

No. HO/ROD/DAK/2025/04283

NHB (ND)/ROD/ Refinance Circular No. 10 /2024-25  
January 8, 2025

To,

All Primary Lending Institutions

Sir/ Madam,

### **Replenishment of Flagged Loans for Adverse Balance Adjustment**

At present, the Primary Lending Institutions (PLIs) are required to remit adverse balances to the National Housing Bank (NHB) in cases where the value of underlying loan pool is reduced, typically due to loan closures or accounts being classified as non-performing assets (NPAs).

2. While this mechanism ensures operational ease in monitoring margins, it also imposes an additional repayment obligation on PLIs, in the form of adverse balance, over and above their regular quarterly repayments.

3. In view of the above, the Bank has introduced replenishment option for underlying loan pools, in which the PLIs may substitute the closed or impaired loan accounts with standard assets, with no overdue amounts, of equivalent value to adjust adverse balances. This initiative ensures adequacy of security while offering PLIs greater operational flexibility.

The detailed terms & conditions are annexed for reference.

Yours faithfully,

Sd/-  
(Yogesh Panchal)  
Deputy General Manager  
National Housing Bank

## Replenishment of Flagged Loans for Adverse Balance Adjustment

1. On occurrence of any adverse balance, PLIs will have the option to replenish the flagged loans, whereby PLIs may, as per Bank's discretion, adjust the adverse balance caused due to closure or impaired loan accounts of the underlying book debts, with standard assets, with no overdue amounts, of equivalent value.

### 2. Terms & Conditions of the Replenishment Option:

(i) **Eligibility for Replenishment Option:** PLIs will have the option to adjust the adverse balance, as per NHB's discretion, only when it arises due to loan account closures or accounts being turned into NPAs.

*Note: Replenishment of loans of the underlying book debts for securitisation transactions, sale of book debts to other institutions, co-lending and/or for similar purposes whether in whole or part, as the case may be, shall not be eligible for replenishment option and the PLI in that case shall remit the adverse balance in full to NHB.*

(ii) **Eligible Scheme:** PLIs availed refinance under Liberalized Refinance Scheme (LRS) and/or Affordable Housing Fund (AHF) will have the option of replenishment of flagged loans for adverse balance adjustment.

(iii) **Eligible Loans:** Only individual housing loans classified as standard assets with no overdue amounts are eligible under replenishment option.

*Note: Restructured/ rescheduled accounts classified as standard assets in terms of the provisions of paragraph 8.3.2 of the Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021., shall not be eligible under the replenishment option.*

(iv) **Eligible Categories:** The replenishment loans must also meet, including the condition outlined in (iii) above, the priority sector lending (PSL) criteria if the loan being replaced falls under the PSL category. Similarly, the replenishment loans must also meet the criteria of the concessions, if the loan being replaced falls under the concession categories as outlined in the NHB's Refinance Policy.

(v) **Frequency of Replenishment:** The replenishment option shall be exercised upon the occurrence of an adverse balance, subject to NHB's discretion, on a case-to-case basis.

*Note: Presently the periodicity of adverse balance is quarterly for HFCs and annually for other PLIs.*

(vi) **Value:** The total value of the replenishment loans must be equal or exceed the amount of the adverse balance due, ensuring that the replacement provides adequate margin as per the terms & conditions of sanction for the refinance.

(vii) **Timeframe:** The replenishment or adverse balance remittance, as the case may be, must be completed on or before the end of succeeding month from the reporting quarter / year end.

*For example: For June 30th quarter end, the replenishment or remittance of the amount of adverse balance, as the case may be, must be made latest by July 31st.*

(viii) **Documentation:** Replenished loans must be documented and meet NHB's credit and underwriting standards.

(ix) **Other Terms & Conditions:** The PLIs must continue to comply with all other terms and conditions specified in the original refinance agreement and the other related documents.

*Note: (i) The replenishment option cannot be used as a means to draw additional funds from the Bank. It is solely intended to maintain the original margin as agreed upon in the sanctioned terms & conditions.*

*(ii) The remittance of adverse balance or replenishment shall be undertaken on a refinance account / disbursement tranche basis and shall not be offset against any other contract or refinance account or facility(ies).*

*(iii) The replenishment or remittance of adverse balance, as the case may be, must be completed in full for the specific refinance account number. A combination of the two methods shall not be permitted for adjusting the adverse balance in one specific refinance account number/ disbursement tranche.*

\*\*\*\*\*