

INFORMATION BROCHURE

Refinance Scheme for Scheduled Banks for their lending for Housing, 2003

1. Introduction

The objective of the scheme is to provide refinance assistance to Scheduled Banks (SBs) in respect of the direct/indirect loans already advanced by them for purchase/construction/repairs & upgradation of housing unit. It may be noted that the rules and policies mentioned in this brochure apply only to refinance to be released henceforth under this scheme and not to refinance already availed by SBs earlier under any old refinance schemes.

2. Eligible Institutions

The following categories of SBs are eligible to draw refinance from NHB under the scheme:

- (a) Scheduled commercial banks (Public sector banks, private sector banks and Foreign Banks in India) [SCB];
- (b) Scheduled State Co-operative Banks [SCOB]; and
- (c) Scheduled Primary (Urban) Co-operative Banks [UCB].

3. Eligibility Criteria

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

- (a) The Net Non-Performing Assets of the Bank as percentage of the Net Advances should not exceed 10% for the entire portfolio of the bank.
- (b) The Capital Adequacy Ratio of the Banks should be as per the norms prescribed by Reserve Bank of India.
- (c) The SB should be profit making for the last two years.
- (d) It should be permissible for the SCOB and UCB to borrow from NHB under the concerned Co-operative Societies Act and their registered bye-laws.

4. Eligible loans

The following direct and indirect loans would be eligible for refinance from NHB:

- (a) Direct Housing loans upto Rs. 1 crore disbursed by SBs to individuals.
- (b) Indirect term loans disbursed by the SCB to Housing Finance Companies (HFCs) registered with NHB covering housing loans given to individuals by the HFCs.

5. Rate of Interest

5.1 Financial assistance under the scheme will be provided either at **fixed** or **floating** rates of interest. The SB would have the option to choose either floating or fixed interest rate depending on their requirement. The interest rate charged to SB shall be as prevailing on the date of disbursement and will depend on the slab of housing loan and repayment period opted by SB. The rate of interest is subject to periodic revision by NHB and this will be informed from time to time.

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

In the event a SB 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.
- SBs opting to convert loans from floating to fixed rate of interest will have to pay levy as that stipulated in respect of prepayment. 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 January 1 and July 1 of each year. Requests for such conversions should reach NHB one month before the due date of effective conversion.

5.3 Revision in interest rate on fixed rate loans

In case of refinance outstanding 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, SBs 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 the case of downward revision, if the SB so desires, they would be allowed to prepay the amount only on payments of applicable prepayment levy.

6. Term of Refinance

The refinance will be repayable within a period of not less than 2 years and not exceeding 15 years. The SBs 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.

Apart from the above, Scheduled Commercial Banks will have additional option at the discretion of NHB for choosing from the repayment plan as mentioned below only at the time of filing a claim and not thereafter:

- (i) The principal can be repaid in one bullet instalment after expiry of a fixed term opted by the SCB varying from 2 to 5 years while the interest, which may include refixed interest rate/ applicable floating rate if any during the tenure, can be paid every quarter on the outstanding balance. Payment of interest will start from the immediate quarter.
- (ii) The principal along with accumulated interest can be repaid in one bullet instalment after expiry of a fixed term opted by the SCB varying from 2 to 5 years. In this option the bullet repayment and the accumulated interest, which may include refixed interest rate/ applicable floating rate if any during the tenure, would be paid in one instalment at the end of the desired maturity.

The repayment period for refinance to SCB in respect of their indirect loans stated under 4(b) above will not exceed the weighted average unexpired maturity of such indirect loans.

7. Prepayment

The SB, 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 SBs to NHB would be independent of the fact as to whether prepayment levy is being charged by SBs from their borrowers. The SB will be required to furnish the particular refinance account numbers 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. In case of part-prepayment, 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.

8. Security

8.1 Security to be obtained from individual borrowers: The SB should generally obtain mortgage of property as security for the loan advanced by them. Where it is not feasible, the SB 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 credit risk of the primary loan will be fully taken by the SB and the refinance sought from NHB is repayable irrespective of the primary loan account remaining regular or otherwise.

8.2 Security for refinance: The SB will have to execute a one-time Memorandum of Agreement in favour of NHB.

9. PROCEDURE

9.1 *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 SB for the year [July to June]. A SB desirous of availing refinance will submit to NHB an application for sanction of refinance limit in the form **NHB-ROD[SB]-01** along with its housing loans disbursements in the form **NHB-ROD[SB]-02** indicating the disbursement of housing loans during the previous year and outstanding housing loan together with the following information:

- a) Balance sheet and profit & loss account (Annual Report) for the last three years.
- b) Classification of housing loans as on 31st March of the last audited year in the form **NHB-ROD[SB]-03**.

9.2 *Legal documentation*

On receipt of the sanction letter from NHB, SBs will furnish to NHB a resolution duly passed by its Board of Directors or any other committee appointed for the purpose duly authorising officials to execute documents etc., in favour of NHB in the form **NHB-ROD[SB]-04A** (*for banks which are taking refinance for the first time*) OR **NHB-ROD[SB]-04B** (*for banks which have taken refinance earlier*). The Board Resolution along with specimen signature of authorised officials can also be furnished to NHB earlier than receipt of sanction letter. The SB will also be required to enter into a **one-time Memorandum of Agreement** for the purpose at the any Office of NHB.

The SBs that have earlier taken refinance from NHB and have already executed the Memorandum of Agreement are not required to execute the same again.

The SB will also give an irrevocable authority to NHB in the form **NHB-ROD[SB]-05**, for debit of its current account with the Reserve Bank of India for the purpose of recovery of principal/interest/any other charges arising out of the refinance transactions, duly confirmed by the Deposits Account Department of RBI, in case of default. The SBs will be required to sign the authority letter together with the execution of Memorandum of Agreement. Pending completion of formalities at RBI, the SB will be required to give an undertaking to furnish the above authority letter, duly confirmed by RBI, to NHB within three months.

The SBs that have earlier taken refinance from NHB and have already submitted the Letter of Authority are not required to furnish the same again.

9.3 *Submission of refinance application for drawing funds*

After completion of all formalities as indicated above, the SB will submit an application to draw refinance in the form **NHB-ROD[SB]-06A** (*applicable for SCBs*) or **NHB-ROD[SB]-06B** (*applicable for SCOBs and UCBs*) to NHB at its New Delhi office. An official authorised for the purpose should sign the refinance applications submitted by SBs. The minimum size of a refinance application shall be **Rs. 1 crore** or the refinance limit whichever is lower. The SB

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 loans amounts having different repayment period and fixed/floating rate. Similarly separate application will be required for refinance in respect of direct loans and indirect loans.

9.4 Mode of release

The refinance released will be routed through any branch of the Bank at Mumbai OR through their account with RBI. The mode of release has to be intimated to NHB in the refinance application **NHB-ROD[SB]-06A/B**.

9.5 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 SB to NHB as follows:
 - i) In cases where SBs opt for quarterly repayment, the amount of refinance availed shall be repaid to NHB within a period of not less than 2 year and not exceeding 15 years by way of 60 equal quarterly instalments or less, as may be specified by NHB.
 - ii) The due date for repayments of quarterly instalments 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.*
 - iv) In the case of Scheduled Commercial Banks opting for bullet repayment of refinance after a fixed term, the principal will be repayable in one instalment at the end of the term.
- c) Payment of **interest** by the SB 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) In the case of Scheduled Commercial Banks opting for bullet repayment of refinance after a fixed term, the interest will either be payable every quarter or in one instalment at the end of the term.
 - v) 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 SB 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 SB 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 SB shall make payments to NHB promptly on due dates, irrespective of whether or not the amount is actually recovered by it from its primary borrowers.

10. Other Terms and Conditions

i) Loans eligible for refinance by NHB: All housing loans covered/to be covered under refinance should be Standard Assets as per RBI guidelines.

ii) Earmarking of loans for NHB refinance: The SB will be required to earmark a pool of loans to fully cover the outstanding refinance at any point of time. NHB may verify records maintained in respect of these loans. The SB is required to furnish a certificate in the form **NHB-ROD[SB]-07** on an annual basis certifying that the earmarked loans are sufficient to cover the outstanding refinance from NHB.

iii) Periodical Returns: NHB may call for information or returns on periodic intervals from the SBs availing of refinance from NHB. The SBs should be prompt and regular in submission of statutory returns.

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

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

vi) Appraisal and Follow-up of Housing Loans: The SBs should have proper systems and procedures for appraisal and follow-up of housing loans, as also qualified staff for the purpose. Individual housing loans should be fully secured as explained in para 9(i).

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

viii) Maintenance of Recovery Performance: Continuance of refinance facility from NHB will be subject to maintenance of satisfactory performance by the SBs and compliance of conditions stipulated by RBI/NHB from time to time.

ix) 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.

x) 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.

xi) NHB's Right to Modify the Scheme: NHB may, at its sole discretion, modify the Scheme either in respect of all eligible lending institutions or in respect of any one or group of eligible lending institutions.

11. Periodic return to NHB

The SB will be required to furnish to NHB annual statements giving details in the forms **NHB-ROD[SB]-07** and **NHB-ROD[SB]-08** in respect of housing loans for which refinance is obtained from NHB within 2 months of the audited accounts adopted by the Board.

