

INFORMATION BROCHURE

Refinance Assistance to Housing Finance Companies for their lending for housing, 2003

1. Introduction

The objective of the scheme is to provide refinance assistance to Housing Finance Companies (HFCs) in respect of their direct lending up to Rs.1 crore to individuals for purchase/construction/repair & upgradation of housing unit. The financial assistance can be drawn by the HFCs in respect of loans already advanced by them as also towards their prospective disbursements. It may be noted that the rules and policies mentioned in this brochure apply only to refinance released under this scheme and not to refinance availed by HFCs earlier under any old refinance schemes which are governed by the respective rules.

2. Eligibility Criteria

HFCs fulfilling the following criteria will be eligible to draw refinance from NHB:

- 2.1 The HFC should be registered with NHB to carry out housing finance activity in the country.
- 2.2 The HFC should provide long-term finance for construction / purchase / repair / upgradation of dwelling units by home-seekers.
- 2.3 The HFC should invest at least 75% of capital employed by way of long term finance for housing.
Explanation : For the above, "capital employed" means and includes
 - i) paid up capital of the company and its free reserves less intangibles;
 - ii) long term borrowings;
 - iii) deposits with maturity period of five years and above collected from the public and others, excluding the amount required to be kept or maintained in specified asset as stipulated in section 29B of The National Housing Bank Act, 1987.
- 2.4 The HFC should have Net Owned Fund (NOF) of not less than Rs. 10 crore. NOF will carry the same meaning as per Housing Finance Companies (NHB) Directions, 2001.
- 2.5 The HFC should comply with the provisions of the National Housing Bank Act, 1987 and Housing Finance Companies (NHB) Directions, 2001, as amended from time to time.
- 2.6 The Net Non Performing Assets (NNPA) of the HFC should not be more than 5% of the Net Advances. NPA shall carry the same meaning as defined in Housing Finance Companies (NHB) Directions, 2001. NNPA means 'NPA less provision'. Net Advances shall mean 'Advances less provision'. 'Advances' shall, apart from housing loans, include mortgage loans, lease transactions, hire purchase assets, bills of exchange, inter-corporate deposits and unquoted debentures.
- 2.7 The HFC will have to attain the minimum stipulated rating to be eligible for financial assistance from NHB. For this purpose, NHB has developed an internal credit rating model to determine the eligibility for financial assistance for the HFCs.

3. Rate of Interest

Financial assistance under the scheme will be provided either at **fixed or floating** rates of interest. The HFC would have the option to choose either floating or fixed interest rate depending on their requirement. The interest rate charged to HFC will be as prevailing on the date of disbursement and will depend on the internal credit rating assigned to it by NHB, slab of

housing loans and repayment period sought under refinance. The rate of interest is subject to periodic revision by NHB and this will be informed to HFCs from time to time.

3.2 Conversion of fixed rate loans to floating rate and vice-versa

In the event a HFC wants to convert the outstanding loans from fixed rate structure to floating or vice versa, the following rules will apply:

- There will be a levy of 0.50% of the loan outstanding on conversion from fixed to floating rate of interest. The applicable interest rate will be the then prevailing floating rate of interest for the term equivalent to the residual repayment period of that loan, as applicable.
- HFCs opting to convert loans from floating to fixed rate of interest will have to pay levy as that stipulated in respect of prepayment of floating rate refinance. The applicable interest rate will be the then prevailing fixed rate of interest for the term equivalent to the residual repayment period of that loan.
- Conversions will be done only on July 1 and January 1 of each year. Requests for such conversions should reach NHB one month before the due date for effective conversion.

3.3 Revision in interest rate on fixed rate loans

In case of refinance extended at fixed rates of interest, NHB will have the option to revise the rates on outstanding loans on completion of 3 years. The revised rate will be effective from the quarter immediately following the quarter in which 3 years get completed. The applicable interest rate will be the then prevailing fixed rate of interest for the term equivalent to the original repayment period of that loan. In the case of upward revision, HFCs will have the option to either continue with the outstanding balance on the revised rates or to prepay the same without any prepayment levy. However, in case of downward revision, if the HFC so desires, they would be allowed to prepay the amount only on payments of applicable prepayment levy.

4 Term of refinance

The refinance will be repayable within a period of not less than 2 years and not exceeding 15 years. The HFCs will have the option to choose the repayment period as per their requirement. Repayment of principal and payment of interest will be on quarterly basis. Repayment of principal will start after one clear calendar quarter from the date of release while payment of interest will start from the immediate quarter. The due dates of payment of interest and principal will be informed to HFCs in the repayment schedule after each release of refinance.

5. Prepayment

The HFC, after availing of refinance from NHB, may repay the whole or any part of the amount earlier than the due date by giving two months' notice to NHB of its intention to effect such repayment before the due date. NHB will levy a prepayment charge as mentioned below, on such prepayments:

	Prepayment levy	
Residual Maturity	Fixed Interest Rate	Floating Interest Rate
Less than 5 years	0.5% of amount to be prepaid	0.5% of amount to be prepaid
5 years and above	1% of amount to be prepaid	0.5% of amount to be prepaid

The prepayment levy payable by HFCs to NHB would be independent of the fact as to whether prepayment levy is being charged by HFCs from their borrowers. The HFC will be required to furnish full details about the refinance account against which prepayment is being made. In the absence of such details the prepaid amount will be credited to the refinance released earliest and outstanding on 'first in first out' basis. The size of instalment as originally fixed at the time of release will not be altered. Consequently, the last instalment will be reduced and wherever necessary the period of repayment would get reduced.

6. Security

6.1 Security to be obtained from individual beneficiaries: The HFC should generally obtain mortgage of property as security for the loan advanced by them. Where it is not feasible, the HFC may accept at its discretion, security of adequate value in the form of Life Insurance policies, promissory notes, shares and debentures, or such other security, as it may deem appropriate to fully secure the loan, with the charge properly created in its favour.

The loan agreement to be entered into between the HFC and its borrowers shall have a provision to the effect that the borrowers shall have no objection to the HFC creating a charge, mortgage or other interest in that security in favour of NHB.

The credit risk of the primary loan will be fully taken by the HFC and the refinance sought from NHB is repayable irrespective of the primary loan account remaining regular or otherwise.

6.2 Security for refinance: Refinance from NHB may generally be secured by charge on the book debts of the HFC. Additional security such as charge on immovable properties/movable properties, guarantee of promoter etc. may be stipulated at NHB's discretion. The security will be determined on case-to-case basis. The eligible lending institutions shall furnish to NHB/execute in favour of NHB such documents/undertakings etc. in such form and content as may be prescribed by NHB from time to time.

If at any time NHB is of the opinion that the security provided by the HFC has become inadequate to cover the outstanding refinance, it may advise the HFC to provide and furnish to the satisfaction of NHB, such additional security as may be acceptable to NHB to cover such deficiency.

7. Procedure

7.1 Application for Refinance Limit

The refinance operations of NHB are centralised at New Delhi. Refinance in a particular year is released on the basis of the limit sanctioned to the HFC for the year [July to June]. An HFC desirous of availing refinance will submit to NHB its annual projections for sanction of refinance limit in the prescribed credit review format **NHB-ROD[HFC]-01** together with any other information as may be required by NHB from time to time, indicating the expected disbursement of housing loans for the ensuing year i.e. April-March. The annual credit review format duly completed should reach NHB on or before the month of February, every year, i.e. completed format for the year 2003-04 should be submitted on or before February 28, 2003. NHB on the

basis of business projections and all other issues relevant to credit exposure will fix the refinance limits.

A HFC applying for refinance for the first time will apart from the above, submit the following information:

- a) Brief write-up on the promoter's along with the annual report of previous two years.
- b) Annual report containing balance sheet and profit-loss account of the HFC for previous three years.
- c) Housing loans and sanctioned and disbursed during the previous three years.

7.2 Legal documentation

On receipt of the sanction letter from NHB, HFCs shall furnish to NHB a resolution, in the prescribed form, duly passed by its Board of Directors. It will also be required to enter into agreement and execute such documents as required by NHB for the purpose at its Office. After completion of all formalities, the HFC can start drawing funds from NHB.

7.3 Submission of refinance application

The HFC desirous of availing refinance shall submit an application in the form **NHB-ROD[HFC]-02** to NHB at its New Delhi office. An official authorised for the purpose should sign the refinance applications submitted by HFCs. In this regard HFCs are required to furnish for the period from July to June every year a list of person(s) authorised by the Board of Directors / Chief Executive to sign the forms/statements/letters along with their specimen signatures for NHB's records. If there is any change in the list of authorised signatories during the year, the same may also be informed to NHB. The amount of refinance released during one month will generally be restricted to a maximum ceiling of 20% of the refinance limit. The HFC will be required to indicate the option of repayment period and fixed/floating rate of interest in the application. Separate applications will need to be submitted for loan amounts having different repayment period and fixed/floating rate options. In other words, each application will indicate only one option for repayment period and one option for either fixed or floating rate of interest. Similarly, separate application would be required to be sent in respect of individual loans upto Rs.10 lakh and loans above Rs.10 lakh.

7.4 Mode of release

The refinance released will be routed through the current account maintained by the HFC in any branch at Mumbai of any bank OR the HFC may open a current account with Canara Bank, Tamarind Lane Branch, Mumbai and leave instructions with them for receiving funds from and remitting funds to NHB. HFCs not maintaining an account in Mumbai may make suitable arrangements through their branches or through their bankers to collect the cheque at Mumbai and transfer the proceeds to their account. The mode of release has to be intimated to NHB in the refinance application **NHB-ROD[HFC]-02**.

7.5 Mode of Repayment

- a) All repayments of principal and payments of interest / additional interest should be made at the Mumbai office of NHB, at 3rd floor, Bombay Life Building, 45, Veer Nariman Road, Fort, Mumbai 400 023.
- b) Repayment of **principal** shall be made by the HFC to NHB as follows:

- i) The amount of refinance availed shall be repaid to NHB in a period not exceeding 15 years by way of 60 equal quarterly instalments or less, as may be specified by NHB.
 - ii) The due date for the repayments shall be the first day of each calendar quarter (i.e. January 1, April 1, July 1 and October 1 each year).
 - iii) Repayment of principal shall commence after a gap of one clear calendar quarter following the disbursement of refinance and as may be specified by NHB. *For example, if refinance is disbursed on October 4, 2002 the first instalment of principal will fall due for repayment on April 1, 2003, i.e. after a gap of calendar quarter January to March, 2003.*
- c) Payment of **interest** by the HFC to NHB shall be made as follows:
- i) Interest to be paid to NHB on refinance, will be calculated on daily product basis and charged at quarterly rests.
 - ii) For calculation of interest, a 'year' will be taken as 365 days, irrespective of whether the year is a leap year or a normal year.
 - iii) Payment of interest shall commence from the first day of the calendar quarter immediately succeeding the date of disbursement of refinance. *For example, if refinance is disbursed on October 4, 2002 the interest on the refinance will first fall due for payment on January 1, 2003.*
 - iv) The interest on the refinance will begin to accrue in favour of NHB from the date of cheque(s)/ authorisations.
- d) If the due date for repayment of principal / payment of interest is a holiday for the Mumbai office of NHB, and the credit in respect of the amounts due is received by NHB within the **first three working days** of the quarter in which the payment is due, additional interest would not be charged. However, the HFC will pay interest on the amount due, at the applicable rates of interest for the additional days upto the day of payment to the Mumbai office of NHB. It may please be noted in this regard, that the Mumbai office of the NHB observes holidays as declared for the State of Maharashtra in terms of the Negotiable Instruments Act, 1949. It may be noted, further, that NHB observes a five-day week and that, accordingly, its offices remain closed on Saturdays and Sundays. If the repayment of instalment and payment of interest is made before the due date, credit will be given only on the due date.
- e) For any **delay beyond the first three working days** for the Mumbai office of NHB, the HFC will pay additional interest on the amount in default for the total period of delay, at the rate of **two per cent per annum above** the applicable rate.
- f) The HFC shall make payments to NHB promptly on due dates, irrespective of whether or not the amount is actually recovered by it from the borrowers.

8. Periodic returns to NHB

A HFC availing refinance from NHB will be required to furnish various statements/information to NHB on a periodic basis. A list of all such statements is at **Annexure I**. The HFCs should be prompt and regular in submission of these returns.

9. Other Terms and Conditions

9.1 Adverse Balance: HFCs availing refinance from NHB shall furnish a certificate as at September 30 and March 31 every year, duly countersigned by their Statutory Auditors, confirming that the refinance outstanding from NHB does not exceed the total outstanding

housing loans, in respect of which refinance has been obtained. In the eventuality of the outstanding refinance due by HFC to NHB exceeding the **aggregate of all outstanding housing loans in respect of which refinance has been availed** by the HFCs i.e. adverse balance, HFCs would be required to repay refinance to NHB to the extent of adverse balance. This will be based on the above certificate, in the format **NHB-ROD[HFC]-07**. In case of adverse balance, the HFCs are also required to place the above certificate to their Board of Directors before forwarding the same to NHB.

On receipt of the above certificate, NHB will advise HFCs about the amount of refinance to be repaid. HFCs will be required to pay the amount within one month of the date of such advice. Credit will be given to such payments on the date of credit of the amount to NHB's Bank Account. HFCs will be required to furnish a list of refinance releases (i.e. loan accounts relating to each drawal of refinance) in which the adverse balance has arisen, along with the aggregate of outstanding housing loan in respect of each refinance loan account. The amount repaid to NHB will be adjusted accordingly.

In this context, HFCs may note the following:

- a) Loan account pre-closed due to shifting from fixed interest rate structure to variable rate of interest or for any other reasons and opening a new loan account of the same borrower and with the same housing unit financed as a primary security shall continue to be covered under the flagged housing loans against NHB's refinance, and will not be reckoned for computation of adverse balance.
- b) Book debts flagged/covered for the purpose of collateral security/additional margin requirements will not be counted for computing the sum aggregate of all outstanding housing loans in respect of which refinance has been availed as on September 30/March 31, 20__, i.e. additional margin stipulated over and above the security of book debts created out of refinance will not be reckoned for the computation of adverse balance.

This additional margin will be for the purpose of collateral security and has to be maintained on the outstanding refinance.

- c) Loan accounts for which refinance has been taken from NHB should be distinctly identifiable from the records of the HFC and the list of all such accounts should be available with the HFCs and continue to be maintained in their records.
- d) In the case of adverse balance arising due to pre-closure of loans in normal operations of lending and accelerated repayments, the same would get automatically included while computing the adverse balance and may be repaid following the required procedure and on the advice of NHB. Such repayments due to adverse balance shall not attract any levy.

Funds released towards prospective loans not earlier than 3 months to the half yearly statement will not be included under NHB outstanding while computing the adverse balance in view of the lag time involved in generating housing loans.

9.2 Borrowings from Institutions other than NHB: In case the HFC borrows funds from banks/financial institutions other than NHB it shall inform NHB about the same giving particulars about the security offered for such borrowings and obtain 'no objection' from NHB. Block NOC would be issued once in a year based on projections furnished by the HFC stating the projected disbursement and the various avenues of resources from where funds will be raised. The projections in the form **NHB-ROD[HFC]-03** will have to be submitted along with the Annual Refinance Limit application. Any borrowings beyond this limit will require separate sanction. In this context the following may be noted:

- a) HFC shall ensure that no statistical return/statement/or audited accounts or certificates are pending either for the use in Department of Regulation & Supervision or Refinance

Operations Department or any other department of NHB. In case they are, the same should be submitted along with the application for NOC.

- b) The HFC shall ensure that the security offered to NHB for its refinance assistance will not be infringed upon while entering into agreements/creating charge with /in favour of other banks/financial institutions. The HFCs will invariably report to the other lenders the current position relating to security /charge offered to NHB under refinance.
- c) Letter ceding *pari passu* charge in favour of NHB would be obtained from the banks /financial institutions and furnished to NHB wherever necessary. Consent of the concerned bank /financial institution would also be obtained to enter into such agreements with NHB as may be deemed necessary [applicable in cases where refinance is secured by *pari passu* charge shared with other banks/financial institutions].
- d) HFC will submit a half yearly status report on the borrowings made during April-September and October-March, in the first fortnight of October and April respectively every year in the form **NHB-ROD[HFC]-05**.
- e) If any charge is created and registered with ROC by the HFC in favour of any lender NHB should be informed about it while sending the half yearly status report.
- f) The above procedure for issuing NOC once a year will apply only to term borrowings (repayment period more than 5 years) made by the HFC from banks and financial institutions, only. In case of short-term borrowings (repayment period upto 5 years), borrowings in foreign exchange and borrowings by way of floatation of bonds/debentures whether unsecured or secured, listed or privately placed, HFC shall take specific NOC for these borrowings. In case of floatation of bond/debenture the HFC shall also furnish the following documents along with the application for NOC:
 - Copies of the memorandum/notes placed before the Board of Directors seeking approval for the bond /debenture issue and the resolution passed thereof.
 - Certified copy of the prospectus of the bond /debenture issue. In case the prospectus is not finalised, draft prospectus may be sent. However, the HFC shall submit the final prospectus to NHB at the earliest.
- h) The HFCs where refinance is on negative lien basis are not required to take NOC for their borrowings from banks/FIs/Multilateral Agencies and floatation of bond/debentures whether listed or privately placed, from NHB as long as such borrowings are on negative lien basis or unsecured. In case of borrowings from bank/FIs/Multilateral Agencies or through floatation of bond /debenture which are secured by charge on their assets (movable or immovable), these HFCs shall have to **necessarily take prior approval** from NHB. These HFCs are however required to submit a half yearly status report on the borrowings made during the financial year, in the first week of October and April every year for the preceding half-year in the form **NHB-ROD[HFC]-05**.
- i) HFCs **are not required** to take NOC for issue of bonds, which are guaranteed by NHB.

9.3 Loans eligible for finance by NHB: All housing loans covered under the scheme should be Standard Assets as per the Housing Finance Companies (NHB) Directions, 2001 and should be unencumbered while HFCs claim refinance from NHB and during the entire term of refinance.

9.4 Flagging of loans financed by NHB: HFC will be required to properly identify all loans for which financial assistance is obtained from NHB and maintain a list of all such loans. All information pertaining to such accounts should be kept up-to-date. Individual housing loans once flagged against NHB's refinance can never be changed without prior sanction of NHB as long as they are in the books of HFC and they should be distinctly identifiable. List of such book debts would be required to be submitted to NHB on demand.

9.5 Inspection: The books of account, registers, and all other relevant records of the HFC can be inspected by or on behalf of NHB.

9.6 Inspection / Audit Compliance: Action on any findings of inspection/audit should be taken promptly.

9.7 Appraisal and Follow-up of Housing Loans: The HFCs should have proper systems and procedures for appraisal and follow-up of housing loans, as also expert, qualified staff for the purpose and adequate arrangements for training them.

9.8 NHB's Guidelines: Finance provided by the eligible lending institution for housing and covered under the Scheme should conform to Guidelines and Directions issued by NHB from time to time.

9.9 Post-disbursal Discipline: There should be proper post-disbursement supervision and follow-up of housing loans to ensure end-use of funds as also timely and regular repayment of the loans.

9.10 Maintenance of Recovery Performance: Continuance of refinance facility from NHB will be subject to maintenance of satisfactory recovery performance by the eligible HFCs from the beneficiaries under various categories i.e. individuals, builders, CFIs etc. and conditions stipulated by NHB from time to time.

9.11 Refinance Assistance at Discretion of NHB: Refinance assistance in terms of this scheme shall be available at the sole discretion of NHB and cannot be claimed as a matter of right.

9.12 Recall of Refinance: NHB reserves the right to recall the refinance in the event of diversion of the relative funds for purposes other than housing or for suppression of any material information by the eligible lending institution or the happening of any such event, which may, in the opinion of NHB, endanger the repayment of financial assistance.

9.13 NHB's Right to Modify the Scheme: NHB may, at its sole discretion, alter/modify the Scheme either in respect of all eligible lending institutions or in respect of any one or group of eligible lending institutions as regards the procedure, terms and conditions, norms used while giving eligibility criteria and such other related issues.

