



Rating Criteria for Securitization Transactions

I. Introduction And Framework Overview

ACER Credit Rating Private Limited (ACER), a SEBI-registered credit rating agency, is committed to delivering independent and transparent opinions on issuer and credit ratings. ACER credit insights aim to empower investors, lenders, and businesses with opinions on ratings. With a clear vision to support India's economic growth story, ACER upholds the highest ethical and analytical standards, combining deep domain expertise, advanced analytics, and rigorous processes to ensure every rating is objective and insightful.

The Company reserves the right to amend this policy from time to time in accordance with the applicable regulations, circulars, and directives issued by the Securities and Exchange Board of India. This rating criteria will be reviewed annually.

This comprehensive policy document establishes the analytical framework, principles, procedures, and governance standards for assigning and monitoring credit ratings to securitisation transactions originated in the Indian financial system.

The primary objective of a securitisation rating is to provide the agency's forward-looking, independent opinion on the relative likelihood that investors will receive timely and ultimate payment of principal and interest in accordance with the transaction documentation, considering both expected and stressed scenarios.

Securitisation is a measure to enable financial institutions to convert illiquid loan receivables into tradable securities. By effective analysis of the origination of pools of such illiquid loans, securitisation promotes efficiency in capital markets and expands avenues for raising funds. Pools will be analysed for losses, and their timing and both will be factored into the ratings. The rating will also factor the structural protections, such as payment waterfall, trigger mechanism and liquidity facility, as mentioned in the transaction document. Analysis of credit risk would encompass portfolio-level risk, pool-specific risk, macroeconomic risk and originator risk. Further, the legal, counterparty and market risk would also be studied for any such securitisation transactions.

II. Understanding Securitisation

Securitisation is the process under which a pool of financial assets is transferred to a bankruptcy-remote Special Purpose Vehicle (SPV) in exchange for upfront cash consideration. The future cash flows generated from these assets are subsequently used to service securities issued by the SPV. Unlike issuer ratings and credit ratings, which are based on balance sheet strength, securitisation ratings are based on cash-flow analysis.

Typically, securitisation involves two sequential stages:

1. **Asset Transfer Stage** – The originator sells a pool of receivables to an SPV. This initial transfer is commonly executed as a Direct Assignment (DA) transaction.



2. **Security Issuance Stage** – The SPV converts the receivables into marketable instruments and issues Pass-Through Certificates (PTCs) to investors, who are entitled to the underlying cash flows.

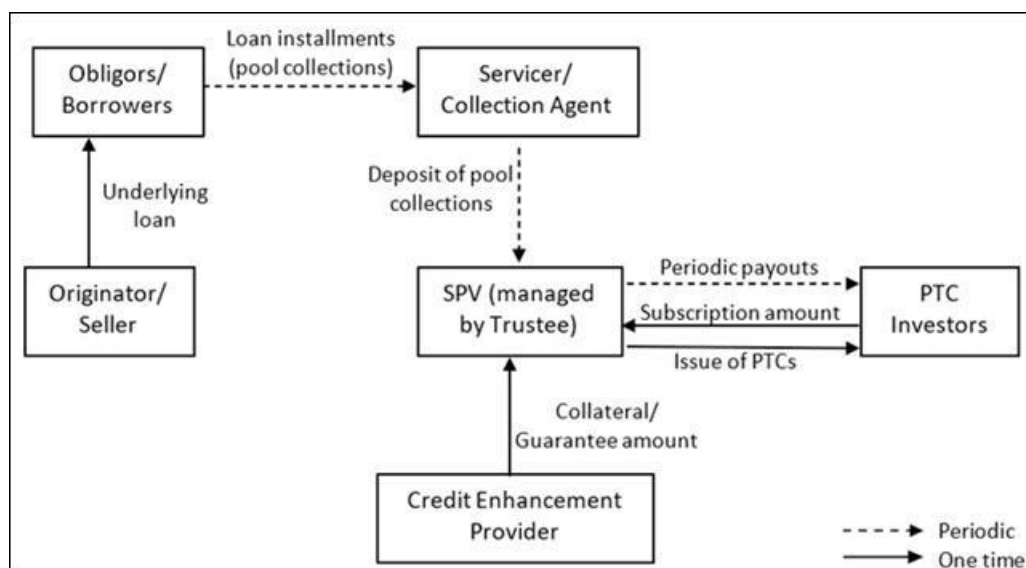
The SPV is normally constituted as a trust and is administered by an independent trustee. Investors subscribe to PTCs issued by the trust, which represent beneficial ownership in the receivable pool. The servicer, usually the originator, is responsible for collecting repayments from borrowers and remitting collections into the trust account. Investor payouts are made according to a predefined waterfall mechanism. To protect investors against cash-flow disruptions, credit enhancement (CE) may or may not be provided to the structure.

III. Some Definitions

Given below are some definitions to better understand the securitisation flow.

- **Originator/ seller**- It sells the pool of loans to the special purpose vehicle (SPV) and receives upfront consideration. It transfers servicing rights to the Servicer.
- **Obligor/ borrowers**- These are individuals or businesses who have taken loans, and they repay loan installments to the servicer.
- **Collection agent**- It collects the instalments from the borrowers and deposits them in a SPV account.
- **Special Purpose Vehicle (SPV)**- It is a bankruptcy remote entity created for securitisation. It issues pass-through certificates to investors and issues them periodic payouts from collections.
- **Pass Through Certificate (PTC) investors**- they subscribe to PTCs issued by the SPV. It pays the subscription amount upfront to the SPV and receives periodic payouts based on borrower collections.
- **Credit Enhancement**- It covers the shortfall in collections to ensure timely payouts. This may accordingly be factored into the credit rating of the securitised instrument.

The framework of a standard transaction generally involves the transfer of a diversified asset pool. It is comprised of either secured debt (such as residential mortgages, automotive, or equipment loans) or unsecured credit (including microfinance and personal loans), to a SPV. This SPV, typically structured as a trust and overseen by an independent trustee, acquires the portfolio at a designated par or premium value. To fund this acquisition, the trust issues PTCs to investors, granting them a beneficial interest in the cash flows generated by the underlying receivables. While the trust holds the assets, a designated Servicer, usually the original lender, manages the day-to-day collection from borrowers. These receipts are channelled into the trust's accounts, where the trustee distributes them to certificate holders according to a predefined payment hierarchy (waterfall). Additionally, the structure incorporates credit enhancement mechanisms to act as a financial buffer against potential defaults or liquidity gaps within the asset pool.



IV. Scope of the Policy

This policy applies to the following securitisation transaction structures:

A. Asset-Backed Securitisation (ABS)

ABS transactions involve the securitisation of pools of retail and commercial loan receivables, typically collateralised by physical assets or personal security. ABS is a structured finance product in which a pool of underlying financial assets is packaged together and converted into tradable securities. These securities are then sold to investors, with repayment linked to the cash flows generated by the underlying assets. The covered asset classes include:

1. **Auto Loans:** Secured two-wheeler, passenger vehicle, and commercial vehicle loans.
2. **Consumer Durable Loans:** Credit facilities for televisions, kitchen appliances, furniture, and similar retail goods.
3. **Equipment Loans:** Financing of construction equipment, agricultural machinery, and industrial equipment.
4. **MSME and Small Business Loans:** Secured credit facilities to small and medium enterprises.
5. **Gold Loans:** Loans secured against gold bullion or jewellery.
6. **Lease Receivables:** Securitisation of equipment lease payments.

B. Mortgage-Backed Securitisation (MBS)

MBS is a type of asset-backed securitisation where the underlying pool of assets consists of mortgage loans. These loans, residential or commercial, are bundled together and converted into tradable securities, with investors receiving payments derived from the mortgage borrowers' principal and interest repayments. Covered mortgage types include:



1. **Residential Housing Loans:** includes loans for the purchase of residential property.
2. **Loan Against Property (LAP):** Secured loans, including reverse mortgage, where property serves as collateral without an underlying property purchase.
3. **Commercial Property Loans:** Mortgages on commercial real estate, retail spaces, and office buildings.
4. **Mixed-Use Mortgages:** Loans backed by properties with residential and commercial components.

C. Unsecured Loan Securitisation

Unsecured loan securitisations involve pools of unsecured consumer and small business loans, where credit quality depends primarily on obligor repayment capacity rather than collateral recovery. These typically carry a higher risk than the above two categories. Some examples of these unsecured loans include:

1. **Unsecured Personal Loans:** General-purpose consumer loans from retail lenders and NBFCs.
2. **Digital Loans:** Microloans originated through digital platforms with limited borrower documentation.
3. **Microfinance Loans:** Small-ticket unsecured loans to economically disadvantaged borrowers.
4. **Unsecured MSME Loans:** Business loans to small enterprises without collateral security.
5. **Salary Advance Loans:** Short-term loans to salaried individuals.
6. **Professional Loans:** Credit facilities to medical, engineering, and other skilled professionals.

The relative risk of the above loans is evaluated on the basis of the underlying asset class and is accordingly factored into the ratings.

D. Direct Assignment Transactions

The Agency may extend its analytical coverage by offering lifetime loss estimates or credit opinions in cases where loan pools are directly assigned, rather than routed through formal securitisation structures. This approach is particularly relevant when transactions involve single assets or single obligors, where a securitisation framework may not be necessary or efficient. By applying rigorous credit assessment methodologies, the agency ensures that investors and stakeholders receive reliable insights into expected performance, default probabilities, and recovery prospects, thereby supporting informed decision-making.

V. Risk Assessment Framework

Credit risk essentially captures the probability that borrowers may fail to meet their repayment obligations, arising from stress, behavioural tendencies, or vulnerabilities inherent to specific asset classes. Within this framework, ACER assesses the likelihood that investors will receive timely and complete payouts in line with contractual terms. Its evaluation of asset-backed securities (ABS) and mortgage-backed securities (MBS) transactions is anchored in a structured examination of critical risk dimensions, ensuring that both performance expectations and potential downside scenarios are



considered. ACER's analysis of ABS and MBS transactions is built around the following key risk dimensions:

A. Originator / Servicer Operations Analysis

ACER's rating methodology incorporates both quantitative and qualitative parameters. Evaluation of the originator and servicer operations is a key qualitative assessment factor. ACER reviews the sourcing model (direct sourcing or through Direct Selling Agents), underwriting standards, credit appraisal framework, sanctioning authority, approval process, and pre-disbursement and post-disbursement documentation controls.

In Indian ABS and MBS transactions, the originator typically also performs the role of servicer. Accordingly, ACER places significant emphasis on the loan servicing framework, including collection mechanisms, monitoring systems, delinquency management practices, and recovery processes, particularly for overdue accounts.

In addition, ACER evaluates the management quality, depth of experience in the relevant asset class, business growth trajectory, strategic direction, market position, geographical reach, and overall financial strength of the originator. Originator liquidity is also assessed, as strong liquidity provides additional comfort to investors in the event of temporary collection shortfalls.

The ACER compares the originator's portfolio performance against peer originators in the same asset class, industry benchmarks, and historical performance trends to identify deterioration or improvement, and macroeconomic conditions during the observation period to contextualise volatility.

B. Portfolio Performance Assessment

This includes both dynamic and static analyses.

Dynamic Pool Analysis focuses on:

- Delinquency trends measured through Days-Past-Due (DPD) buckets (Current 30+, 90+, 180+ DPD as percentage of outstanding)- High proportions of accounts in early DPD buckets may indicate stronger portfolio quality, whereas elevated 90+ or 180+ DPD levels may signal stress.
- NPA movement and loss emergence analysis
- Collection efficiency metrics
- Recovery rates (as a percentage of write-offs) and recovery lags (time between write-off and final recovery).
- Portfolio health assessment, including but not limited to changing portfolio trends, seasonality, early warning indicators that capture early stress, etc.

Static Pool Analysis (SPA) evaluates the performance of loan cohorts originated during a fixed time period. Since securitised pools are static by nature, historical static-pool behaviour provides a reliable basis for projecting future performance. Using this analysis, ACER can estimate-



- Expected lifetime losses
- Loss volatility and dispersion
- Default timing patterns
- Recovery severity

ACER, amongst other parameters, may track the lifetime loss rate, which is analysed on the basis of initial balance, collections, write-offs, prepayments and final losses.

However, there are some inherent limitations to the static pool analysis-

1. Limited historical depth: If the agency has less than two years of history, SPA provides a limited empirical foundation.
2. Data quality: There may be chances of errors in collection tracking or write-off accounting that may limit SPA.
3. Origination practice changes: If underwriting has tightened, historical cohorts may not predict future performance.
4. Economic cycle bias: If the observation period was benign, losses may spike in downturns or may be subject to economic cycles.

Where SPA limitations exist, the ACER may make some adjustments, such as:

1. Industry benchmarks from published research and peer originators
2. Peer comparison: Comparing the originator's SPA to peer SPA in the same asset class.
3. Stress multipliers: Conservative uplift to historical losses to account for uncertainty.

C. Pool-Specific Analysis

Key Pool Characteristics	Analytical Approach/Remarks
Asset class and type	dit risk and anticipated collection deficits vary significantly across asset ses, such as mortgages, vehicle financing, gold loans, or unsecured sonal credit. Generally, secured assets like housing or gold are categorized ower-risk, whereas credit cards and consumer durables occupy her-risk brackets. Ratings also account for whether the collateral is new, -owned, or refinanced.
Geographical distribution and state development parameters	luates the pool's sensitivity to geographic concentration. Heavy clustering pecific states or regions can increase vulnerability to localized economic vnturns or developmental shifts, impacting overall pool performance.
Loan-to-Value Ratio (LTV)	r ratio is a critical metric for pool evaluation. Lower LTV ratios are viewed itively as they indicate a substantial equity stake by the borrower, ucing the likelihood of default.



Demographic and Borrower profile	lyse how diverse borrower types influence repayment behaviours. Such salaried individuals versus the self-employed, or First Time Buyers (FTB)/First Time Users (FTU) versus established fleet operators.
Granularity and Obligor distribution	h granularity (a wide distribution of individual obligors) protects the pool n being disproportionately affected by a few defaults. Conversely, concentrated pools may face heightened stress.
Loan Seasoning	ensive seasoning is typically a strength, as historical performance often predicts future stability. Longer track records also mitigate fraud risk, as the borrower has demonstrated a commitment to repayment over time.
Initial Maturity (Tenor)	tfolios characterized by a high frequency of long-duration contracts are n associated with elevated credit risk profiles.
Delinquency ageing	pool is scrutinized based on the volume of accounts overdue by 30, 60, 90+ days, with expectations adjusted according to the specific asset class involved.
Principal balance (Loan amount)	y distribution of the pool in terms of loan amount may be studied and incorporated into the rating as per the risk profile. However, it has to be studied along with the historical data of the particular originator.
Interest rate	luates the pool's sensitivity to interest rates. The analysis considers the environment at the time of the loan's inception as well as any subsequent fluctuations that may impact the borrower's ability to pay.

The securitised pool is examined in detail with respect to:

D. Pool vs Portfolio Comparison

Since the securitised pool is carved out of the broader portfolio, ACER assesses whether the pool is expected to outperform or underperform the parent portfolio. Variations in geography, LTV, tenure, or borrower segments are analysed, and appropriate stress multipliers are applied if the pool shows weaker characteristics.

As the pool is carved out of the total portfolio. It is necessary to understand that the pool is likely to perform similarly, better or worse than the portfolio. Accordingly, the risk multiplier is applied to the base case scenario, which is based on the portfolio performance. In the pool v/s portfolio analysis, we compare the pool characteristics with the portfolio characteristics and benchmark it with the performance measures like 90+dpd, 180+ dpd, etc. If the pool has a higher proportion of contracts in the segment where the performance is weaker, an additional stress is applied.

Consider a sample pool v/s portfolio analysis for geographical distribution as follows -

States	Pool (%)	90+dpd	Portfolio (%)
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Kerala	18%	1.00%	25%
Uttar Pradesh	13%	1.50%	10%
Karnataka	20%	2.00%	15%
Maharashtra	25%	0.50%	40%
Odisha	24%	2.50%	10%
Total	100%	1.15%	100%

In the above example, the pool is expected to perform worse than the portfolio since the pool has a higher proportion of contracts from Karnataka and Odisha, which has higher 90+ dpd in the portfolio. Similar analysis is done for other key pool characteristics like LTV, tenure, etc., and a suitable stress factor or risk multiplier is then applied.

VI. Credit Risk Assessment

The credit risk assessment includes the derivation of base loss assumption from studying static pool lifetime losses, understanding dynamic portfolio delinquency trends, pool versus portfolio risk adjustment, asset-class specific benchmarks, and evaluating underwriting by originator, amongst other factors.

VII. Market Risk

Market risk primarily includes the following components:

- 1. Macro-Economic and Regulatory Risk:** Macroeconomic conditions may affect borrower repayment capacity, asset performance, and servicer operations, thereby impacting pool collections and investor payouts. Regulatory changes may also influence the structure, performance, or eligibility of securitisation transactions. ACER factors in these risks while assessing pool performance and sustainability.
- 2. Prepayment Risk:** Prepayments may affect transaction cash flows depending on the securitisation structure. For instance, in premium structures, higher prepayments may result in premium losses requiring support from credit enhancement, while in par structures, they may reduce excess interest spread (EIS), although they may also lower credit risk. ACER applies appropriate stress assumptions for prepayment risk based on the historical prepayment behaviour of the portfolio and the characteristics of the underlying asset class.
- 3. Interest Rate Risk:** Interest rate risk may arise from mismatches between cash inflows and outflows due to fixed versus floating rate structures or differing benchmark rates for inflows and payouts. ACER applies suitable stress factors to account for such risks, which are typically more pronounced in mortgage-backed securitisation (MBS) transactions.



VIII. Counterparty Risk

Counterparty risk primarily includes the following elements:

1. **Servicer / Collection Agent Risk:** Servicer risk relates to the ability of the servicer to continue servicing the pool throughout the transaction tenure. In the event of servicer insolvency, collections may be adversely affected. Since the originator generally acts as a servicer in India, ACER evaluates the servicer's experience in the asset class, management quality, collection and follow-up processes, MIS quality, credit profile, and availability of a backup servicer, if any.
2. **Commingling Risk:** Commingling risk arises from the time lag between borrower collections and their transfer to the designated collection account. If the servicer becomes insolvent during this period, collections may be exposed to loss. ACER typically considers the short-term credit rating of the servicer and assesses the adequacy of ring-fencing mechanisms and payment waterfalls to mitigate this risk.
3. **Trustee Risk:** The trustee plays a critical role in ensuring adherence to the transaction structure and enforcement of contractual obligations. The trustee is responsible for monitoring compliance with the defined waterfall mechanism and safeguarding investor interests. ACER evaluates the trustee's experience, reputation, and track record. In PTC transactions, timely and accurate monthly payout reporting by the trustee is also an important consideration.
4. **Other Counterparty Risks:** Securitisation transactions may involve additional counterparties such as collection account banks or guarantee providers. Any failure by these parties to perform their contractual obligations may affect investor payouts. ACER assesses the credit quality and reliability of all material counterparties, such as cash collateral providers, interest rate swap providers, liquidity facility provider etc.

IX. Legal Risk and Pool Information Risk

Legal risk is a critical consideration in securitisation transactions, as the transfer of receivables must qualify as a "true sale" under applicable laws. This ensures that the assets are bankruptcy-remote from the originator and that investor rights to cash flows and credit enhancement remain unaffected in the event of originator insolvency. ACER relies on independent legal opinions to confirm true-sale compliance.

Given the importance of pool data accuracy, ACER requires an external auditor's certificate confirming the correctness and completeness of the pool information provided by the originator.

X. Cash Flow Analysis and Credit Enhancement

Based on the assessment of the above factors and the transaction's waterfall structure, ACER develops a customised cash flow model for each securitisation. The base-case scenario is derived from historical performance and other relevant considerations. Stress assumptions are then applied in line with the targeted rating level, performance volatility, and concentration risks. Stressed pool cash flows are



compared against investor payout obligations to determine the adequacy of credit enhancement, including first-loss and second-loss facilities.

A typical securitisation includes PTCs or Notes, a pre-defined priority sequence for distributing collections in line with the waterfall mechanism, credit enhancement such as first-loss protection, subordination, if any, other triggers and covenants and liquidity facility to cover mismatches in cash flow timings. Internal credit enhancement may include excess interest spread (EIS), over-collateralisation (OC), etc., and external credit enhancement may include cash collateral (such as Fixed deposits pledged as security), contractual guarantees, etc. ACER may consider cash flow modelling of such transactions; the models to include collections, defaults and recoveries, prepayments, waterfall, liquidity funding, triggers and maturity amongst others.

ACER also ensures compliance with applicable RBI master directions, guidelines, and notifications on securitisation, as amended from time to time, to confirm pool eligibility.

XI. Regulatory Requirements Considered

Minimum Holding Period (MHP): Loans can be securitised only after completion of the prescribed MHP from the date of registration of the underlying security interest:

- Three months for loans with a tenor of up to two years
- Six months for loans with tenor exceeding two years and up to five years

Minimum Retention Requirement (MRR): MRR ensures that originators retain a continuing economic interest in the securitised assets:

- 5% of book value for loans with original maturity of 24 months or less
- 10% of book value for loans with original maturity exceeding 24 months and for loans with bullet repayments
- 5% of book value for residential mortgage-backed securities

XII. Credit Enhancement Evaluation

Credit enhancement absorbs expected losses and timing mismatches:

Internal Enhancement:

1. Excess Interest Spread (EIS): The spread between asset yield and PTC coupon rates. EIS is trapped in a reserve account until the investor principal is repaid, providing first-loss protection
2. Subordination: Junior tranches absorb losses before senior tranches; subordination percentage reflects expected loss coverage
3. Over-Collateralisation (OC): Assets exceed liabilities; the OC percentage provides a loss cushion
4. Reserve Accounts: Cash accounts pre-funded from issuance proceeds or collections

External Enhancement:



1. Cash Collateral: Fixed deposits pledged as security.
2. Corporate or Bank Guarantees: Contractual guarantees from credit-worthy institutions
3. Insurance: Policies covering specific risks (e.g., lender's mortgage insurance)
4. Liquidity Facilities: Committed funding for timing mismatches (not loss protection)

The ACER assesses whether enhancement is sufficient to:

1. Absorb stressed losses at the target rating level
2. Cover timing mismatches between collections and distributions
3. Maintain enhanced rating through transaction maturity
4. Comply with RBI minimum retention requirements

XIII. Surveillance Process

Direct Assignment (DA) Transactions

For DA transactions, surveillance is not applicable because the rating exercise is limited to a one-time loss estimate.

Pass-Through Certificate (PTC) Transactions

- **Monthly Monitoring:** Trustees provide monthly payout reports detailing collections, payouts, prepayments, credit enhancement utilisation, outstanding pool balance, and delinquency status. ACER reviews these reports to assess pool performance and initiates rating actions if material shortfalls or credit enhancement usage are observed.
- **Quarterly Reporting:** As per regulatory requirements, ACER publishes quarterly performance reports on its website, covering transaction details, rating actions, rating transitions, outstanding ratings, and originator-wise pool performance.
- **Annual Surveillance:** Ratings assigned to PTC transactions are valid for twelve months and are mandatorily reviewed before expiry. ACER conducts annual surveillance based on trustee-provided payout data and overall transaction performance.

XIV. Rating Disclosures

ACER emphasises that securitisation ratings should not be considered as an investment recommendation. Also, in line with the regulatory guidelines, ACER may disclose the base and stress loss rates, prepayment rates, recovery rates, credit enhancements, if any, key risks-market, legal, counterparty, originator, other risks. Other points may include disclosures on data quality, governance and conflict of interest.

XV. Conclusion



This methodology reflects ACER's structured, risk-focused approach to evaluating securitisation transactions, combining quantitative analysis, qualitative assessment, regulatory compliance, and ongoing surveillance to ensure robust and transparent credit opinions.