

RBI/2020-21/60

DO.R.NBFC (HFC).CC.No.118/03.10.136/2020-21

October 22, 2020

To,

Housing Finance Companies

Madam/ Dear Sir,

Review of regulatory framework for Housing Finance Companies (HFCs)

Please refer to the Bank's [Press Release No.2019-20/419 dated August 13, 2019](#) and draft regulatory framework placed in public domain on [June 17, 2020](#) seeking comments from stakeholders. Based on the examination of the inputs received, it has been decided to issue the revised regulatory framework for HFCs.

2. In exercise of powers conferred under National Housing Bank Act, 1987, and Reserve Bank of India Act, 1934, and in supersession of relevant regulations issued by National Housing Bank (NHB), the instructions as enumerated in the [Annex](#) will be applicable to all HFCs. HFCs shall continue to comply with all extant instructions issued by NHB, which are not covered in the [Annex](#).

3. Exemption granted to HFCs from the provisions of Chapter III B of Reserve Bank of India Act, 1934 except for section 45-IA (Requirement of registration & net owned funds) was withdrawn on November 11, 2019. On a review, it has been decided to additionally exempt HFCs from section 45-IB (Maintenance of percentage of assets) and section 45-IC (Reserve fund) of the Reserve Bank of India Act. Necessary Notification in this regard will be issued in due course. It is clarified that the corresponding provisions of section 29B and 29C of the National Housing Bank Act, 1987 will, however, be applicable to HFCs.

4. As mentioned in para 3 of the public document put out for consultation, further harmonisation between the regulations of HFCs and NBFCs will be taken up in a phased manner in the next two years so as to ensure that the transition is achieved with least disruption. Master Direction for HFCs covering all applicable instructions will be issued shortly.

Yours faithfully,

(Manoranjan Mishra)
Chief General Manager

Changes in the regulatory framework for Housing Finance Companies (HFCs)

Principal business and housing finance

1. “Housing finance company” shall mean a company incorporated under the Companies Act, 2013 that fulfils the following conditions:

- a) It is an NBFC¹ whose financial assets, in the business of providing finance for housing, constitute at least 60% of its total assets (netted off by intangible assets). Housing finance for this purpose shall mean providing finance as stated at clauses (a) to (k) of Para 2 below.
- b) Out of the total assets (netted off by intangible assets), not less than 50% should be by way of housing financing for individuals as stated at clauses (a) to (e) of Para 2 below.

2. “Housing Finance” shall mean financing, for purchase/ construction/ reconstruction/ renovation/ repairs of residential dwelling units, which includes:

- a. Loans to individuals or group of individuals including co-operative societies for construction/ purchase of new dwelling units.
- b. Loans to individuals or group of individuals for purchase of old dwelling units.
- c. Loans to individuals or group of individuals for purchasing old/ new dwelling units by mortgaging existing dwelling units.
- d. Loans to individuals for purchase of plots for construction of residential dwelling units provided a declaration is obtained from the borrower that he intends to construct a house on the plot within a period of three years from the date of availing of the loan.
- e. Loans to individuals or group of individuals for renovation/ reconstruction of existing dwelling units.
- f. Lending to public agencies including state housing boards for construction of residential dwelling units.
- g. Loans to corporates/ Government agencies for employee housing.

¹ The company will be treated as an NBFC if its financial assets are more than 50 per cent of its total assets (netted off by intangible assets) and income from financial assets should be more than 50 per cent of the gross income.

- h. Loans for construction of educational, health, social, cultural or other institutions/centres, which are part of housing projects and which are necessary for the development of settlements or townships (see note below).
- i. Loans for construction meant for improving the conditions in slum areas, for which credit may be extended directly to the slum-dwellers on the guarantee of the Central Government, or indirectly to them through the State Governments.
- j. Loans given for slum improvement schemes to be implemented by Slum Clearance Boards and other public agencies.
- k. Lending to builders for construction of residential dwelling units.

2.1 All other loans including those given for furnishing dwelling units, loans given against mortgage of property for any purpose other than buying/ construction of a new dwelling unit/s or renovation of the existing dwelling unit/s as mentioned above, will be treated as non-housing loans and will not be falling under the definition of "Housing Finance".

Note: Integrated housing project comprising some commercial spaces (e.g. shopping complex, school, etc.) can be treated as residential housing, provided that the commercial area in the residential housing project does not exceed 10 per cent of the total Floor Space Index (FSI) of the project.

3. The above criteria will be applicable from the date of this circular. Registered HFCs which do not currently fulfil the criteria as specified in Para 1, but wish to continue as HFCs, shall be provided with the following timeline for transition:

Timeline	Minimum percentage of total assets towards housing finance	Minimum percentage of total assets towards housing finance for individuals
March 31, 2022	50%	40%
March 31, 2023	55%	45%
March 31, 2024	60%	50%

Such HFCs shall be required to submit to the Reserve Bank, a Board approved plan within three months including a roadmap to fulfil the above-mentioned criteria and timeline for transition. HFCs unable to fulfil the above criteria as per the timeline shall be treated as NBFC – Investment and Credit Companies (NBFC-ICC) and they will be required to approach the Reserve Bank for conversion of their Certificate of Registration from HFC to NBFC-ICC. Application for such conversion should be submitted with all supporting documents meant for new registration together with an

auditor's certificate on principal business criteria and necessary Board resolution approving the conversion.

Net Owned Fund (NOF) Requirement

4. In exercise of the powers conferred by clause (b) of sub-section (1) of Section 29A of the National Housing Bank Act, 1987, and all powers enabling it in that behalf, the Reserve Bank hereby specifies Rupees twenty crore as the minimum net owned funds required for a company to commence housing finance as its principal business or carry on the business of housing finance as its principal business.

Provided that a housing finance company holding a Certificate of Registration (CoR) and having net owned fund of less than Rupees twenty crore, may continue to carry on the business of housing finance, if such company achieves net owned fund of Rupees fifteen crore by March 31, 2022 and Rupees twenty crore by March 31 2023.

5. It will be incumbent upon such HFCs whose NOF currently stands below Rupees twenty crore, to submit a statutory auditor's certificate to Reserve Bank within a period of one month evidencing compliance with the prescribed levels as at the end of the period indicated above. HFCs failing to achieve the prescribed level within the stipulated period shall not be eligible to hold the Certificate of Registration (CoR) as HFCs and registration for such HFCs shall be liable to be cancelled. Such companies, who wish to be treated as NBFC – Investment and Credit Companies (NBFC-ICCs), will be required to approach RBI for conversion of their CoR from HFC to NBFC-ICC. Application for such conversion should be submitted with all supporting documents meant for new registration together with an auditor's certificate on principal business criteria (PBC) and necessary Board resolution approving the conversion.

Applicability of directions issued by Reserve Bank

6. The following master directions, as amended from time to time, shall apply *mutatis mutandis* to all HFCs:

- a. [Master Direction – Monitoring of Frauds in NBFCs \(Reserve Bank\) Directions, 2016.](#)
- b. [Master Direction – Information Technology Framework for the NBFC Sector dated June 08, 2017.](#)

7. The following instructions, as further detailed in the [Appendix](#) shall apply *mutatis mutandis* to all HFCs:

- a. **Definition of public deposits** as contained in Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016. Additionally, any amount received from NHB or any public housing agency shall also be exempted from the definition of public deposit.
- b. **Implementation of Indian Accounting Standards:** HFCs shall maintain a prudential floor in respect of impairment allowances and follow instructions on regulatory capital.
- c. **Loans against security of shares:** HFCs lending against the collateral of listed shares shall maintain a Loan to Value (LTV) ratio of 50% for loans granted against the collateral of shares. Any shortfall in the maintenance of the 50% LTV occurring on account of movement in the share prices shall be made good within seven working days.
- d. **Loans against security of single product – gold jewellery:** HFCs shall maintain a Loan-to-Value (LTV) Ratio not exceeding 75 per cent for loans granted against the collateral of gold jewellery, and shall put in place a Board approved policy for lending against gold.
- e. **Levy of foreclosure charges:** HFCs shall not impose foreclosure charges/ pre-payment penalties on any floating rate term loan sanctioned for purposes other than business to individual borrowers, with or without co-obligant(s).
- f. **Guidelines on Securitization Transactions and reset of Credit Enhancement:** HFCs shall carry out securitization of standard assets and transfer of assets through direct assignment of cash flows and the underlying securities. In doing so, HFCs, among other things, shall conform to the minimum holding period (MHP) and minimum retention requirement (MRR) standards.
- g. **Managing Risks and Code of Conduct in Outsourcing of Financial Services:** It is imperative for HFCs outsourcing their activities that they ensure sound and responsive risk management practices for effective oversight, due diligence and management of risks arising from such outsourced activities.
- h. **Guidelines on Liquidity Risk Management Framework:** All non-deposit taking HFCs with asset size of ₹100 crore and above and all deposit taking HFCs (irrespective of asset size) shall pursue liquidity risk management,

which *inter alia* should cover adherence to gap limits, making use of liquidity risk monitoring tools and adoption of stock approach to liquidity risk. It will be the responsibility of the Board of each HFC to ensure that the guidelines are adhered to. The internal controls required to be put in place by HFCs as per these guidelines shall be subject to supervisory review.

i. **Guidelines on Liquidity Coverage Ratio (LCR):** HFCs shall maintain a liquidity buffer in terms of LCR, which will promote resilience of HFCs to potential liquidity disruptions by ensuring that they have sufficient High Quality Liquid Asset (HQLA) to survive any acute liquidity stress scenario lasting for 30 days. Guidelines on LCR will be applicable to HFCs as per the following timeline:

i) All non-deposit taking HFCs with asset size of ₹10,000 crore & above, and all deposit taking HFCs irrespective of their asset size:

From	December 01, 2021	December 01, 2022	December 01, 2023	December 01, 2024	December 01, 2025
Minimum LCR	50%	60%	70%	85%	100%

ii) All non-deposit taking HFCs with asset size of ₹5,000 crore & above, but less than ₹10,000 crore with the timeline as:

From	December 01, 2021	December 01, 2022	December 01, 2023	December 01, 2024	December 01, 2025
Minimum LCR	30%	50%	60%	85%	100%

8. Exposure of HFCs to group companies engaged in real estate business: In case of companies in a group engaged in real estate business, HFCs may undertake exposure either to the group company engaged in real estate business or lend to retail individual home buyers in the projects of such group companies. In case HFC prefers to undertake exposure in group companies, such exposure by way of lending and investing, directly or indirectly, cannot be more than 15% of owned fund for a single entity in the group and 25% of owned fund for all such group entities. The HFC would in all such cases follow arm's length principles in letter and spirit.

Appendix

Para no. of this circular	Particulars	Reference to regulations issued by Reserve Bank
7 (a)	Definition of public deposits	Para 3 (xiii) <u>Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016.</u>
7 (b)	Implementation of Indian Accounting Standards	DOR (NBFC).CC.PD.No.109/22.10.106 /2019-20 dated March 13, 2020 and DOR (NBFC).CC.PD.No.116 /22.10.106/2020-21 July 24, 2020.
7 (c)	Loans against security of shares	Para 22 of <u>Master Direction – Non-Banking Financial Company – Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.</u>
7 (d)	Loans against security of single product—gold jewellery	Para 27 and Para 39 of <u>Master Direction – Non-Banking Financial Company – Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.</u>
7 (e)	Levy of foreclosure charges	Para 31 (4) of <u>Master Direction – Non-Banking Financial Company – Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.</u>
7 (f)	Guidelines on Securitisation Transactions	Para 105 and 106 of <u>Master Direction – Non-Banking Financial Company – Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.</u>
7 (g)	Managing Risks and Code of Conduct in Outsourcing of Financial Services	Para 120 of <u>Master Direction – Non-Banking Financial Company – Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.</u>
7 (h)	Guidelines on Liquidity Risk Management Framework	Para 15A of <u>Master Direction – Non-Banking Financial Company – Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.</u>
7 (i)	Guidelines on Liquidity Coverage Ratio	Para 15B of <u>Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.</u>