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GOVERNMENT OF INDIA
भारत सरकार

Business Standard, New Delhi
Tuesday, 27th November 2018; Page: 1
Width: 15.10 cms; Height: 31.36 cms; a3; ID: 14.2018-11-27.9

NHB seeks RBI approval for more liquidity

Relaxes eligibility norms to let more housing finance firms get funds

SOMESH JHA
New Delhi, 26 November

National Housing Bank (NHB) has requested the Reserve Bank of India (RBI) to allow it to increase its refinance limit to ₹500 billion from ₹300 billion at present, in a bid to provide liquidity to housing finance companies (HFCs).

Earlier this month, NHB has also relaxed eligibility norms that will help more HFCs avail refinance lending facilities.

This might serve as a window of confidence for banks that have recently shown reluctance in lending to non-banking finance companies (NBFCs), whose credibility was impacted after Infrastructure Leasing & Financial Services (IL&FS) defaulted, a senior government official said.

NHB has asked the RBI to provide a dispensation to it by hiking the lending limit, as prescribed in the central bank's "Resource-raising norms for financial institutions" guidelines of July 2015. NHB's request is only for an enabling provision so that it can increase the refinance limit if it decides to do so, looking at the liquidity needs, sources said.

At present, financial institutions including NHB can mobilise up to 10 times its net-owned funds. NHB has proposed the RBI to hike this lending limit for the company from 10 times to 12.5-13 times of the net-owned funds, which stood at ₹800 billion, the official said.

"The move will give NHB elbow room to hike its refinance limit by ₹200-240 billion from ₹300 billion at present. It will be able to refinance around ₹500 billion to eligible HFCs," the official added. This is the first time NHB is seeking relaxation of the norms for providing liquidity to HFCs after the 2008-09 global crises, another official said.

Turn to Page 6

Economy P9

RBI CUTS ECB HEDGING NORM TO 70%
At the time of rollover of the existing hedges, the mandatory limit would be reduced to 70% automatically

THE PLAN

- **National Housing Bank** can refinance up to ₹300 billion at present
- **It may be able to refinance** about ₹500 billion to housing finance companies if norms are relaxed
- **Expert see the move**, if approved by the RBI, as a confidence boost for banks to lend to NBFCs

THE METHOD

NHB relaxes eligibility norms for HFCs to avail refinance by:

- **Relaxing capital** deployment norms
- **Easing NPA threshold** from 2.5% to 3.5%
- **Doing away with requirement** of being in operations for 3 years
- **Relaxing minimum** rating requirements

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Tuesday, 27th November 2018; Page: 1
Width: 5.66 cms; Height: 8.33 cms; a4; ID: 14.2018-11-27.9

NHB seeks...

The move comes at a time when the government has requested the RBI to fulfil the liquidity needs of NBFCs through various means, including a special refinance window for lenders.

"The move will certainly come as a confidence boost for the market. But whether specifically any HFC is eligible to avail those funds or not remains to be seen as ultimately that's what matters. This is the only way in which a direct refinance window to NBFCs or HFCs can be

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Tuesday, 27th November 2018; Page: 1
Width: 5.66 cms; Height: 25.15 cms; a4; ID: 14.2018-11-27.9

provided because if the RBI opens up a window, it has to always route it through the banks," said A Prasanna, head, research and executive vice-president, ICICI Securities Primary Dealership.

For the current financial year (2018-19), between July 2018 and June 2019, NHB had initially set the refinance target at ₹240 billion. However, on October 8, to avert the spread of the liquidity crunch, NHB had hiked its refinance limit to ₹300 billion.

"If NHB, as a regulator, hikes its exposure, it gives a window of confidence to other lenders who have become cautious of lending to HFCs recently. This is important at a time when banks under prompt corrective action are unable to provide project financing," an official said.

NHB has taken a slew of measures to relax eligibility norms for HFCs to avail its refinance facility. Earlier, HFCs were required to deploy 75 per cent of their capital in long-term housing finance. Now, HFCs will be required to invest 51 per cent of its "total tangible assets less cash and bank balance" in individual housing loans.

Further, HFCs needn't be in operations for three years before seeking refinance from NHB. The net non-performing assets of HFCs can be up to 3.5 per cent of net advances, as against 2.5 per cent earlier. Further, the requirement for HFCs to attain the minimum stipulated rating to be eligible for refinance has also been done away with, according to the revised norms which came into effect on November 9.

This year, NHB has sanctioned about ₹220 billion to HFCs, an official said. In a public statement on October 27, NHB said it had sanctioned the refinance facility to 19 institu-

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Business Standard, New Delhi
Tuesday, 27th November 2018; Page: 1
Width: 5.59 cms; Height: 7.43 cms; a4; ID: 14.2018-11-27.9

tions, including 14 HFCs. Earlier this month, PNB Housing Finance said it received ₹35 billion for refinancing from NHB. In October, IIFL Home Finance had raised ₹100 billion from NHB.

NHB is a wholly-owned subsidiary of the RBI and provides financial support to 97 housing finance institutions. The process to transfer its stake from the RBI to the government (as announced in the Union Budget) is on.