

1. What are the approximate rates for obtaining NHB refinance, NCD, RMBS, Bank loans, Deposits, CPs, ECB, any other instruments?

NHB Refinance

- Under Rural Housing Fund¹:
 - Interest rate on refinance = 7.10% p.a.
 - On-lending cap = 9.60% p.a.

- Under Urban Housing Fund²:
 - Interest rate on refinance = 7.10% p.a.
 - On-lending cap = 9.60% p.a.

Please see the eligibility criteria for refinancing pool of assets with NHB in response to Query 4 below.

NCD Rates

Approximate rate for raising funds by issuance of NCDs = 11.00% to 13.50%³.

Bank Loans

There are no specific rates for this; raising of funds through banks is case specific and depends on the lending rates of the bank as may be applicable to you, relation with the bank, credit evaluation of the bank, quantum of line of credit etc.

Deposits

As per Regulation 11 of NHB (Housing Finance Company) Directions, 2010⁴, as amended from time to time, no HFC shall be allowed to invite or accept deposits from public at a rate of interest exceeding 12.5% p.a.

Commercial Paper

Rate of interest on commercial papers issued by companies (as on the fortnight ended July 31st, 2014⁵) = 8.12% - 11.77%

ECBs

¹ <http://nhb.org.in/Financial/housing-finance-circular/Circular-11-RHF-Interest-Rates.pdf>

² <http://nhb.org.in/Financial/housing-finance-circular/Circular-12-UHF-Interest-Rates.pdf>

³ Figures are arrived at, on the basis of the prospectus for the listed NCDs issued by the NBFCs in the F.Y. 2014-15. The data has been gathered from <http://www.sebi.gov.in/sebiweb/home/list/3/17/39/0/Final-filed-with-ROC>

⁴ [http://www.nhb.org.in/Regulation/HFC\(NHB\)-Directions-\(As-modified-upto-1st-July-2013\).pdf](http://www.nhb.org.in/Regulation/HFC(NHB)-Directions-(As-modified-upto-1st-July-2013).pdf)

⁵ http://www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=15151

As per the Master Circular⁶ issued by RBI on ECB dated July 1, 2014, HFCs can avail ECB under the automatic and approval route. HFCs are taken to be eligible borrowers under the automatic route. The end use restrictions and conditions as applicable under automatic route shall be applicable to the HFCs as well for availing ECB.

Under approval route, HFCs can avail ECB for financing prospective owners of low cost affordable housing units. HFCs registered with NHB and compliant with the NHB regulations and directions can avail ECB for financing low cost affordable housing units. Some of the conditions for availing ECB are as below:

- a. Minimum NoF of HFCs for past three financial years should be not less than Rs 300 crores
- b. Borrowing through ECB should be within overall limit of 16 times of their NoF and net non-performing assets (NNPA) should not exceed 2.5% of the net advances
- c. The cost of the individual housing unit should not be more than Rs. 30 lacs and the loan amount sanctioned to the borrower should not exceed Rs. 25 lacs

Further there is an aggregate limit of USD 1 billion for the financial years 2013-14 and 2014-15 for ECB under the low cost affordable housing scheme which includes ECBs to be raised by developers/builders and NHB/specified HFCs.

2. What is the ease with which new HFCs can raise funds?

There is no specific answer to this question. Bank funding is the easiest for starters. Over the term NCD issuances, NHB refinancing, securitising portfolios can be used as modes of financing.

3. Why NHB refinance percentage is low in existing HFC?

There is no specific answer to this question. However, the refinance percentage depends on two factors - the internal credit rating assigned to it by the NHB as on the date of disbursement and the tenure of refinance.

4. What are the NHB refinance Criteria?

The general criteria to be fulfilled by the HFCs for availing refinance from NHB are as follows:

- i. The HFC should be registered with NHB to carry out housing finance activity in the country.
- ii. The HFC should provide long-term finance for construction / purchase / repair/ upgradation of dwelling units by home-seekers.

⁶ http://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9069#S25

- iii. The HFC should invest at least 75% of capital employed by way of long term finance for housing.
- iv. The HFC should have Net Owned Fund (NOF) of not less than 10 crore.
- v. The HFC should comply with the provisions of the National Housing Bank Act, 1987 and Housing Finance Companies (NHB) Directions, 2010, as amended from time to time.
- vi. The Net Non Performing Assets (NNPA) of the HFC should not be more than 2.50% of the Net Advances.
- vii. The HFC should have completed at least 3 years of operations (i.e. the HFC should be able to furnish 3 years' audited financial statements).

However the following companies need not comply with (vii) –

a. New Rural HFCs

b. Newly set up HFCs satisfying the following criteria –

- The HFC has been set up by a reputed business group, and is able to furnish either a corporate guarantee or a Letter of Comfort from the parent organization, and
- The HFC has individual housing finance portfolio (either purchased from the market, or transferred from other group companies) of not less than Rs. 100 crore

OR

At least 50% of the outstanding individual housing loan portfolio of the HFC is in the affordable housing segment (housing loans qualifying for classification as priority sector advances - currently 25 lakhs).

c. Newly set up HFCs satisfying the following criteria –

- At least 50% of the housing loan portfolio of the HFC should be comprised of loans upto 5 lakhs, and
- The Company's lending policy should have a clear focus on the informal sector and low income and affordable housing.

In addition to the above, the HFC will also have to obtain a minimum stipulated rating to be eligible to obtain financial assistance from NHB.

5. What is Mortgage Guarantee Corporation?

Indian Mortgage Corporation is a joint initiative of NHB, IFC, ADB and Genworth Financials Inc. The company provides mortgage guarantees in order to mitigate the risk of the lenders. Guarantees on mortgages are extended for the loans with high LTV.

6. Is there any Insurance product available as to credit risk?

India Mortgage Guarantee Company has floated a guarantee product specifically for this sector.

7. Why HFCs prefer overseas offices?

We are unaware of any HFC with overseas office.

8. Whether financing to builder will be considered as a part 75% of the capital employed for the purpose of obtaining NHB Refinance%? What if they are into affordable housing project?

The NHB came out with an illustrative list of loans which can be classified as housing loans vide its circular NHB (ND)/DRS/ Pol-No. 41/2011-12⁷ dated 26th September, 2011, the same has been reiterated below:

1. Loans to individuals or group of individuals including co-operative societies for construction/ purchase of new dwelling units.
2. Loans for purchase of old dwelling units.
3. Loans to individuals for purchasing old/new dwelling units by mortgaging existing dwelling units.
4. Loans for purchase of plots for construction of residential dwelling units provided a declaration is obtained from the borrower that he intends to construct a house on the said plot, with the help of bank/HFC finance or otherwise, within a period of three years from the availment of the said loan.
5. Loans for renovation/ reconstruction of existing dwelling units.
6. Lending to professional builders for construction of residential dwelling units.
7. Lending to public agencies including state housing boards for construction residential dwelling units.
8. Loans to corporates/ Government (through loans for employee housing)

⁷ <http://nhb.org.in/Regulation/polcir-41.pdf>

9. Loans for construction of educational, health, social, cultural or other institutions/ centers, which are part of a housing project and which are necessary for the development of settlements or townships;
10. Loans for shopping complexes, markets and such other centers catering to the day to day needs of the residents of the housing colonies and forming part of a housing project;
11. Loans for construction meant for improving the conditions in slum areas for which credit may be extended directly to the slum-dwellers on the guarantee of the Government, or indirectly to them through the State Governments;
12. Loans given for slum improvement schemes to be implemented by Slum Clearance Boards and other public agencies;
13. Loans provided to the bodies constituted for undertaking repairs to houses;
14. Investment in the guarantee/non-guaranteed bonds and debentures of NHB/HUDCO in the primary market, provided investment in non-guaranteed bonds is made only if guaranteed bonds are not available.

Apart from abovementioned, all other loans shall be considered as non-housing loans.

Financing to builders will be considered for determining whether 75% of capital employed has been invested in long term housing finance, for the purpose of obtaining NHB Refinance, provided they are long term investments and are used for housing activity. Same principal applies even if the builder is engaged in affordable housing activity.

9. Whether LAP will be considered to a part of 75% of capital employed for the purpose of obtaining? What if it is against House mortgage?

For availing NHB refinance, the HFCs must ensure that at least 75% of its capital employed is invested in long term housing finance. Thus, it will depend upon the purpose of the loan whether to consider for calculating 75% of the capital employed of the HFC. If the loan is taken for other than housing activity, it will not be considered for calculation.

10. What happens if the investment of a HFC, other than by way of long term housing finance, exceeds 25% of the capital employed?

In order to obtain refinance from NHB, the HFC must ensure that at least 75% of its capital employed is invested by way of long term finance for housing. Thus, if the investments of the HFC, other than by way of long term housing finance, exceed 25% of its capital employed, it will not be eligible to obtain refinance facilities from the NHB.