PASS THROUGH CERTIFICATES

vEcoSys

Understanding

Pass Through Certificates

– By Prof. *Simply* Simple

PASS THROUGH CERTIFICATES

- **Pass Through Certificates (PTCs) are issued by banks as a safeguard against risks.**
- ***Simply* put, the banks, through PTCs, transfer some of their long term mortgaged assets (receivables) on to other investors like NBFCs and Mutual Funds.**

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Why do they do this?

- **They do this because they want to share some of their risks with other players.**
- **They also do this to release capital & book profits.**
- **Investors get interested because they stand to earn more for sharing the risk.**

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- The transfer is done by means of a Special Purpose Vehicle (SPV) which mediates between the investor and borrower.
- The PTC ensures that the loan re-payment is made to the investor instead of the bank.
- Thus the borrower is accountable to the investor instead of the bank.

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What happens if the borrower starts to default? …

If the borrower starts defaulting, the SPV sells off the mortgaged asset and recovers the money.

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PTCs are also used to ensure that banks maintain their liquidity as per the statutory guidelines of the Reserve Bank and at the same time continue lending.

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To Sum Up

- What: Pass Through Certificates (PTCs) are instruments of investment issued by banks.
- Why: It provides the bank a tool for hedging risks.
- When: They are issued when the bank feels it has too many risky assets to hold on to or when it needs additional capital for lending.
- How: The transfer is done by means of a Special Purpose Vehicle or SPV which mediates between the investor and borrower.

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Hope you have now understood the concept of Pass Through Certificates

Thinking of Investment

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