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FUNDING NBFCS UNDER CREDIT GUARANTEE SCHEME

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

Ministry of Finance

Funding NBFCs under Credit Guarantee Scheme

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A number of steps have been taken since 2018 to ease the liquidity position of Non-Banking Financial Companies (NBFCs) and to increase credit flow. This was stated by Shri Anurag Singh Thakur, Union Minister of State for Finance & Corporate Affairs, in a written reply to a question in Rajya Sabha today.

The Minister of State stated that, including, *inter-alia*, the following steps, inter alia, have been taken:

1. Overall positive liquidity in the system has been ensured since June 2019 through open market operations conducted in addition to regular Liquidity Adjustment Facility auctions.
2. **For liquidity support to NBFCs,—**

i. A special dispensation has been given for banks, whereby their incremental credit to NBFCs after 19.10.2018 could be treated as high-quality liquid assets for calculation of liquidity coverage ratio;
ii. Securitisation guidelines for NBFCs have been relaxed by lowering the minimum holding period requirements from one year to six months for eligible loan assets till 30.6.2020; and
iii. A Partial Credit Guarantee Scheme (PCGS) has been launched for purchase of pooled assets of NBFCs.

3. **For enabling NBFCs to borrow and raise funds,—**

i. Banks have been permitted to provide partial credit enhancement to bonds issued by Non-Deposit-taking Systemically Important (NDSI) NBFCs registered with Reserve Bank of India (RBI) and Housing Finance Companies (HFCs) registered with National Housing Bank (NHB);
ii. The minimum average maturity requirement for External Commercial Borrowings in the infrastructure space by eligible borrowers has been reduced from five years to three years;
iii. Risk weights as per credit agency assigned ratings have been made applicable to bank exposures to NBFCs other than Core Investment Companies;
iv. Single-borrower exposure limit for NBFCs (excluding gold loan companies) has been increased from 15% to 20% of tier-I capital of the bank.

4. **For increasing credit through NBFCs,—**

i. Bank credit to NBFCs other than Micro-Finance Institution NBFCs for on-lending has been made eligible for classification as priority sector up to a limit of five percent of individual bank's total priority sector lending and up to Rs. 10 lakh per borrower for agriculture and up to Rs. 20 lakh per borrower for micro and small enterprises and for housing;

ii. Scheduled commercial banks other than Regional Rural Banks and Small Finance Banks have been allowed to engage with NDSI NBFC to co-originate loans for creation of priority sector assets; and

iii. NHB has launched a Liquidity Infusion Facility (LIFt) for refinance to HFCs for financing affordable housing sales.

Shri Thakur further stated that PCGS was launched on 11.12.2019 for providing guarantee to Public Sector Banks for purchasing high-rated pooled assets from financially sound NBFCs/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, or Rs 10,000 crore, whichever is lower. The scheme covers NBFCs/HFCs that may have slipped into Special Mention Account-0 category (*i.e.*, repayments in which are up to 30 days past due date) during the one year period prior to 1.8.2018, and asset pools rated "BBB+" or higher. The window for one-time partial credit guarantee is open till 30.6.2020 or till such date by which Rs 1,00,000 crore assets get purchased by the banks, whichever is earlier.

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