

Promoting Green Housing Refinance Scheme under arrangement with Agence Française de Développement (AFD), France

1. Background

1.1 The National Housing Bank (NHB) extends refinance to Primary Lending Institutions (PLIs) such as Scheduled Banks, Housing Finance Institutions, Cooperative Sector Institutions, through regular as well as the concessional windows. Funds through regular window are available at market interest rate, and the funds at lesser interest rate are made available through concessional window for conforming assets of the specific norms/criteria of PLIs. The interest rate offered under concessional window is decided by NHB's Asset Liability Management Committee (ALCO) within the broad contours of the refinance policy approved by the Board and the terms and conditions of the respective scheme.

1.2 As a part of promotion of housing more specifically Green housing, NHB has negotiated a line of Credit from Agence Française de Développement (AFD), France for Promoting Green Residential Housing in India. As the market for green housing is at the nascent stage in the country, NHB can play a role of a catalyst for this sector both with Technical Assistance as well and refinancing. As a quick preliminary assessment based on the data received from Green Rating for Integrated Habitat Assessment (GRIHA), rating agency and Indian Green Building Council (IGBC), another rating agency, reveal that on the supply side, there are some housing projects available conforming to the prescribed rating, catering to all segments including EWS/LIG. Similar position has been revealed by the Primary Lending Institutions (PLIs) on the demand side. After prolonged negotiations with AFD and with due approval of the Board in its 127th meeting held on 18-07-2017 and approval of Reserve Bank of India under Section 16(1) of the NHB Act, 1987, the Bank has signed an Agreement with Agence Française de Développement (AFD), France on 20-07-2017 to implement the project "Sustainable Use of Natural Resources and Energy Finance (SUNREF) Housing India" for availing a credit facility of Euro 100 million to provide refinance to eligible Primary Lending Institutions (PLIs). Further, an Investment Grant of Euro Nine million to reduce the cost of eligible loans, including up to Euro 1 million dedicated to green label certification, and a technical component (Euro 3 Million) have also been enabled from European Union under their AIF grant by AFD, to support private and public stakeholders for reinforcing their capacities in elaborating and implementing green housing in India and demonstrating the relevance.

1.3 As per the agreement signed between NHB and AFD, salient features of the scheme are as under:

- promoting the existing local green label certifications for housing;
- making green housing more affordable to low-income households;
- demonstrating the market potential and the relevance of green housing;

- encouraging the adoption of rules favourable to green affordable housing in public policies.
2. Promoting Green Housing Refinance Scheme (PGHRS) intends to provide refinancing support to eligible PLIs for their housing loans to individuals who fall under the EWS, LIG and MIG categories as per the definition of Ministry of Housing and Urban Affairs, Government of India. At present, individuals having annual household income of up to ₹ 3 lakhs, ₹ 6 lakhs and ₹ 18 lakhs fall under the categories of EWS, LIG and MIG respectively. Eligible houses should have received the pre-certification of either 4/5 star rating by GRIHA or Gold/Platinum rating by IGBC as per their rating grades.

Further, construction finance extended by eligible PLIs to residential projects located in urban areas are also eligible for refinance under this scheme. Residential Projects should have received the pre-certification of either 4/5 star rating by GRIHA or Gold/Platinum rating by IGBC as per their rating grades.

Under PGHRS, the PLIs shall apply up to a maximum interest margin of 625 basis points per annum above the cost of borrowing from the ultimate borrowers.

In order to favour the lower income segment households, NHB will allocate at least 50% of the facility to EWS and LIG households.

3. **PGHRS-1 for Primary Lending Institutions (PLIs) in respect of their lending to individuals for purchase/construction of green housing units in urban areas**

Under PGHRS-1, the NHB will make available refinance to the extent of 100 per cent of housing loans sanctioned and disbursed by the PLIs for acquisition/construction of green dwelling units by any household having annual income which falls under the EWS, LIG and MIG categories as per the definition of Ministry of Housing and Urban Affairs, Government of India. At present, individuals having annual household income of up to ₹ 3 lakhs, ₹ 6 lakhs and ₹ 18 lakhs fall under the categories of EWS, LIG and MIG respectively. Eligible houses should have received the pre-certification of either 4/5 star rating by GRIHA or Gold/Platinum rating by IGBC as per their rating grades.

4. **PGHRS-2 for Primary Lending Institutions (PLIs) in respect of their lending to green housing projects**

Under PGHRS-2, the NHB will make available refinance for construction finance extended by PLIs to residential projects located in urban areas. Residential Projects should have received the pre-certification of either 4/5 star rating by GRIHA or Gold/Platinum rating by IGBC as per their rating grades. Apart from the above pre-certification/rating requirements, the projects need to be registered under the provisions of the Real Estate (Regulation and Development) Act, 2016 (RERA), wherever such regulations are in force. A certificate/declaration will be required from

the PLI to the effect that all necessary clearance/approval for the project/s are in place, along with the application. The refinance disbursements shall be linked to the progress of construction of the project, and in the event of down gradation from the prescribed pre-certified rating of the project, no further funds shall be released. Pre-disbursement inspection/s would be carried out by NHB under the Scheme. PLIs should ensure a proper mechanism for repayment.

5. Conclusion

PLIs shall submit the periodical returns in the format prescribed for the purpose to the NHB, which are available on NHB's website www.nhb.org.in. The general terms & conditions of NHB's Refinance Assistance, as amended in terms of the NHB's Refinance Scheme is as below:

Pre-disbursement due diligence
<ul style="list-style-type: none"> • The minimum size of a refinance claim shall be ₹ 1,00,00,000/- (₹ One Crore Only). • The PLIs shall apply up to a maximum interest margin of 625 basis points per annum above the cost of borrowing from the ultimate borrowers. • Any eligible PLI desirous of availing refinance from NHB can apply for sanction of refinance limit in the format prescribed for the purpose. • Refinance limits will be sanctioned by the NHB to the borrowing institutions on annual basis (July - June). • A single limit is sanctioned to each institution [i.e. separate sub-limits are not required for different schemes]. • After sanction of limit and completion of the necessary documentation, refinance may be drawn by the borrowing institution, as per eligible requirement. • In case, the sanctioned limit is fully utilized, additional limit can be considered for sanction by NHB. • In case, some portion of the limit remains unutilized at the end of the year (i.e. after 30th June), the unutilized limit can be carried forward to the next one year at the request of the PLI. • The security structure for refinance will be as applicable to the respective institution in accordance with the provisions of the NHB's refinance policy. • All housing loans/construction finance covered/to be covered under refinance should be Standard Assets in terms of prudential norms on Asset Classification, as prescribed by RBI/NHB. • PLIs shall have the option to claim refinance for a particular eligible dwelling unit <u>only under any one</u> of the Schemes to avoid multiple refinancing. • On receipt of the sanction letter from NHB, PLIs shall furnish requisite documents to NHB, in the form prescribed for the purpose. They will also be required to enter into agreement and execute such documents, as required by NHB for this purpose, at its Office. After completion of all formalities of, the PLIs can apply for drawing funds from NHB.

	Housing Finance Companies (HFCs)	Scheduled Commercial Banks (SCBs)
Eligibility Criteria for Institution	<p>a. The HFC should hold a valid Certificate of Registration from NHB to carry on the business of a housing finance institution.</p> <p>b. The HFC should provide long-term finance for construction/purchase of dwelling units by home-seekers.</p> <p>c. Minimum 51% of total tangible assets less cash and bank balance employed by way of individual housing loans</p> <ul style="list-style-type: none"> ➤ <i>Individual housing loans would be those loans with a sanctioned tenure of 5 years and more;</i> ➤ <i>Total tangible assets would be total assets less intangible assets;</i> ➤ <i>Cash and bank balance would also include investments made in liquid short term mutual funds, which should not be more than 25% of Net Owned Fund;</i> ➤ <i>However, a time limit upto October 2019 is provided to all HFC clients of the Bank to fulfill this criterion. The amount of refinance disbursed from the financial year 2017-18 onwards will be recalled from the HFCs, which do not comply with the time limit prescribed.</i> <p>d. The HFC should have Net Owned Fund (NOF) of not less than ₹ 10 crore. NOF will carry the same meaning as per the Housing Finance Companies (NHB) Directions, 2010.</p> <p>e. The HFC should have Capital to Risk Weighted Assets Ratio (CRAR) of not less than 12%.</p>	<p>a. Net Non-Performing Assets to Net Advances ratio not exceeding 3.50%;</p> <p>b. Capital Adequacy Ratio of not less than 9.00% (as per the norms prescribed by Reserve Bank of India);</p> <p>c. Operating Profit making for the preceding 1 year;</p> <p>d. minimum stipulated internal credit rating;</p> <p>e. For PGHRS-2, the Banks should have minimum internal credit rating of 'BBB' assigned by NHB.</p>

	<p>f. The HFC should comply with the provisions of the National Housing Bank Act, 1987 and the Directions/Guidelines/Circulars/Codes issued there under as amended from time to time.</p> <p>g. The Net Non-Performing Assets (NNPA) of the HFC should not be more than 3.50% of the Net Advances. NPA shall carry the same meaning as defined in Housing Finance Companies (NHB) Directions, 2010. 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.</p> <p>h. 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.</p> <p>i. For PGHRS-2, the HFCs should have minimum internal credit rating of 'BBB' assigned by NHB.</p>	
Security	In case of refinance extended to Housing Finance Companies, the refinance is secured by either a first exclusive charge on the book debts in respect of which refinance has been obtained, or first charge over	Irrevocable Letter of Authority (LoA) is obtained from the SCB that in the event of default committed by them notwithstanding any dispute that may exist or arise between NHB

	<p>all the book debts shared on pari passu basis with other lenders. Additional security such as margin, charge on immovable properties/movables, corporate guarantee, personal guarantee, bank guarantee, etc. may also be taken. In case of HFCs having identifiable promoters, an undertaking is taken for non-disposal of shares along with personal guarantees, wherever required.</p>	<p>and the SCB, NHB will be authorized to debit their Current Account maintained with the Reserve Bank of India (RBI). The LoA is countersigned by the RBI. If, at any time, NHB is of the opinion that the security provided by the PLIs has become inadequate to cover the outstanding refinance, it may advise the PLIs to provide and furnish to the satisfaction of NHB, such additional security, as may be acceptable to NHB to cover such deficiency.</p>
	PGHRS-1	PGHRS-2
<p>Security to be obtained by eligible PLIs</p>	<p>Refinance from NHB may generally be secured by charge on the book debts of the PLI. 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 PLIs 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.</p> <p>If at any time NHB is of the opinion that the security provided by the PLIs has become inadequate to cover the outstanding refinance, it may advise the PLIs to provide and furnish to the satisfaction of NHB, such additional security as may be acceptable to NHB to cover such shortfall.</p>	<p>The loans extended to PLIs would be secured by mortgage over the project land / property / project receivable and / or other collateral security or other security as acceptable to NHB. The repayment to PLIs would need to be ensured by routing all cash inflows under the escrow account in favour of the PLI.</p> <p>The projects shall have RERA registration, wherever applicable.</p> <p>The credit risk of the loan to the developer will be fully borne by the PLI and the refinance sought from NHB would be repayable irrespective of the primary loan account remaining regular or otherwise.</p>
Procedure for Disbursement of Refinance		
<ul style="list-style-type: none"> • Refinance will be disbursed as per the request of the borrowing institution after ensuring that the loan pool, in respect of which, refinance is being sought conforms to the requirements of the Scheme. • Refinance can be drawn by making a request for disbursement in the claim 		

form prescribed for the purpose.
Mode of Release
<ul style="list-style-type: none"> The refinance released will be routed through RTGS as per the bank account details furnished by the borrowing institution in the claim form prescribed for the purpose.
Prepayment
<ul style="list-style-type: none"> Prepayment under this scheme would be permitted only to the extent of the loan amount pre-paid by the ultimate borrower to the PLI. Refinance availed by the PLIs under the Scheme can be prepaid without any prepayment charges subject to the condition that the prepayment is made not more than once in a quarter after giving two weeks' notice.
Repayment
<ul style="list-style-type: none"> The amount of refinance availed shall be repaid to NHB by way of equal quarterly instalments, as specified by NHB. Interest to be paid to NHB on refinance, will be calculated on daily product basis, compounded monthly and charged at quarterly rests. For the purpose of calculation of interest, a 'year' will be taken as 365 days, irrespective of whether the year is a leap year or a normal year. Repayment of principal and payment of interest will be on quarterly basis. While repayment of principal will start after one clear calendar quarter from the date of release, payment of interest will start from the immediate quarter. 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, if the payment is not made within three working days, then the PLIs will have to pay interest on the amount due, at the applicable rates of interest from due date till date 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, 1881. It may be noted, further, that NHB observes a five-day week and that, accordingly, its offices remain closed on Saturday and Sunday. If the repayment of instalment and payment of interest is made before the due date, credit will be given only on the due date. For any delay beyond the first three working days for the Mumbai office of NHB, the PLIs 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. The PLIs shall make payments to NHB promptly on due dates, irrespective of whether or not, the amount is actually recovered by it from the borrowers.
Repayment of Adverse Balance

- PLIs availing refinance from NHB shall furnish a certificate as at 30th September and 31st March 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. NHB has the provision of collecting adverse balance on half yearly basis. The adverse balance occurs when refinance outstanding exceeds the sum aggregate of outstanding housing loans against which said refinance has been claimed.

Post-disbursement follow-up

- **Flagging:** PLIs will be required to properly identify all loans for which financial assistance has been 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 flagged against NHB's refinance cannot be changed without obtaining prior consent of NHB, and they should be distinctly identifiable. List of such book debts should be submitted to NHB on demand.
- **Proper books:** Proper books of accounts, registers, etc. should be maintained by the borrowing institution in respect of housing loans granted / refinance availed from NHB and these should be kept up-to-date.
- **MIS and Visit Support:** PLIs should submit periodical MIS as sought by the NHB and facilitate for the visit support for its staff/authorized representative.
- **Inspection:** The books of account, registers, and all other relevant records of the PLIs may be inspected by or on behalf of NHB. List of book debts distinctly identified as PGHRS along with further segmentation into PGHRS-1 and PGHRS-2 should promptly be made available to NHB or authority designated by NHB for the purpose of inspection/verification etc.
- **Inspection / Audit Compliance:** Compliance with findings of inspection/audit should be taken promptly.
- **Appraisal and Follow-up of Housing Loans:** The PLIs 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.
- **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.
- **NHB's Guidelines:** Finance provided by the eligible PLIs for housing and covered under the Scheme should conform to Guidelines and Directions issued by NHB from time to time.

Other terms and conditions

- **Maintenance of Recovery Performance:** Continuance of refinance facility from NHB will be subject to maintenance of satisfactory recovery performance by the eligible PLIs from the beneficiaries, as stipulated by NHB from time to time.
- **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.
- **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.

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.

PGHRS Process Flow

