to cover drawings, or the full amount of assets that may turn non-performing are covered by a substantial credit enhancement.

(4) The facility shall not be drawn for the purpose of:

(i) providing credit enhancement;

(ii) covering losses of the SPE;

(iii) serving as a permanent revolving funding, i.e., liquidity support should be an exception rather than the norm; and

(iv) covering any losses incurred in the underlying pool of exposures prior to a draw down.

(5) The liquidity facility should not be available for the following purposes:

(i) meeting recurring expenses of securitisation;

(ii) funding acquisition of additional assets by the SPE;

(iii) funding the final scheduled repayment of investors; and

(iv) funding breaches of warranties.

(6) Facility should be provided to SPE and not directly to the investors.

(7) When the liquidity facility has been drawn the facility provider shall have a priority of claim over the future cash flows from the underlying assets, and thus shall be senior to the senior tranche.

(8) The originator must not be liable to meet any shortfall in liquidity support provided by any independent third party.

88. If any of the conditions are not satisfied, a liquidity facility will be regarded as serving the economic purpose of credit enhancement. In such cases, the liquidity facility provided by a third party shall be treated as a credit enhancement.

89. Since the liquidity facility is meant to smoothen temporary cash flow mismatches, the facility shall remain drawn only for short periods, preferably not used for two consecutive repayments to investors. If the drawings under the facility are outstanding for more than 90 days, it should be classified as NPA and fully provided for.

E. Underwriting Facilities

90. An originator or a third-party service provider may act as an underwriter for the issue of securitisation notes by SPE and treat the facility as an underwriting facility for capital adequacy purposes subject to the following conditions:

(1) All conditions specified in Paragraphs 78 and 79 are satisfied.

(2) The underwriting is exercisable only when the SPE cannot issue securitisation notes into the market at a price equal to or above the benchmark predetermined in the underwriting agreement.

(3) The facility provider has the ability to withhold payment and to terminate the facility, if necessary, upon the occurrence of specified events (e.g. material adverse changes or defaults on assets above a specified level);

91. In case any of the above conditions are not satisfied, the facility will be considered as a credit enhancement.

92. An originator may underwrite only investment grade senior notes issued by the SPE. The holdings of securitisation notes devolved to the originator through underwriting would not attract provisions of Paragraph 23 provided they are sold to unrelated third parties within three-month period following the acquisition. For the period between acquisition and upto three months, the originator will maintain capital equal to as if the exposures were held on the books of the originator.

F. Servicing Facilities

93. A servicing facility provider administers or services the securitised assets. Hence, it should not have any obligation to support any losses incurred by the SPE, except to the extent contractually provided in the servicing facility agreement indemnifying the SPE from defaults, breaches, negligence or fraud by the servicing facility provider, and should be able to demonstrate this to the investors in the securitisation exposures. A facility provider performing the role of a service provider for a proprietary or a third-party securitisation transaction should ensure that the following conditions are fulfilled:

(1) All conditions specified in Paragraphs 78 and 79.

(2) The service provider should be under no obligation to remit funds to the SPE or investors until it has received funds generated from the underlying assets except where it is also the provider of an eligible liquidity facility.

(3) The service provider shall hold in trust, on behalf of the investors, the cash flows arising from the underlying and should avoid co-mingling of these cash flows with their own cash flows.

(4) The service provider should remit all the cashflows arising from the underlying loans forming part of the securitised pools to the SPE as per the agreed mechanism, irrespective of any retained interest in the securitisation transaction in other capacities.

94. Where any of the above conditions are not met, the service provider may be deemed as providing liquidity facility to the SPE or investors and treated accordingly for capital adequacy purpose.

Chapter V - Requirements to be met by a bank who is an investor in securitisation exposures

The provisions of this Chapter shall apply to a bank only to the extent of compliance with the MRR requirement.

A. Stress Testing

95. A bank should regularly perform its own stress tests appropriate to its securitisation positions. For this purpose, various factors which may be considered include, but are not limited to, rise in default rates in the underlying portfolios in a situation of economic downturn, rise in pre-payment rates due to fall in rate of interest or rise in income levels of the borrowers leading to early redemption of exposures, fall in rating of the credit enhancers resulting in fall in market value of securitisation notes and drying of liquidity of the securitisation notes resulting in higher prudent valuation adjustments. Based on the results of stress tests, additional capital shall be held to support any higher risk, if required.

B. Credit monitoring and valuation

96. A bank shall have Board approved policies detailing valuation of the securitisation notes in which they have invested. The policies should inter alia describe the models used for valuation, the assumptions underpinning the models, the policy regarding back-testing and stress testing the valuation model and its parameters etc. The Board approved valuation policies and the use of such policies in assigning valuation to the investment positions in securitisation notes by banks will be a part of supervisory review.

97. The counterparty for the investor in the securitisation notes would not be the SPE but the underlying assets in respect of which the cash flows are expected from the obligors.

98. A bank 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.

99. For this purpose, bank should establish formal procedures appropriate to their banking book and trading book and commensurate with the risk profile of their exposures in securitised positions. Where relevant, this shall include the exposure type, the percentage of loans more than 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure, collateral type and occupancy and frequency distribution of credit scores or other measures of credit worthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with bandwidths that facilitate adequate sensitivity analysis.

Chapter VI - Capital requirements for securitisation exposures and Disclosures Norms

A. Capital requirements for securitisation exposures

100. A bank shall 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. The bank shall be guided by Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025 on Capital requirements for securitisation exposures.

B. Disclosures

101. Wherever a third-party servicing agent service have been availed, the originator shall ensure robust and legally binding information sharing mechanisms are in place to comply with stipulated reporting requirements with requisite frequency and rigor. In such cases of obtaining data from third-party entities, originator must get information duly certified by the respective third-party auditors, preferably at a frequency of no more than a year.

B.1 Disclosures to be made in Servicer/Investor/Trustee Report

102. The originator(s) should disclose to investors the weighted average holding period of the assets securitised and the level of their MRR in the securitisation.

103. The originator(s) should ensure that prospective investors have readily available access to all materially relevant data on the credit quality and performance of the individual underlying exposures, cash flows and collateral supporting a securitisation exposure as well as such information that is necessary to conduct comprehensive and well-informed stress tests on the cash flows and collateral values supporting the underlying exposures.

104. The disclosure by an originator of its fulfilment of the MHP and MRR should be made available publicly and shall be appropriately documented; for instance, a reference to the retention commitment in the prospectus for securitisation notes issued under that securitisation programme would be considered appropriate.

(1) The disclosure should be made at origination of the transaction, and should be confirmed thereafter at a minimum half yearly (September and March), and at any point where the requirement is breached.

(2) The above periodical disclosures should be made separately for each securitisation transaction, throughout its life, in the servicer report, investor report, trustee report, or any similar document published.

105. The aforesaid disclosures shall be made in the format given in Annex I. These disclosures shall be made separately for each securitisation transaction throughout the life of the transaction.

B.2 Disclosures to be made in Notes to Accounts

106. A bank shall be guided by Reserve Bank of India (Small Finance Banks – Financial Statements: Presentation and Disclosures) Directions, for all disclosure-related requirements.

B.3 Reporting of Transactions to the Reserve Bank

107. The originator must also submit the details of the securitisation transactions undertaken, including the details of the securitisation notes issued, to the Reserve Bank on a quarterly basis. The format for the same shall be communicated separately and shall be effective from the date advised therein.

Chapter VII - Repeal and Other Provisions

A. Repeal and saving

108. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Securitisation Transactions as applicable to Small Finance Banks stand repealed, as communicated vide circular DOR.RRC.REC.302/33-01-010/2025-26 dated November 28, 2025. The Directions, instructions and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

109. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:

(1) any right, obligation or liability acquired, accrued, or incurred thereunder;

(2) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;

(3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

B. Application of other laws not barred

110. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations or directions, for the time being in force.

C. Interpretations

111. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary

clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

(Vaibhav Chaturvedi)
Chief General Manager

Annex I

Non-exhaustive* format for Disclosure Requirements in offer documents, servicer report, investor report, etc.

Name/Identification No. of securitisation transaction:

	Nature of disclosure		Details	Amount/ percentage/ years
1	Maturity characteristics of the underlying assets (on the date of disclosure)	(i)	Weighted average maturity of the underlying assets (in years)	
		(ii)	Maturity-wise distribution of underlying assets:	
			a) Percentage of assets maturing within one year	
			b) Percentage of assets maturing within one to three year	
			c) Percentage of assets maturing within three to five years	
			d) Percentage of assets maturing after five years	
2	Minimum Holding Period (MHP) of securitised assets	(i)	MHP required as per RBI guidelines (years/months)	
		(ii)	a) Weighted average holding period of securitised assets at the time of securitisation (years / months)	
			b) Minimum and maximum holding period of the securitised assets	
3	Minimum Retention Requirement (MRR) on the date of disclosure	(i)	MRR as per RBI guidelines as a percentage of book value of assets securitised and outstanding on the date of disclosure	
		(ii)	Actual retention as a percentage of book value of assets securitised and	

			outstanding on the date of disclosure	
		(iii)	Types of retained exposure constituting MRR in percentage of book value of assets securitised (percentage of book value of assets securitised and outstanding on the date of disclosure)	
			a) Credit Enhancement (i.e. whether investment in equity/subordinate tranches, first/second loss guarantees, cash collateral, overcollateralisation	
			b) Investment in senior tranches	
			c) Liquidity support	
			d) Any other (pl. specify)	
		(iv)	Breaches, if any, and reasons there for	
4	Credit quality of the underlying loans	(i)	Distribution of overdue loans (post securitisation)	
			a) Percentage of loans overdue up to 30 days	
			b) Percentage of loans overdue between 31-60 days	
			c) Percentage of loans overdue between 61-90 days	
			d) Percentage of loans overdue more than 90 days	
		(ii)	Details of tangible security available for the portfolio of underlying loans (vehicles, mortgages, etc.)	
			a) Security 1(to be named) (% loans covered)	
			b) Security 2…	

			c) Security 'n'	
		(iii)	Extent of security cover available for the underlying loans	
			a) Percentage of loans fully secured included in the pool (%)	
			b) Percentage of partly secured loans included in the pool (%)	
			c) Percentage of unsecured loans included in the pool (%)	
		(iv)	Rating-wise distribution of underlying loans (if these loans are rated)	
			a) Internal grade of the bank/external grade (highest quality internal grade may be indicated as 1)	
			1/AAA or equivalent	
			2	
			3	
			4…	
			N	
			b) Weighted average rating of the pool	
		(v)	Default rates of similar portfolios observed in the past	
			a) Average default rate per annum during last five years	
			b) Average default rate per annum during last year	
		(vi)	Upgradation/Recovery/Loss Rates of similar portfolios	
			a) Percentage of NPAs upgraded (average of the last five years)	

			b) Amount written-off as a percentage of NPAs in the beginning of the year (average of last five years)	
			c) Amount recovered during the year as a percentage of incremental NPAs during the year (average of last five year)	
		(vii)	Frequency distribution of LTV ratios, in case of housing loans and commercial real estate loans)	
			a) Percentage of loans with LTV ratio less than 60%	
			b) Percentage of loans with LTV ratio between 60-75%	
			c) Percentage of loans with LTV ratio greater than 75%	
			d) Weighted average LTV ratio of the underlying loans (%)	
		(viii)	*Frequency distribution of Debt-to-Income (DTI) ratios, as applicable and/or available*	
			a) Percentage of loans with DTI ratio less than 60%	
			b) Percentage of loans with DTI ratio between 60-75%	
			c) Percentage of loans with DTI ratio greater than 75%	
			d) Weighted average DTI ratio of the underlying loans (%)	
		(ix)	*Prepayment Rates*	
			a) Prepayment rate observed in the current portfolio	
			b) Prepayment rate observed of similar portfolio in the past	
5	Other characteristics of the loan pool	(i)	Industry-wise breakup of the loans in case of mixed pools (%)	

			Industry 1	
			Industry 2	
			Industry 3…	
			Industry n	
		(ii)	Geographical distribution of loan pools (statewise) (%)	
			State 1	
			State 2	
			State 3	
			State 4	

* The above format should be considered as a baseline disclosure. Based on the product characteristics and market expectation, adequate disclosure, in addition to items mentioned above, must be made to reflect the true picture of securitised pools at all times.