



राष्ट्रीय
आवास बैंक
NATIONAL
HOUSING BANK

परियोजना वित्त एवं प्रौद्योगिकी संवर्धन विभाग

Project Finance Policy

Part A - Objectives

The Project Finance (direct lending) activities of the Bank are being undertaken in terms of Section 14 (ba) of the Act. The aim of the Bank's Project Finance Policy is to facilitate increase in the overall housing stock in the country through supply side intervention with special emphasis on the housing needs of the economically weaker sections of society. Through direct finance window, the Bank would endeavour to extend financial support to the housing programmes favouring the unserved and the underserved segments of the population. To accomplish its objective, the Bank will undertake both fund-based and non-fund based activities and will operate through different institutional mechanisms in the public and private sectors. The objectives will focus on the following:

- To augment the supplies of housing stock in the country both in urban and rural areas.
- To help increase housing stock for the EWS/LIG segment of population.
- To meet the financial needs of various entities involved in provision of housing stock in the country.
- To help support up-gradation of sub-standard dwelling units and aid in incremental housing.
- To facilitate provision of hostel accommodation for women and night shelters in urban and rural areas.
- To develop appropriate delivery mechanisms for the informal sector.
- To improve living conditions of existing habitats by augmenting the existing infrastructure systems.
- To encourage use of innovative/appropriate building materials and technology for cost effective housing.
- To facilitate increased efficiency among the implementing agencies through various technical assistance measures, including interest free loans.
- To help support reconstruction activities in disaster affected areas.

Part B - Eligible Entities

1. **Public Agencies**

The Bank seeks to provide financial assistance to the following public agencies for their housing programmes:

- State Housing Boards/Improvement Trusts
- State Slum Clearance Boards/ Authorities
- Development Authorities
- Municipal Corporations/Councils, Urban Local Bodies
- New Town Development Agencies
- Local Authorities for housing & urban development
- Housing Welfare Organizations of Central and State Government employees like CGEWHO, AWHO, AFNHB, IRWO etc.
- Other Agencies set up for specific housing programmes.
- Agencies set up by government to provide housing to specific target groups like state Police Housing Corporations.
- State governments for supplementing funds requirements for their employees' rental/ownership housing.
- Other corporations set up by state/central governments to meet the housing needs of different segments of people.
- SPVs set up by public housing agencies / public financial institutions, solely or jointly with private sector either for specific project or on a continuing basis.
- Affordable Housing projects under Public Private Partnership models in line with State Housing Policies wherein Public Agencies appointed as a nodal agency for construction/ implementing large scale construction of Affordable Housing (with focus on EWS & LIG housing) by involving Private developers in the construction of EWS/LIG categories of houses on a turnkey basis.

The following projects of Public Housing Agencies will be eligible for financial support:

- Slum rehabilitation/slum improvement Projects.
- Residential Housing Projects.
- Township cum housing development project.
- Land acquisition for the purpose of township and housing development.
- Land development for housing construction.
- Turn-key housing projects
- Programme lending for special housing projects undertaken consequent to natural calamities.
- Infrastructure development for housing settlements.
- Rental housing projects

2. Corporates:

Facility for construction financing will be extended to Corporates for their employees' rental/ownership housing.

Part C - Types of Financial Facilities

- **Term Loans** - Depending on the purpose of the loan, term loans may be provided to any of the eligible agencies for a tenure not exceeding 15 years.
- **Short Term Loans** - Short term loans may be provided to the borrowers to meet their short term liquidity requirements. Period of loan shall not exceed 2 years. The short term facility will not be project specific but granted subject to the undertaking from the borrower that the proceeds will be utilized only for the purpose of housing construction and a utilization certificate obtained to that effect. These loans will be extended to public housing agencies, welfare housing organizations under central government.
- **Takeover of Term Loan Liabilities** - The term loan liabilities of Public Housing Agencies and scheduled commercial banks pertaining to residential housing projects may be taken over by the Bank subject to the condition that such loans were never in default and at no stage classified as NPA. The tenure of the loan will match the remaining maturity of the replaced loans.
- **Line of Credit** - Public Housing Agencies undertake a host of housing and land development projects and also implement various Government sponsored programmes. These agencies require assured flow of funds to execute various projects. Depending on the financial strength of the agency, the Bank may extend a line of credit to such agency for undertaking different housing projects. Line of credit may also be extended to state governments for their employee housing needs to supplement their budgetary provisions. Tenure of this facility will be restricted to 5 years.

Part D - Terms and Conditions

1. Tenure of Loans

Project finance shall be made available for a maximum period not exceeding 15 years including moratorium period, if any. The tenure of the loan will be reckoned from the date of first disbursement. The moratorium

period, if any, will normally be the period between the date of first disbursement and project completion date, unless specified otherwise.

2. Security

Depending on the nature of the borrower, any one or more of the following securities may be obtained:

- Mortgage / charge over immovable property / charge over receivables / realization
- Bank guarantee
- Government guarantee
- Fixed Deposit Receipts of Scheduled Commercial Banks
- Corporate guarantee as a mandatory security in case of project finance extended to corporates for their employees' rental/ownership housing
- Any other security, as acceptable to NHB on a case to case basis
- Interim security - Sometimes, interim security may be required till the main security is lodged with the Bank. In such cases, the Sanctioning Authority shall decide the nature and extent of the interim security to be obtained depending on nature of the borrower and the project.
- Escrow accounts - Wherever required, and essentially in the case of private sector agencies the Bank shall insist on escrow mechanism for monitoring disbursements and for ensuring proper receipt of project inflows. Depending on the merit of the case and the discretion of the competent authority, the Bank may stipulate an additional condition to include an in-built escrow mechanism in order to provide additional safeguard in respect of water and sanitation projects.

The project finance secured by way of mortgage would be registered with the Central Registry of Securitisation Asset Reconstruction and Security Interest (CERSAI) within the time limit prescribed by the CERSAI from time to time.

3. Extent of Security

Public Sector Agencies / Joint Sector Agencies -minimum 100% of the amount of loan.

4. Validity of Sanction

The sanction shall be valid for six months. The period of validity of sanction will be reckoned from the date of the sanction letter to the date of first disbursement. However, the sanction can be revalidated for another

six months by MD & CEO, in deserving cases. The extension may be granted subject to such condition including charging of commitment fee as MD & CEO may think fit. Un-availed sanction will automatically lapse after the expiry of the above-mentioned period. In cases where the agency does not avail of the full sanctioned loan amount due to various reasons, ED will have the power to cancel the unavailed sanction amount.

5. Screening and Rating of Agencies

- The Rating Committee of the Bank shall screen agencies seeking financial assistance and assign rating as per the Internal Credit Rating Model approved for the purpose.
- The Agency Rating would be reviewed on an annual basis.
- The Agency rating would be dispensed with in the following cases :
 - ⊖ In the case of programme lending in respect of natural calamities etc. as the implementing agency is notified by the Government.
 - ⊖ Welfare housing organizations of Centre / State Govt. employees like Army Welfare Housing Organization, Central Government Employees Welfare Housing Organization which have governing councils set up by government working on no-profit-no-loss basis and undertaking construction of houses mainly on self financing basis.
 - ⊖ In case of Public Agencies which have not implemented double entry accounting system, but are audited by the respective State Governments, agency rating may be dispensed with and project specific support may be extended to such agencies if the project in question is financially viable, offers adequate security in the form of mortgage of property with clear title, and appropriate safety mechanisms such as escrow accounts are put into place. Such projects will be put up on case-to-case basis to the Executive Committee for approval.
 - ⊖ Public Agencies including Housing Boards, Development Authorities and Slum Clearance Boards, may be showing deficit on account of undertaking certain socially oriented activities such as providing affordable housing for EWS / LIG, implementing Government schemes, etc. In such cases, the deal

breaker condition pertaining to surplus generation may be waived provided :

- (a) The Public Agency has an approved residential scheme
 - (b) The housing development is a part of Govt. programme of affordable housing
 - (c) The project is financially viable on a stand alone basis
 - (d) In all such cases where sale proceeds are captured through suitable escrow account mechanism
 - (e) Maximum loan amount per project is ₹ 50 crore.
- In the case of Public Housing Agencies where finalization of accounts is in arrears, the rating assigned will continue till the latest financial statements are obtained from them and a new rating is assigned.
 - The rating will be carried out by the Risk Management Department of the Bank, independent of the operational departments based on an existing rating framework.

6. Rates of Interest

6.1 Pricing of products under General Fund (GF)

The rates of interest for all the project finance loans are based on Internal Credit Rating of the agencies/project and the tenure of the loan.

6.2 Pricing of products under Special Fund (SF)

The Bank may consider extending financial assistance under the Special Fund at concession rate depending upon the nature of the project and availability of the Fund.

6.3 Water Sanitation

The Bank is extending financial assistance with maximum annual limit of ₹5.00 crores for Water and Sanitation Programmes being undertaken by Urban Local Bodies (ULBs) out of the Special Fund with interest rate of 4.00% p.a.

7. Applicability of Interest Rate

Fixed Rate

The rate of interest in case of project loans will be the rate prevailing on the date of sanction. The rate of interest on the project loan shall remain fixed for first 3 years of the currency of project.

NHB will have option to review and reset the rates on outstanding loans on completion of 3 years. The date of communication of sanction will be the date for reckoning such reset. The cut-off date for this purpose shall be June 30 / December 31 following the completion of 3 years. Borrowers will have the option to either accept the revised rates or to prepay the outstanding amount without any prepayment levy if they find the revised rates unacceptable, after giving a notice of one month.

In case of project loans under Special Fund, the reset clause shall not be applicable.

Floating Rate

Under the floating rate option, initially the rate of interest applicable will be the rate prevailing on the date of disbursement of the loan amount by NHB. The floating rate of interest linked to the Prime Lending Rate (PLR) of the National Housing Bank and fixed accordingly. Thereafter, the rate of interest may be changed by NHB from time to time in view of changes in the PLR of NHB and also depending upon its cost of funds, market conditions, etc. Such change in rate of interest shall be applied to the outstanding balances. The reset of interest rates on existing floating rates is made applicable from the first day of succeeding month in which the PLR is revised.

8. Conversion of fixed rate loans to floating rate and vice versa :

- In the event of a borrowing agency wanting to convert the outstanding loans from fixed rate to floating rate or vice versa; a conversion fee of 0.50% of the loan outstanding shall apply. In case of conversion from fixed rate to floating rate, the applicable interest rate will be the then prevailing floating rate of interest applicable.
- Conversions will be done only on the first date of the quarter. Requests for such conversions should reach NHB one month before the due date for effecting conversion.

9. Appraisal

- The appraisal shall be carried out based as per the norms prescribed in the Project Finance Policy.
- The due diligence procedure shall include credit history verification of borrowers from at least two bureaus.
- The following checks will be carried out as per the RBI Circular:
 - ✓ SMA-2 status of the borrower from CRILC.
 - ✓ Involvement in fraud by the director/borrower from the CFR.
 - ✓ Verification from the updated list of wilful defaulter of CIBIL.
- After the preliminary appraisal, a Screening Committee called Project Evaluation Group (PEG) will examine prime facie, the viability of the project and to verify conformity with the Project Finance Policy of the Bank.
- The PEG will be constituted internally by MD & CEO.
- The PEG will screen all proposals and consider whether they are suitable for admittance for detailed appraisal.
- Once the detailed appraisal of the project is carried out, the same is put to the Competent Authority for its consideration. The prospective borrower will be advised accordingly.

10. Disbursal of funds

- Funds will be released based on the physical progress of the project and the cash flow. The agency's contribution may come either upfront or on pro-rata basis.
- While sanctioning a project, a loan drawal schedule shall be prepared on the basis of the project schedule. The funds will be disbursed based on the physical progress of the project.
- In the case of short term financing and line of credit, disbursal will take place on demand after documentation has been completed.

11. Pre-payment Charges

Pre-payment of loans may be allowed after receiving one month's notice and shall be subject to pre-payment charges of 0.50% of the amount to be prepaid.

12. Exposure limit

The counter party exposure of the Bank is centrally monitored by the Risk Management Department. Exposure of the Bank shall be restricted to 15% of the capital fund of the National Housing Bank in the case of an individual agency and 25% in the case of group* exposure. The exposure to an individual borrower may be increased to 20% in the following cases:

- Agencies undertaking large scale housing for EWS / LIG categories
- All India level housing construction agencies like Army Welfare Housing Organization, Air Force Naval Housing Board, Central Govt. Employees Welfare Housing Organization, Indian Railway Welfare Housing Organization, etc. operating in different states.

* Concept of group - The identification shall be with reference to the Industrial House to which it belongs, commonality of management and effective control on the basis of relevant information available to the Bank.

13. Repayment

- Repayment of principal will be made in equal quarterly/monthly installments which shall commence on the first day of succeeding quarter after the moratorium period unless otherwise specified. Decision regarding any deviation from this may be based on the fund flow of the project.
- Payment of interest will be made on monthly/quarterly basis, including during the moratorium period, before repayment of the installments becomes due. Effective interest rate will be communicated to the agency in case of interest payment on compounded monthly payable quarterly.
- The due date for payment of interest and repayment of principal shall be the first day of every calendar quarter/month following the quarter/month to which the repayment relates.
- For any delay beyond the first fifteen days, penal interest on the amount in default for the total period of delay will be payable at the rate of 2 per cent over and above the applicable rate.

14. Monitoring

Monitoring of projects shall be carried out in the following manner:

(a) Pre-sanction Stage

- While the project proposals on receipt are evaluated on the basis of information/data received or subsequently called for,

in order to verify certain site and locational aspects, pre-sanction inspections shall be carried out as per requirement.

- Pre-sanction inspection shall be carried out in case of project loans above ₹ 3 crores in case of public agencies and in all cases for other types of borrowers.
- The requirement of pre-sanction inspection may be waived by the sanctioning authority at the time of sanction of the project proposal. In such cases, a post sanction inspection may be permitted before the first disbursement of loan.

(b) Project implementation Stage

- During the execution of the project, physical progress, expenditure incurred, source and utilisation of funds, etc shall be ascertained by obtaining quarterly progress reports in a specified format and periodic visits to the project site at certain intervals till completion of the project. Any deviation from the sanctioned project parameters shall be brought to the notice of the appropriate authority, and dealt with accordingly.
- Frequency of inspection of project sites shall depend upon the agency, nature and size of project, etc. Inspection shall be carried out at least once a year for projects costing less than ₹ 5 crores and once in six months for others. However periodicity can be altered depending upon the size of the project, actual progress, etc. The inspections shall be carried out only during the currency of the project.
- The end use of funds shall be ensured by obtaining utilisation/end use certificate from chartered accountant/auditors/chief account officer.
- Monitoring of the projects and ensuring quality control would be achieved through the mechanism of appropriate outside consultants, wherever felt necessary.
- Progress reports are to be furnished by the agency every calendar quarter after the commencement of the project, and in the case of public agency, at least once in two quarters.

(c) The following checks will be carried out at half yearly intervals:

- ✓ SMA-2 status of the borrower from CRILC.
- ✓ Involvement in fraud by the director/borrower from the CFR.
- ✓ Verification of director/borrower from the updated list of wilful defaulter from CIBIL as per RBI Guidelines.

- (d) In case of downward revision of internal rating by more than two notches monitoring would be strengthened in respect of standard accounts and all future sanctions would comply with the new rating norms.

15. National Building Code

The housing projects which are financed by the Bank will adhere to National Building code formulated by the Bureau of Indian Standards (BIS) in view of the importance of safety of buildings, especially against natural calamities.

16. Service fee

A service fee (upfront) of 0.5% of the loan amount will be charged from all borrowers in respect of the proposals submitted by them. The sanctioning authority may be authorised to reduce/waive the service fee in deserving cases at the time of sanction.

17. Valuation of property / project

- In case of standard account the valuation of land and project properties shall be carried out once in 2 years, wherever required. The valuation shall not be carried out where the outstanding exposure of the Bank is less than 25% of the disbursed amount or the account is having more than 5 years regular repayment in the loan account.
- However, the valuation in case of loan account classified as NPA would be carried out once in 3 years in tandem with RBI Guidelines.
- The Bank may avail the services of certified valuers who are in the panel of at least two Scheduled Commercial Banks/Financial Institutions for the purpose.
- Such services may be sought from the existing panel of certified valuers attached to any nationalized bank.
- Such valuers may also be utilized for the purpose of auditing of project accounts for the purpose of estimating the financial progress of the project.

18. Documentation

- For the purpose of availing project finance from the Bank, the borrowing agencies are required to execute necessary documents through their authorized signatories in any of the offices of the Bank.

- The documents could also be executed by the officials of the borrowing agency before the Bank's authorized officer or before a Notary Public/competent authority who would suitably furnish a certificate to that effect.

19. Know Your Customer

The KYC of borrowers would be carried out as per the KYC Policy of the Bank.

₹

₹

₹