

CABINET APPROVES "PARTIAL CREDIT GUARANTEE SCHEME" FOR PURCHASE OF HIGH-RATED POOLED ASSETS FROM FINANCIALLY SOUND NBFCS/HFCS BY PSBS

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Cabinet

Cabinet approves "Partial Credit Guarantee Scheme" for purchase of high-rated pooled assets from financially sound NBFCS/HFCS by PSBs

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The Union Cabinet, chaired by the Prime Minister Shri Narendra Modi, has given its approval to the following:

- i. "Partial Credit Guarantee Scheme", to be offered by the Government of India (GoI) to Public Sector Banks (PSBs) for purchasing high-rated pooled assets from financially sound Non-Banking Financial Companies (NBFCs) / Housing Finance Companies (HFCs), with the amount of overall guarantee being limited to first loss of up to 10 per cent of fair value of assets being purchased by the banks under the Scheme, or Rs. 10,000 crore, whichever is lower, as agreed by Department of Economic Affairs (DEA). The scheme would cover NBFCs / HFCs that may have slipped into SMA-0 category during the one year period prior to 1.8.2018, and asset pools rated "BBB+" or higher.
- ii. The window for one-time partial credit guarantee offered by GoI will remain open till 30th June, 2020 or till such date by which Rs. 1,00,000 crore assets get purchased by the Banks, whichever is earlier. Power has been delegated to the Finance Minister to extend the validity of the Scheme by up to three months taking into account its progress.

Major Impact

The proposed Government Guarantee support and resultant pool buyouts will help address NBFCs/HFCs resolve their temporary liquidity or cash flow mismatch issues, and enable them to continue contributing to credit creation and providing last mile lending to borrowers, thereby spurring economic growth.

Background:

In the Union Budget 2019-20, it was announced that:

"For purchase of high-rated pooled assets of financially sound NBFCs, amounting to a total of Rupees one lakh crore during the current financial year, Government will provide one time six months' partial credit guarantee to Public Sector Banks for first loss up to 10%."

In pursuance to the aforesaid Budget announcement, a Scheme was issued on 10.8.2019 (as modified on 23.9.2019) for providing Government Guarantee to PSBs for purchase of assets by them from NBFCs / HFCs, limited to 10 per cent of fair value of assets purchased by the banks under the Scheme or Rs.10,000 crore, whichever is lower. The window was for a period of six months from the date of issuance of the Scheme or till such date by which Rs.1,00,000 crore of assets get purchased by the Banks, whichever is earlier.

Based upon suggestions received from various stakeholders and discussions held with them, it was decided to obtain approval of the Cabinet on the Scheme incorporating modifications as under:

- (a) To make NBFCs / MFCs that may have slipped to SMA-0 category during the one year period prior to 1.8.2018 (i.e. prior to the IL&FS crisis), eligible for purchase of pooled assets from them by PSBs. NBFCs / HFCs reported under SMA-I and SMA-2 category during the aforesaid period will continue to be ineligible under the Scheme.
- (b) To revise the minimum rating of the underlying asset pool being purchased by PSBs from the existing "AA" to "BBB+".
- (c) To make the Scheme effective upto 30.6.2020, with powers being delegated to the Finance Minister to further extend the Scheme by 3 more months, depending upon the progress made under the Scheme.

The Cabinet has now accordingly approved the "Partial Credit Guarantee Scheme", incorporating modifications as above.

The Scheme is offered to Public Sector Banks with the objective that the purchase of pooled assets enabled by Government guarantee support under the Scheme, will help addressing temporary liquidity / cash flow mismatch issues of otherwise solvent NBFCs / HFCs without them having to resort to distress sale of their assets for meeting their commitments. This will provide liquidity to the NBFC / HFC concerned for financing the credit demand of the economy, and also

protect the financial system of the country from any adverse contagion effect that may arise due to the failure of such NBFCs / HFCs.

SC/PK/SH

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