

Scheme for providing Partial Credit Enhancement to Secured Non-Convertible Debentures/Bonds of Housing Finance Companies

1. In the present liberalized environment, the Housing Finance Companies (HFCs) prefer to raise resources directly from market to eliminate the cost of intermediation. Besides NHB refinance, HFCs mainly depend upon term loans from banks and issuance of non-convertible bonds & debentures. The maturity profile of these borrowing instruments of HFCs are typically shorter than the long-term housing loans extended by these Companies, leading to asset liability mismatches for HFCs.
2. To attract the investors at competitive rates, bonds/debentures issued by HFCs should have sufficiently high rating. Many of the HFCs are not able to float bonds/debentures because of the lower credit rating from the rating agencies for various reasons including the inherent mismatch between assets and liabilities.
3. NHB's intervention in this area was considered critical and accordingly a scheme has been introduced to extend Partial Credit Enhancement (PCE) to the secured bonds/ debentures to be floated by HFCs meeting certain laid down criteria.
4. The salient features of the Scheme are as follows:

4.1. Scope of Scheme:

PCE by NHB to the investors shall be upto a maximum limit of 50% of the Bond Issue Size of the Secured Non-Convertible Debentures/Bonds (NCDs/ NCBs) issued by Housing Finance Companies (HFCs) registered under the National Housing Bank Act, 1987.

4.2. Eligibility Criteria:

- (i) The HFC should be non-deposit taking HFC with asset size of ₹1,000 crore and above. The HFC should comply with the provisions of the National Housing Bank Act, 1987 and the Master Directions/ Circular/Guidelines issued by the RBI from time to time.
- (ii) The long-term debt instruments/long-term Bank facility rating of the HFC shall carry at least a rating of "A+" from two of the SEBI-registered Credit Rating Agencies. The said rating should have been valid for at least 12 months at the time of proposed issuance of the NCD/NCB.
- (iii) The Gross Non-Performing Assets (GNPA) of the HFC shall not be more than 2.5% of Gross Advances and Net Non-Performing Assets (NNPA) of the HFC shall not be more than 1.5% of the Net Advances. For the purpose, GNPA and NNPA shall be taken as of recently concluded quarter which shall be duly certified by Statutory

Auditors of the HFC. NNPA shall mean 'NPA less provision'. NPA shall be as per definition stipulated under the RBI Master Directions for HFCs, as updated from time to time. 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.

(iv) The HFC shall have earned profit during the last three years or since its inception if it is in existence for less than 3 years

(v) The maturity of the NCD/NCB shall be for a period of more than three years and upto five years.

(vi) The market shall determine the coupon rate.

4.3. Nature and Extent of PCE:

PCE by NHB shall be limited to a maximum of 50% of the NCD/NCB Issue size. The same shall be in the form of an irrevocable contingent line of credit which will be drawn in case of shortfall in cash flows for servicing the NCD/NCB.

PCE shall be in the form of revolving facility and must be replenished once invoked within 30 days from date of drawal (*Due Date*). In case PCE facility is partly drawn and interest accrues on the same, the unpaid accrued interest shall be excluded from the calculation of the remaining amount available for drawing.

4.4. PCE Fee:

The PCE fee shall be linked to the pre-enhanced external credit rating of the NCD/NCB issued by HFC which shall be minimum of 25 bps and maximum of 100 bps per annum on the PCE portion of the bond/debenture. The PCE fee shall be payable upfront annually and be non-refundable. Instrument Rating-wise fee shall be as follows:

Instrument Rating	PCE Fee
A+	100 bps
AA - and AA	50 bps
AA+	25 bps

In case of any subsequent downgrade in the credit rating of the NCD/NCB, NHB shall levy additional PCE fee as applicable. In the event of the pre-enhanced credit rating falling below "A+", NHB shall charge additional PCE fee of 100 bps.

4.5. Issue Size:

The minimum size of each issue shall be ₹50 crore.

4.6. Tenure:

Tenure of the NCDs/NCBs shall not be less than 3 years and upto 5 years.

4.7. Security:

NCDs/NCBs issued under the Scheme shall be secured by a floating charge (exclusive) at all times on the book debts/receivables equivalent to 100% (AA+ and AA) to 115% (AA- and below) of the debentures outstanding plus interest accrued thereon depending on the pre-enhanced credit rating of the NCD/NCB of the HFC. PCE shall be subordinated and a revolving facility provided in the form of an irrevocable contingent line of credit which will be drawn in case of shortfall in cash flows for servicing the bonds.

The facility shall be treated as NPA if it remains outstanding for 90 days or more from the *Due Date* and provided for as per the usual asset classification and provisioning norms. In that event, NHB's other facilities to the borrower shall also be classified as NPA as per extant guidelines.

4.8. End Use of Funds:

The proceeds from the NCD/NCB backed by PCE shall only be utilized for refinancing the existing debt of the HFCs. A certificate from the Statutory Auditor of the HFC to this effect to be provided within 7 days of the receipt of the entire proceeds of the NCD/NCB issuance.

4.9. Other terms and conditions:

- a. HFCs shall comply with all regulatory and statutory guidelines on issue of NCDs/NCBs
- b. HFCs shall ensure that the credit rating of the NCD/NCB issue is in force and is renewed/re-affirmed annually and any change in the rating is informed to NHB
- c. HFCs and Debenture Trustee shall enter into Agreement(s) with NHB before issuance of NCDs/NCBs defining the extent, terms and other conditions relating to the PCE to be extended by NHB.
- d. The effect of the credit enhancement on the NCD/NCB rating must be disclosed in the offer documents i.e. rating of the instrument with and without the credit enhancement from NHB.
- e. The rate of interest for the drawn amount of PCE facility shall be same as the rate of interest applicable under floating rate pricing mechanism for HFCs including the relevant spread/mark-up. For clarity, the rate shall be PLR + spread/mark-up applicable to the pre-enhanced rating of the long-term debt. The interest rate to be paid to NHB for the period of drawal i.e. till such time the PCE facility amount is repaid to NHB, will be calculated in line with the manner as specified under the Refinance Policy of NHB.

- f. In the event of the credit enhancement exposure being classified as NPA as defined in Para 4.3, additional PCE fee of 2% p.a. (two percent) over and above the applicable PCE fee shall be charged till the Payment Default is cured or the Secured Obligations are repaid (whichever is earlier).
- g. The promoters/defaulters of the HFC should not be defaulter to any bank or financial institution and no criminal proceeding is pending against them.
- h. Any other terms and conditions as may be stipulated by NHB.

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