INDIAN SECURITISATION FOUNDATION

November 23, 2026

To
Smt. Nirmala Sitaraman
Hon'ble Finance Minister
Ministry of Finance
Government of India
fmo@nic.in

Sub: Representation for Promoting Affordable Housing Finance: Residential Mortgage-backed Securities Market as a catalyst

Dear Ma'am,

On behalf of the Indian Securitisation Foundation (ISF), a not-for-profit entity representing the securitisation industry in India, we submit our representation for regulatory amendments/ clarifications for accelerating growth of Residential Mortgage-backed Securities (RMBS) Market in India. RMBS is seen as the way to make housing finance affordable, thereby promoting the cause of affordable housing.

ISF was incorporated with the objective of promoting and representing the industry to government, regulators, the public, investors and others who have an interest or potential interest, both, in India and overseas, regarding the benefits of securitisation in India and aspects of the securitisation industry. A detailed profile of ISF forms a part of the enclosures as **Annexure II**.

Our representation on the matter has been enclosed with this letter as **Annexure I**. A copy of the representation has also been shared with the National Housing Bank of India.

Should you need any further clarification, we would be glad to provide the same. In case there is a discussion required on the matter, we will be happy to meet you or any other official who may be entrusted with the matter. Should there be a need to connect back, kindly feel free to get back on vinita@vinodkothari.com or phone no +91 7666320980.

We are grateful for your attention.

For Indian Securitisation Foundation

VINITA VENUGOPAL NAIR

Digitally signed by VINITA VENUGOPAL NAIR
Date: 2026.11.23 13:52:34 +05'30'

Vinita Nair
Director
DIN: 08067063

INDIAN SECURITISATION FOUNDATION

Annexure I: Representation for Accelerating growth of Residential Mortgage-backed Securities Market in India

Problem Statement

- Affordable housing is an unquestioned policy objective, in fact, a very key one. Affordable housing finance is the way to make housing affordable.
- The growth of Residential Mortgage-backed Securities (RMBS) in India has remained largely stagnant, which is completely contrasted with the rest of the world. Whatever little volumes show as MBS in data posted by rating agencies are largely LAP loans. Neither is there a strong motivation for larger housing finance companies to issue, nor is there a wide market.
- Retail investors have not been able to participate in the RMBS market at present. There has not been a single public offering of RMBS in the country.
- Interaction with issuers shows that the primary inhibition of the issuers is the high cost of funding in RMBS, compared to straight corporate bonds. Hence, there is no strong motivation for issuers. If they are PSL-qualifying loans, the same get sold by way of direct assignments.
- Data from across countries, as also from India, show that the rate of defaults in housing finance are the least among all asset classes.

Why retail investment in RMBS:

- With low default rates, stable performance and prolonged payment period, RMBS, adequately credit-enhanced and prepayment protected, may be ideal alternative instrument for retail investors, particularly those looking for fixed, relatively risk free but safe instruments.
- RMBS may offer several advantages over traditional fixed income instruments (say, fixed deposits):
    - It pays both coupon and principal over time - hence, significantly higher cashflows over time, ideally suited to savers looking for regular cashflows.
    - Prime RMBS may have the benefit of credit enhancements and may be very well protected against systemic risks or entity failures; therefore, much better than the insurance cover presently available on fixed deposits.
    - If listed, it may be liquid as well.
- Over time, Indian retail investors have shown appreciable understanding and ability to migrate to newer investment options. Not to speak of riskier instruments such as derivative indices, retail investors have invested in instruments such as REITs and InvITs, and of course, corporate bonds.
- Therefore, the inhibition, that structured finance instruments are complicated and therefore are not retail-suitable, needs to be shed.
- Hence, policy/ frameworks have to be created, enabled and mobilised to enable

INDIAN SECURITISATION FOUNDATION

Why does this matter?

- Retail RMBS issuance may both create an alternative investment instrument, as also bring down the cost of affordable housing finance.
- Housing has one of the highest multiplier effects on the economy - hence, over a medium to long run, housing finance helps in overall economic growth.
- Certain regulatory requirements act as deterrents for retail participation in primary issuances and secondary markets

Key players in RMBS ecosystem

- **Regulators**: SEBI, RBI, respective sectoral regulators for investors class (viz., IRDAI for insurers, PFRDA for pension funds etc)
- **Investors**: Mutual funds, pension funds, insurance companies etc.
- **Enablers**: RMBS Development Company Ltd (RDCL), rating agencies, market makers etc.
- Other market players

Why are retail investors not able to participate?

- So far, there has been no instance of public issuance of RMBS.
- The SEBI regulations require a high ticket size and trading lot (currently Rs. 1 crore) restricting both entry and subsequent liquidity concerns
- RBI has also brought similar proposals for increasing the ticket size for RBI-regulated issuers
- Overall, the present system virtually makes public participation in RMBS impossible.

Summary of recommendations under examination

- Reviewing provisions under SEBI and RBI Regulations, including minimum ticket size and trading lot for creating a conducive environment for public issue of RMBS
- Enabling market making activities for RMBS alongside corporate bonds under SEBI's framework
- Examining role of RDCL as market maker and risk absorption
- Permitting risk protection through arrangements such as credit default swaps (CDS)
- Dialogue with rating agencies towards bringing down credit enhancement requirements for RMBS issuances.
- Dialogue with auditing fraternity that a properly structured RMBS, with low risk retention by the originator, should qualify for off-balance sheet treatment under Ind AS
- Examining scope for incentivising investors through tax benefits
- Recommendations towards a more enabling environment with relaxations for regulated investors to invest in RMBS

INDIAN SECURITISATION FOUNDATION

Brief proposals

A. SEBI Regulations on public issue of RMBS

a. **Current position:** SEBI's May 2025 amendment to the SDI Regulations set a minimum ticket size of ₹1 crore. It applies to issuance by RBI-regulated originators and unregulated entities, and to subsequent transfers for non-RBI-regulated originators.

b. **Proposal under examination**: A reduced ticket size with structural safeguards (risk protection) may enable increased retail participation and subsequent liquidation. In fact, the ticket size of Rs 1 crore should apply to private placements and not public offers.

c. There is a parallel in the regulations for bonds: in case of public offers, the ticket size of bonds has been brought down to as low as ₹1,000 in practice.

B. RBI proposal of increasing ticket size for RMBS issuance by regulated entities

a. **Current position:** RBI has issued draft regulations that propose minimum ticket size of Rs. 1 crore for issuance and for every subsequent transfer.

b. **Proposal under examination:** The ticket size should not be applicable in case of public offers.

C. Promoting market making activities for RMBS and risk protection

a. **Current position:** SEBI currently enables market-making activities in various capital market instruments including corporate bonds.

b. **Proposal under examination**: Extending SEBI's framework to market-making activities for RMBS. RDCL to also engage in market-making activities. Similarly, RDCL may be engaged in risk absorption for RMBS issuances through holding junior/ mezzanine tranches.

D. Extending Credit Default Swaps (CDS)

a. **Current position:** RBI permits CDS for corporate bonds towards facilitating credit risk protection. RMBS/ABS are expressly disqualified for CDS.

b. **Proposal under examination**: Extending CDS to high-rated RMBS

E. Nudging rating agencies to reduce credit enhancements for RMBS

a. In view of the secured, low-risk securitisation structure offered by RMBS, the framework of rating agencies may be aligned to reduce credit enhancement requirements on such transactions.

F. Tax incentives

a. **Current position:** Under the Income-tax Act, 2025 (effective 1 April 2026), TDS of 10% is applicable on the distributions under section 393 of the Income Tax Act, 2025.

b. **Proposal under examination**: Omission of TDS requirements or applicability upto a minimum threshold. Additionally, there may be exemption for senior citizens or investments upto a certain size.

G. Provisions that may hinder participation in RMBS by regulated institutional investors

a. **Current position:** Insurers are permitted to invest as a part of their approved investments, however, stricter conditions prevail, similarly for PFRDA.
b. **Proposal under examination**: Review of conditions that may be relaxed and/ or increase in limits for investments in such structures.
c. Identification of other investor categories across which RMBS may be offered, and the existing regulatory gaps that may hinder participation

H. Promoting covered bonds

a. NHB has submitted a Working Group report years ago in 2012. A similar report was submitted to SEBI in 2013.
b. However, it seems that both the reports have not received appropriate regulatory attention.
c. In fact, in global markets, covered bonds are seen as one of the main instruments of secured, prepayment-protected instruments.
d. The issue should be examined afresh; all stakeholders, particularly, RBI, should be brought on-board so that any possible objections may be settled.

INDIAN SECURITISATION FOUNDATION

Annexure II: About Indian Securitisation Foundation

Indian Securitisation Foundation (ISF) is a not-for-profit organisation incorporated under section 25 of the Companies Act, 1956, a representative body of the securitisation industry in India. ISF is formed with the objective of developing, promoting and protecting the securitisation, structured finance markets in India in particular, and market for fixed income securities in general.

Securitisation in India is not just a fixed-income investing instrument, but essential for the idea of financial inclusion, in the form of priority sector lending. Banks meet their priority sector targets partly through portfolio acquisitions and securitisation, thereby putting securitisation at par with the banking book.

The infrastructure sector also depends substantially on securitisation for equity extraction. In essence, the significance of securitisation to India's financial sector cannot be under-estimated. Over time, credit default swaps are also expected to be prevalent as ways of synthetically replicating credit risk.

It is a clear policy choice to have a strong market for fixed income securities in India: structured finance securities are an essential part of that market, to provide variety, choice and alignment to investor needs.

In this background, ISF was conceptualised to provide direction, leadership, advocacy and support to the securitisation and structured finance industry.

Some of the functions of the Foundation include:

a. **Advocacy** – making representation to various authorities from time to time on matters as may concern securitisation and similar capital market instruments.
b. **Industry forums and networking** - holding periodic conventions and educational courses.
c. **Development of industry standards** - framing self-regulatory standards on disclosures, reporting, servicing reporting, DOs and DONTs for securitisation and direct assignment transactions, etc. Development of standards such as standard assignment agreements, assignment procedures, notification procedures, etc. on the lines of ISDA agreements and encouraging members over period to start using such standard templates.
d. **Information exchange** – on matters of common interest, collateral performance, etc.