

Scheme for Guaranteeing Bonds of HFCs

Housing Finance companies depend to a great extent on refinance assistance from NHB. However, the extension of refinance assistance by NHB is constrained by various factors like NHB's own NOF, HFCs' borrowing power etc. In addition, in the present liberalized environment, the HFCs prefer to raise resources directly from market in order to eliminate the cost of intermediation. Besides NHB refinance, HFCs mainly depend upon term loans from banks and public deposits. Of late, the maturity profile of public deposits has been shortening leading to asset liability mismatches for HFCs. One way to overcome this problem is floatation of bonds/debentures having a longer maturity period of say five to seven years. To attract the investors at competitively low rates, such bonds/debentures should have sufficiently high rating. Many of the HFCs have not been 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. NHB's intervention in this area was considered critical and accordingly a scheme was introduced to extend guarantee to the bonds/debentures to be floated by HFCs meeting certain laid down criteria. Under the scheme, NHB will provide top ended guarantee relating to the repayment of principal and interest which will provide necessary credit enhancement and will enable HFCs to acquire higher credit rating leading to competitive pricing of these instruments. The salient features of the scheme are as under:

Scope of the Scheme

The Scheme envisages provision of guarantee by NHB to the investors regarding repayment of principal and interest during the top end (say last two years) irrespective of the repayment schedule fixed by the HFC and the guarantee shall not exceed 67% of the total amount to be raised and the interest thereof.

Terms and Conditions for Guarantee

The HFC desirous of availing the guarantee from NHB shall comply with the following terms and conditions:

(i) The bond issue shall carry at least a rating of "AA-" from an approved rating agency. However, the Bank may consider providing the guarantee in the case of an instrument being rated 'A' subject to the HFC meeting the following requirements:

- a) NOF shall be Rs.30 crores or more
- b) Net NPA shall be less than 2%

- c) 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
- d) The overdue for more than 3 months should not exceed 10% of the aggregate demand for the year
- e) The promoters and the management of the HFC are found to be satisfactory
- f) The HFC shall have complied with all the provisions of the Housing Finance Companies (NHB) Directions, 1989 as amended from time to time and all the provisions of the Guidelines on prudential norms.

(ii) The maturity of the bonds/debentures shall be for a period of five years to begin with.

(iii) The market shall determine the coupon rate.

Exposure Norms

For the purpose of extending guarantee to the HFCs, exposure limits will be fixed by NHB along with the annual refinance limit. The aggregate amount of the guarantee in a year can be maximum up to the actual amount of the bond to be floated at a time or the annual refinance limit provided in a particular year, whichever is less. The overall borrowing including the amount to be mobilised through the bond/debenture issue shall not be more than 7 times the NOF of the company.

Minimum Size of Each Issue

The minimum size for each issue should be Rs.10 crores and it will be subject to the overall borrowing powers fixed under the Housing Finance Companies (NHB) Directions, 1989, as amended from time to time.

Security

The HFCs desirous of availing the guarantee will have to create a floating charge on the assets equivalent to 125% of the principal amount in favour of NHB. In case the HFC offers any other security in addition to a floating charge for its existing borrowing or is in a position to provide further security, the same shall also be asked for. In case of the HFCs, where personal or corporate guarantee has been obtained, the same shall be extended to cover the guarantee for the bonds/debentures.

Guarantee Fee

For extending the guarantee, the HFCs shall be charged 75 basis points per year

of the amount to be floated as guarantee commission and this shall be payable upfront.

Creation of Reserves

The HFC shall create appropriate bond/debenture redemption reserves as may be laid down under the Companies Act from time to time

Returns

The HFC shall furnish such returns/information as may be laid down from time to time for the purpose of availing refinance.