Scheme to provide a one-time partial credit guarantee to PSBs for purchase of pooled assets of financially sound NBFCs

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In pursuance of the announcement made in the Union Budget 2019-20 presented by the Union Minister of Finance has issued a scheme regarding partial credit guarantee on 10th August 2019. **The Scheme would enable the public sector banks (PSBs) to purchase pooled assets of financially sound NBFCs amounting to Rs. one lakh crore.**

Significance

It is expected that this measure would provide liquidity to the NBFC Sector and, in turn, enable them to continue to play their role in meeting the financing requirements of the productive sectors of the economy including MSME, retail and housing.

Objective

To address temporary asset-liability mismatches of otherwise solvent NBFCs/HFCs without having to resort to distress sale of their assets for meeting their commitments.

The validity of the scheme: The window for **one-time partial credit guarantee** offered by GoI will open from the date of issuance of the Scheme by the Government for a **period of six months,** or till such date by which Rupees One lakh crore assets get purchased by banks, whichever is earlier.

A. Operational Guidance:

- The assets shall be purchased by banks at fair value.
- Assets to be assigned by NBFCs/HFCs must be rated by Credit Rating Agencies (CRAs) accredited by Reserve Bank of India (RBI).
- One-time guarantee provided by the GoI on the pooled assets will be valid for 24 months from the date of purchase and can be invoked on the occurrence of default as outlined under heading 'D' below. The guarantee shall 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.
- The purchasing banks may have service level agreements with the originating NBFCs/HFCs for servicing, including administration of the individual assets.
- The NBFCs/HFCs can have the option to buy back their assets after a specified period of 12 months as a repurchase transaction, on a right of first refusal basis.

B. Eligible NBFCs/HFCs:

- The NBFCs registered with RBI under the Reserve Bank of India Act, excluding those registered as Micro Finance Institutions and Core Investment Companies.
- HFCs registered with National Housing Bank (NHB) under the National Housing Bank Act.
- The CRAR of NBFCs/CAR of HFCs should not be below the regulatory minimum (i.e. 15% for NBFCs and 12% for HFCs) as on 31.3.2019.
- Their net Non-Performing Asset should not be more than 6% as on 31.3.2019.
- They should have made a net profit in at least one of the last two preceding financial years (i.e. FY 2017-18 and 2018-19).
- The NBFCs/HFCs should not have been reported under the SMA category by any bank for their borrowings during the

last one year prior to 1.8.2018.

- Micro Finance Institutions and Core Investment Companies are not covered under the Scheme.

C.Eligible assets:

- Assets originated up to 31.3.2019 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 a minimum rating of 'AA' or equivalent at fair value prior to the partial credit guarantee by GoI.
- Each account under the pooled assets should have been fully disbursed and security charge should have been created in favour of the originating NBFCs/ HFCs.
- NBFCs/HFCs can sell up to a maximum of 20% of their standard assets as on 31.3.2019 subject to a cap of Rs. 5,000 crore at fair value. Any additional amount above the cap of Rs. 5,000 crore will be considered on a pro-rata basis, subject to availability of headroom.
- The underlying assets should represent the debt obligations of a homogeneous pool of obligors and individual asset size in the pool is capped at Rs. 5 crore (i.e. asset pool should be sufficiently granular).
- Originating NBFCs/HFCs cannot assign the following assets under this Scheme:

1. a) Revolving credit facilities;
2. b) Assets purchased from other entities; and
3. c) Assets with bullet repayment of both principal and interest.

D.Invocation of Guarantee:

The purchasing bank can invoke the GoI guarantee if the interest and/or instalment of principal remains overdue for a period of more than 90 days (i.e. when liability is crystalized for the underlying borrower) during the validity of such guarantee, subject to the condition that the guarantee is for the first loss up to 10.

E.Reporting and claims:

- There should be a process of real-time reporting of such transactions by the banks to GoI and to get the information on remaining available headroom for the purchase of such pooled assets. The Department of Financial Services (DFS), Ministry of Finance would obtain the requisite information in a prescribed format from the PSBs and send a copy to the budget division of DEA.
- GoI shall settle such claims by the banks within 5 working days from the date of claim.
- Upon recovery of the accounts for which the purchasing bank had invoked the GoI guarantee and received the claim from GoI, the guarantee amount, or the amount recovered, whichever is lower, should be passed on by banks to the GoI within 5 working days from the days of receipt in its books, subject to the condition that in case the guarantee amount is lower than the recovery shortfall the gap would be filled by the bank receiving the guarantee, but when the recovered amount is higher than the guaranteed amount than the excess over the guarantee amount would be kept by the bank.
- Any loss crystalized up to 24 months is eligible for claim from GoI under the Scheme, provided such pooled assets are not (a) bought back by the concerned NBFCs/HFCs or (b) sold by the purchasing bank to other entities.

F.Guarantee Fees:

NBFCs/HFCs will pay a fee equivalent to 0.25% per annum of the fair value of assets being purchased by the bank under this

Scheme to GoI (must be routed through the purchasing bank).

G.The NBFCs/HFCs whose assets are sold under this Scheme shall undertake the following:

- It should rework the Asset Liability structure within three months to have positive ALM in each bucket for the first three months and on a cumulative basis for the remaining period.
- At no time during the period for the exercise of the option to buy back the assets, should the CRAR go below the regulatory minimum. The promoter shall ensure this by infusing equity, where required.