

# Government to incentivise banks for buying NBFC assets to provide liquidity

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One-time six-month partial credit guarantee to be provided to PSBs for the first loss of up to 10%

RBI will now regulate the housing finance companies

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**Mumbai:** In a move to restore liquidity in the [non-banking finance sector \(NBFC\)](#) and push banks to buy assets from them under the pool purchase programme, the government will provide a one-time six-month partial credit guarantee to public sector banks (PSB) for the first loss of up to 10%, said Nirmala Sitharaman, union finance minister.

“For purchase of high-rated pooled assets of financial sound NBFCs amounting to a total of ₹1 lakh crore during the current financial year, the government will provide a one-time six-month partial credit guarantee to public sector banks for the first loss of up to 10%,” she said.

NBFCs, she said, are playing a very import role in sustaining the consumption demand as well as capital formation in small and medium industries. "NBFCs that are fundamentally sound should continue to get funding from banks and mutual funds without being unduly risk-averse," said Sitharaman.

She added that the [Reserve Bank of India \(RBI\)](#) will now regulate the housing finance companies (HFCs), a power so long vested in the National Housing Bank (NHB).

“Efficient and conducive regulation of the housing sector is extremely imprint in our context. The National Housing Bank, besides being the refinancer and the lender is also the regulator of the HFC sector. This is a somewhat conflicting and difficult mandate to the NHB. I am proposing to return the regulatory authority over HFCs from the NHB to the RBI,” said Sitharaman.

The finance minister also said that although the central bank is the regulator of NBFCs, it has limited regulatory authority over NBFCs. “Appropriate proposals over strengthening of regulatory authority of RBI over NBFCs are being placed in the Finance Bill,” she said, adding

that non-banks which engage in public placement of debt will have to maintain a debenture redemption reserve in addition to a special reserve as required by RBI.

Sitharaman announced that ₹70,000 crore will be infused into public sector banks to boost credit. In FY18 and FY19 put together, the government pumped in ₹1.96 lakh crore into public sector banks. Interestingly, the interim budget in February this year did not specify any recapitalisation for PSBs. In FY19, the government infused over ₹1 lakh crore in public sector banks with the last round of ₹48,239 crore in February allowing six banks to exit RBI's prompt corrective action (PCA) exercise. The central bank uses PCA framework to rein in banks that have breached certain regulatory thresholds in bad loans and capital adequacy. Banks under PCA are subjected to lending restrictions, branch expansions, among others.

Reacting to the announcements, NBFC stocks surged on Friday. For instance, GIC Housing Finance rose 5%, L&T Finance rose 4%, Indiabulls Housing Finance rose 3%, M&M Finance rose 2.7%, Can Fin Home rose 2.2%, Edelweiss Capital rose 2.2%, LIC Housing Finance rose 2%, PNB Housing rose 2% and JM Financial rose 1.7%.

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