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36,107 ▼ -63.17

நிஃப்டி 50
10,839 ▼ -19.05

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30,232.00 ▲ 28.00

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RBI eases rules to improve cash flows of housing finance companies

BY [ATMADIP RAY](#), ET BUREAU | UPDATED: NOV 29, 2018, 09.09 PM IST

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Kolkata: Reserve Bank of India has eased rules to help housing finance companies tide over liquidity tightness ahead of its next board meeting which is expected to thrash out concerns over liquidity squeeze.

The central bank has allowed non-banking finance companies with loans of over five year maturities to sell their loan pools or securitise them on easier terms for the next six months. It has brought down the **minimum holding period** for loans to be eligible for securitisation to six months from one year, which has been a demand for quite some time.

"The move will primarily benefit housing finance companies as their eligible portfolio available for securitisation would now increase," said Vibhor Mittal, ICRA's group head for structured finance.

Concerns over liquidity and how to address it was one of the key issues between the central bank and the government after the IL&FS fiasco. Several HFCs with their policy of borrowing short term to create long term assets were in spot of bother when liquidity in the market got squeezed.

While the government encouraged them to securitise loans to improve cash flows, experts tracking the sector said that many HFCs did not have enough pool to sell down or securitise loans as a majority of loans with more than one year holding had already been sold off.

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While RBI eased the minimum holding period rule, it told the lenders to retain 20% of the fresh eligible loan portfolio instead of the regular norm of 10%.



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Securitisation is a process of pooling loan receivables and selling their related cash flows to third party investors as securities. This frees up capital which can be used for fresh lending. Direct assignment of loans are part of securitisation deals by which loan receivable are sold by the originator to another entity. This improves cash flows of the originators but shrinks their portfolio.

The banking regular has also made the 5% interest subvention rules for small and medium enterprises operational which would help get pre and post shipment export credit on softer terms. This is in line with the government decisions to boost credit flow to the MSME sector which is one of the largest job creator.

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