March 04, 2019

National Housing Bank seeks comments/feedback on amendments proposed in regulations for Housing Finance Companies on Capital Adequacy requirements and Borrowing limit

The Housing Finance Company (HFC) sector has evolved considerably in terms of its size, operations etc. and HFCs are deeply interconnected with other entities in the financial sector. Being financial entities, HFCs are exposed to risks arising out of counterparty failures, funding risks and risks pertaining to liquidity and solvency, as any other financial sector player. There is thus a felt need for a review of the regulatory framework of HFCs over a few aspects which are detailed below:

Minimum Capital Adequacy Ratio

2. Capital adequacy ratio (CAR) is one of the important parameters from the point of view of solvency of HFCs and their protection from untoward events which arise as a result of liquidity risk as well as the credit risk that the HFCs are exposed to in the normal course of their business.

3. In terms of para 30 (1) of the Housing Finance Companies (NHB) Directions, 2010, every HFC shall maintain a minimum capital ratio consisting of Tier-I and Tier -II capital which shall not be less than 12% of its aggregate risk weighted assets and of risk adjusted value of off-balance sheet items.

4. Keeping in view the long term nature of the housing finance business model and requirement of long term capital, the following proposal relating to progressive increase in the minimum capital adequacy requirement for HFCs, from the present stipulation of 12%, is under consideration as below:

Minimum CAR	Proposed timeline
13%	By March 31, 2020
14%	By March 31, 2021
15%	By March 31, 2022

Public Deposits and Overall Borrowings by HFCs

5. In terms of the provisions of paragraph 3(2) of the Housing Finance Companies (NHB) Directions, 2010, no HFC shall have deposits, inclusive of public deposits, the aggregate amount of which together with the amounts, if any, held by it which are referred in clauses (iii) to (vii) of sub-section (bb) of Section 45 I of the Reserve Bank of India Act, 1934 (2 of 1934) as also loans or other assistance from the National Housing Bank, is in excess of sixteen times of its Net Owned Fund (NOF). In modification of the same, it is proposed to implement graded reduction in the limit on the overall borrowings of HFCs, from the extant permissible level of 16 times of NOF of the HFC, as under:

Cap on overall borrowings	Proposed timeline
14 times of NOF	By March 31, 2020
13 times of NOF	By March 31, 2021
12 times of NOF	By March 31, 2022

6. Further, it is also proposed to stipulate that the ceiling on public deposits for the applicable HFCs be capped at 3 times of the NOF of the HFC.

7. NOF for the purpose of determination of the above borrowing limits shall be with reference to the NOF as per the audited accounts as on March 31st of the previous year. Infusion of capital (eligible for inclusion under NOF as per NHB regulations) after such balance sheet may, however, be taken into account for determining the limits.

8. Comments/suggestions on the above proposals are invited from HFCs and other stakeholders by **March 31, 2019**. The comments / feedback may be forwarded to

The General Manager
Department of Regulation and Supervision
National Housing Bank
4th Floor, Core 5-A, India Habitat Centre
Lodhi Road, New Delhi -110 003

or by email at drsfeedback@nhb.org.in

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