



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.



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.



- 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.



What happens if the borrower starts to default? ...

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



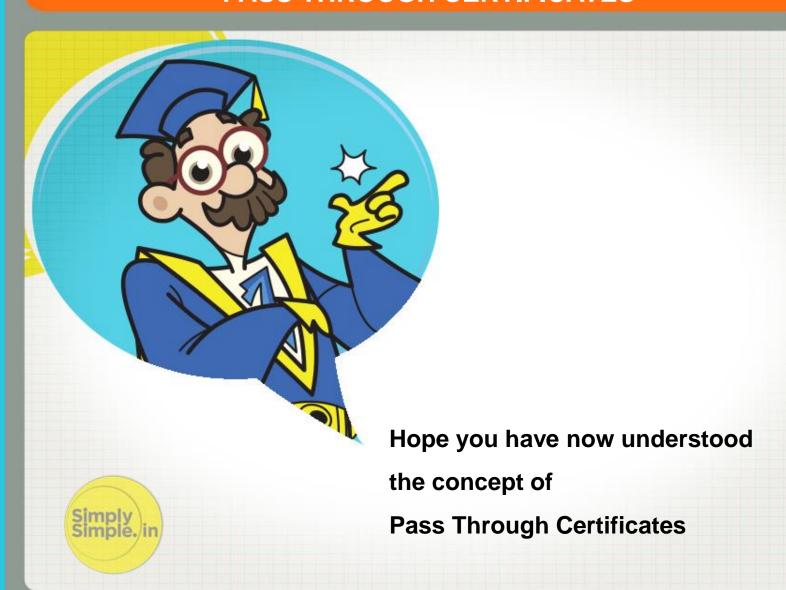


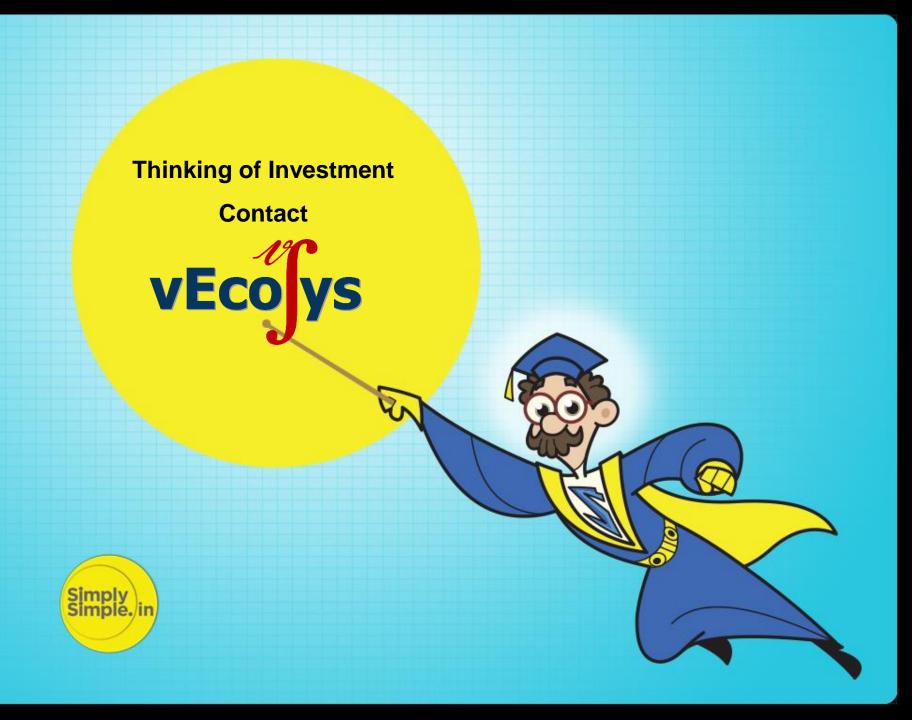
PTCs are also used to ensure that banks maintain their liquidity as per the statutory guidelines of the Reserve Bank and at the same time continue lending.

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.







DISCLAIMER

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.