

NHB(ND)/DRS/REG/MC-02/2018
July 2, 2018

All Housing Finance Companies

Dear Sir/Madam,

Master Circular- Housing Finance Companies issuance of Non-Convertible Debentures on private placement basis (NHB) Directions, 2014

In order to have all current instructions on the subject at one place, the National Housing Bank has updated the circulars / notifications. The instructions related to the captioned subject contained in various circulars/notifications issued by NHB have been updated as on June 30, 2018 and are reproduced below. The updated circular has also been placed on the NHB web-site (<https://nhb.org.in>).

Yours faithfully,

(V. Vaideswaran)
General Manager

Table of Contents

Para No.	Particulars
1.	Short title, commencement and applicability of the Directions
2.	Definitions
3.	Purpose of the issue
4.	Eligibility to issue
5.	Rating Requirement
6.	Maturity
7.	Maximum number of investors and minimum amount of subscription per investor
8.	Limits and the Amount of Issue of non-convertible debentures
9.	Conditions for issue of non-convertible debentures
10.	Procedure for Issuance
11.	Debenture Trustee
12.	Security Cover for non-convertible debentures
13.	Preference for Dematerialization
14.	Loan against debentures
15.	Board's report
16.	Exemptions
17.	Interpretations

NATIONAL HOUSING BANK
New Delhi the 19th March, 2014

**¹Housing Finance Companies issuance of Non-Convertible Debentures on
private placement basis (NHB) Directions, 2014**

Notification No. NHB.HFC.NCD-DIR.1/CMD/2014

The National Housing Bank having considered it necessary in the public interest and being satisfied that for the purpose of enabling it to regulate the housing finance system of the country to its advantage, it is necessary to give the Directions mentioned below, hereby in exercise of the powers conferred by sections 30A and 31 of the National Housing Bank Act, 1987 (53 of 1987) and all the powers enabling it in this behalf, gives the Directions hereinafter specified.

1. Short title, commencement and applicability of the Directions:

- (1) These Directions shall be known as the Housing Finance Companies issuance of Non-Convertible Debentures on private placement basis (NHB) Directions, 2014.
- (2) They shall come into force on 1st April 2014.
- (3) Unless otherwise directed by the National Housing Bank, these Directions shall be applicable to every housing finance company registered under section 29A of the National Housing Bank Act, 1987 (53 of 1987).

2. Definitions:

- (1) In these Directions, unless the context otherwise requires,
 - (a) “Non-Convertible Debenture” means a debt instrument issued by a housing finance company with maturity for one year or more and issued by way of private placement.
 - (b) “Private Placement” means non-public offering of Non-Convertible Debentures (NCDs) by housing finance companies to such number of select subscribers and such subscription amounts, as may be specified by the National Housing Bank, from time to time.
 - (c) “Public Issue” means an invitation by a housing finance company to public to subscribe to the securities offered through a prospectus.

¹ Issued Directions vide Notification No. NHB.HFC.NCD-DIR.1/CMD/2014 dated March 19, 2014

- (2) Words or expressions used but not defined herein and defined in the National Housing Bank Act, 1987 shall have the same meaning as assigned to them therein. Any other words or expressions not defined herein or in the National Housing Bank Act, 1987 shall have the same meaning as assigned to them in the Reserve Bank of India Act, 1934 (2 of 1934), Banking Regulation Act, 1949 (10 of 1949), the Companies Act, 1956 (1 of 1956), the Companies Act, 2013 (18 of 2013) and Securities and Exchange Board of India Act, 1992 (15 of 1992).

3. Purpose of the issue:

- (1) A housing finance company shall issue non-convertible debentures for deployment of funds on its own balance sheet.
- (2) No housing finance company shall issue non-convertible debentures to facilitate resource requests of group entities / parent company / associates.

4. Eligibility to issue:

A housing finance company shall be eligible to issue non-convertible debentures if it has the net owned fund of ₹10 crores as per the latest audited balance sheet.

5. Rating Requirement:

- (1) An eligible housing finance company intending to issue non-convertible debentures shall obtain credit rating for the same from one of the credit rating agencies, viz., the Credit Rating Information Services of India Ltd. (CRISIL) or the Investment Information and Credit Rating Agency of India Ltd. (ICRA) or the Credit Analysis and Research Ltd. (CARE), or the FITCH Ratings India Pvt. Ltd or Brickwork Ratings India Pvt. Ltd or such other agencies registered with Securities and Exchange Board of India (SEBI) or such other credit rating agencies as may be specified by the National Housing Bank from time to time, for the purpose.
- (2) ²The housing finance company should have minimum credit rating of moderate degree of safety regarding timely servicing of financial obligations.¹
- (3) The housing finance company shall ensure at the time of issuance of the non-convertible debentures that the rating so obtained is current and has not fallen due for review.

² Substituted vide Notification No. NHB.HFC.NCD-DIR.3/MD&CEO/2016 dated February 9, 2016

6. Maturity:

- (1) Non-convertible debentures shall not be issued for maturities of less than 12 months from the date of issue.
- (2) The exercise date of option (put/call), if any, attached to the non-convertible debentures shall not fall within the period of one year from the date of issue.
- (3) No roll-over of non-convertible debentures is permitted.
- (4) The tenor of the non-convertible debentures shall not exceed the validity period of the credit rating of the instrument, if any.

7. Maximum number of investors and minimum amount of subscription per investor:

- (1)³(a) There shall be a limit of 200 subscribers for every financial year, for issuance of NCDs with a maximum subscription of less than ₹1 crore, and such subscription shall be fully secured;
- (b) There shall be no limit on the number of subscribers in respect of issuances with a minimum subscription of ₹1 crore and above; and the option to create security in favour of subscribers will be with the issuers. Such unsecured debentures shall not be treated as public deposits as defined in the Housing Finance Companies (NHB) Directions, 2010.
- (2) (a) The minimum subscription per investors shall be ₹20,000/-;
- (b) The issuance of private placement of NCDs shall be in two separate categories, those with a maximum subscription of less than ₹1 crore and those with a minimum subscription of ₹1 crore and above per investor.¹

8. Limits and the Amount of Issue of non-convertible debentures:

- (1) The aggregate amount of non-convertible debentures issued by a housing finance company shall be within such limit as may be approved by the Board of Directors of the housing finance company or the quantum indicated by the Credit Rating Agency for the rating granted, whichever is lower.
- (2) The total amount of non-convertible debentures proposed to be issued

³ Substituted vide Notification No. NHB.HFC.NCD-DIR.2/CMD/2015 dated March 13, 2015

shall be completed within a period of 30 days from the date on which the housing finance company opens the issue for subscription.

9. Conditions for issue of non-convertible debentures:

- (1) A housing finance company shall have in place, a Board approved policy for resource planning which, inter alia, should cover the planning horizon and the periodicity of private placement of non-convertible debentures.
- (2) The offer document for private placement should be issued within a maximum period of 6 months from the date of the Board Resolution authorizing the issue.

10. Procedure for Issuance:

- (1) The housing finance company shall disclose to the prospective investors, its financial position as per the standard market practice. In particular, the offer document should include the names and designations of the officials who are authorized to issue such offer document. The Board resolution and the offer document must contain information on purpose for which the resources are being raised. The offer document may be printed or typed "For Private Circulation Only". General information including the address of the Registered Office of the HFC, date of opening/ closing of the issue, maturity period, rate of interest, etc. shall be clearly mentioned in the offer document.
- (2) The auditors of the housing finance company shall certify to the investors that all the eligibility conditions set forth in these directions for the issue of non-convertible debentures are met by the housing finance company.
- (3) The requirements of all the provisions of the Companies Act, 1956 and the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008, or any other law, that may be applicable, shall be complied with by the housing finance company.
- (4) The Debenture Certificate shall be issued within the period prescribed in the Companies Act, 1956 or any other law as in force at the time of issuance.
- (5) Non-convertible debentures may be issued at face value carrying a coupon rate or at a discount to face value as zero coupon instruments as determined by the housing finance company.

11. Debenture Trustee:

- (1) Every housing finance company issuing non-convertible debentures shall appoint a Debenture Trustee for each issue.
- (2) Any entity that is registered as a Debenture Trustee with the Securities and Exchange Board of India under the Securities and Exchange Board of India (Debenture Trustees) Regulations, 1993, shall be eligible to act as Debenture Trustee for issue of the non-convertible debentures.
- (3) The Debenture Trustee shall submit to the National Housing Bank such information as required by it from time to time.

12. Security Cover for non-convertible debentures:

- (1) A housing finance company issuing non-convertible debentures shall ensure that at all points of time such debentures are fully secured.
- (2) In case, at the stage of issue, the security cover is insufficient/ not created, the issue proceeds shall be placed under escrow until creation of security, which in any case should be within one month from the date of issue.
- (3) The provisions of the above paragraph shall not apply to any amount received as 'hybrid debt' or 'subordinated debt', as defined in the Housing Finance Companies (NHB) Directions, 2010 having the minimum maturity period of which is not less than sixty months.
- (4) ⁴The provisions of the above paragraph shall not apply to any amount raised by issuance of non-convertible debentures with a maturity more than one year and having the minimum subscription per investor at Rs.1 crore and above, provided that such debentures have been issued in accordance with the guidelines issued by the National Housing Bank as in force from time to time in respect of such non-convertible debentures.¹

13. Preference for Dematerialization:

While option is available to the housing finance companies to issue non-convertible debentures in dematerialized or physical form, they are encouraged to issue debentures in dematerialized form.

⁴ Inserted vide Notification No. NHB.HFC.NCD-DIR.2/CMD/2015 dated March 13, 2015

14. Loan against debentures:

No housing finance company shall extend loans against the security of its own debentures issued either by way of private placement or public issue.

15. Board's report:

The Board's report attached to every balance sheet laid before a housing finance company in general meeting shall include a statement showing :-

- (1) The total number of non-convertible debentures which have not been claimed by the Investors or not paid by the housing finance company after the date on which the non-convertible debentures became due for redemption; and
- (2) The total amount in respect of such debentures remaining unclaimed or unpaid beyond the date referred to in clause (1) as aforesaid.

16. Exemptions:

The National Housing Bank may, if it considers necessary for avoiding any hardship or for any other just and sufficient reason, grant extensions of time to comply with or exempt any housing finance company or class of housing finance companies, from all or any of the provisions of these Directions either generally or for any specified period subject to such conditions as the National Housing Bank may impose. ⁵[Tax exempt bonds offered by HFCs are exempted from the applicability of these Directions.]

17. Interpretations:

For the purpose of giving effect to the provisions of these directions, the National Housing Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these directions given by the National Housing Bank shall be final and binding on all the parties concerned.



⁵ Inserted vide Notification No. NHB.HFC.NCD-DIR.2/CMD/2015 dated March 13, 2015