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BUDGET SCHEME FOR LIQUIDITY SUPPORT TO NBFCS ROLLS OUT

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

NEW DELHI: New Delhi: India has operationalised a partial guarantee scheme announced in the budget for non-banking and housing finance companies (NBFCs and HFCs), which will allow state-run banks (PSBs) to purchase their assets.

It is aimed at providing liquidity support to avoid distress sale of assets in a sector facing a shortage of cash due to asset-liability mismatch. The stress on NBFCs and HFCs is seen as a key reason for a slowdown in the economy, as it has caused reduced credit flow to small businesses and consumers.

The government is putting in a mechanism to ensure the scheme takes off on ground. It will elicit information on a real-time basis on the working of the scheme and has sought real-time reporting of transactions under it.
As per the guidelines of the scheme announced in the budget, the Department of Economic Affairs will provide government guarantee of up to 10% of the fair value of assets purchased by a bank from a stressed NBFC or HFC. The scheme is capped at Rs 1 lakh crore and will be open for up to six months.

The Department of Financial Services will obtain information on transactions in a prescribed format from PSBs and send a copy to the budget division of the Department of Economic Affairs. The government will settle claims by banks within five working days.

NBFCs will have to pay a fee to the government, at 0.25% per annum of the fair value of assets sold to banks. They will be able to sell 20% of standard assets, worth up to Rs 5,000 crore, as on March 31.

Assets sold must be at least AA or equivalent rated and the NBFC/HFC selling assets should have appropriate capital, net NPAs of less than 6% and been profitable for the last two financial years.

NBFCs will also have to rework the asset-liability structure within three months to have a positive asset liability management in each bucket for the first three months and on cumulative basis for the remaining period.

The one-time guarantee on the pooled assets will be valid for 24 months from the date of purchase and can invoked in specified circumstances. The guarantee shall cease earlier if the purchasing bank sells the pooled assets to the originating NBFC or HFC or any other entity before the validity of the guarantee period, the government said.

“The purchasing bank can invoke the guarantee if interest and/or instalment of principal remains overdue for more than 90 days (that is, when liability is crystalised for underlying borrower) during validity of such guarantee, subject to the condition that the guarantee is for the first loss up to 10%,” it added.

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