

RBI BEGINS MONITORING HFCS

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

Snowballing issue:In RBI's view, crisis in HFC sector could spill over to other segments in the financial sector. Reuters

The Reserve Bank of India (RBI) has started monitoring the liquidity position, asset-liability gap and repayment schedules of housing finance companies (HFCs) on a daily basis after the liquidity crisis hit these firms, resulting in defaults.

Mortgage lenders are regulated by the National Housing Bank. But the central bank is of the view that since the liquidity crisis of the HFCs could have a spillover effect on the other segments in the financial sector, including banks, and hence, could affect financial stability, it was necessary to monitor these entities on a regular basis

For this purpose, a general manager in National Housing Bank has been asked to be in regular communication with a chief general manager in the department of non-banking supervision (DNBS) of the RBI, sources familiar with the development told *The Hindu*, adding the process had started about a week ago.

The non-banking financial sector, particularly the mortgage lenders, are fighting a crisis of confidence with banks having stopped lending to these entities since the debt default by IL&FS in September last year.

NBFCs saw their cost of funds going up sharply in the last few months. This has impacted their business growth as the lenders have to cut down on their loan disbursements.

Feeling pressure

The move to monitor HFCs on a daily basis comes after some mortgage lenders started feeling the pressure to meet their financial obligations. Dewan Housing Finance Corporation, for example, partially defaulted on repayment to its commercial paper holders. Earlier, the company had to delay repayment to its non-convertible debenture holders.

RBI Governor Shaktikanta Das had emphasised on the importance of maintaining financial stability in the wake of the HFC crisis.

"... the RBI does not regulate the housing finance companies, nonetheless, the banks have significant exposure to the housing finance companies. And, the RBI in any case is mandated to look after the financial stability of the entire economy...the RBI will not hesitate to take whatever steps are required to ensure that financial stability is not adversely impacted in any manner by any development," Mr. Das had said during a media interaction earlier this month.

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