FinMin kickstarts credit-support plan for NBFCs

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Issues guidelines for the one-time six month facility; minimum credit rating of ‘AA’ stipulated for eligible pool of assets

The Finance Ministry has come out with a scheme to operationalise the Budget announcement of a partial credit guarantee facility for public sector banks worth ₹1-lakh crore for the purchase of high-rated pooled assets of financially sound non-banking financial companies (NBFCs) and housing finance companies (HFCs).

The objective of this one-time facility, which will be open for six months or till such date that assets worth ₹1-lakh crore are purchased by banks, whichever is earlier, is to address temporary asset-liability mismatches of otherwise solvent NBFCs/HFCs without resorting to distress sale of their assets to meet commitments. The partial credit guarantee was to cover the first loss of up to 10 per cent.

The operational guidelines stipulate that the assets would have to be purchased by the banks at fair value. Assets to be assigned by NBFCs/HFCs must be rated by credit rating agencies accredited by the RBI.

The one time guarantee provided by the government on the pooled assets will be valid for 24 months from the date of purchase and can be invoked on the occurrence of default. The guarantee would cease earlier if the purchasing bank sells the pooled assets to the originating NBFC/HFC or any other entity, before the validity of the guarantee period.

Eligible entities

All NBFCs registered with the RBI excluding those registered as MFIs and core investment companies would be eligible for the facility. They should have made net profit in at least one of the last two preceding financial years (2017-18 and 2018-19). Besides other conditions, their net NPA should not be more than six 6 per cent as of March 31, 2019.

All HFCs registered with the National Housing Bank and meeting the conditions of net profit, NPAs (less than 6 per cent) will be eligible for the facility. MFIs and core investment companies are not covered under the scheme, said the Finance Ministry has said.

Eligible assets

The scheme stipulates that assets originated up to March 31 this year will only be eligible under this scheme. Assets should be standard in the books of NBFCs/HFCs on the date of sale. The pool of assets should have minimum rating of 'AA' or equivalent at fair value prior to the partial credit guarantee by the government.

NBFCs/HFCs can sell up to a maximum of 20 per cent of their standard assets as on March 31, 2019 subject to a cap of ₹5,000 crore at fair value. The underlying assets should represent the debt obligations of a homogenous pool of obligors and individual asset size in the pool is capped at ₹5 crore (i.e. asset pool should be sufficiently granular).

Originating NBFCs/HFCs cannot assign revoking credit facilities; assets purchased from other entities and assets with bullet repayment of both principal and interest, the Finance Ministry has said.

The entire process of execution of the partial credit guarantee will happen through SIDBI. The public sector bank concerned will have to submit the proposal for execution of guarantee under the scheme to SIDBI along with rating details

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