RBI to tighten rules for home finance firms

- The Reserve Bank of India (RBI) has proposed stringent norms for housing finance companies by mandating 75% of their home loans to individual borrowers by 2024.

Housing finance company

- A housing finance company is considered a non-banking financial company (NBFC) under the RBI’s regulations.

A company is treated as an NBFC if its financial assets are more than 50% of its total assets and income from financial assets is more than 50% of the gross income.

- The RBI proposed the definition of qualifying assets for housing finance companies (HFCs).
- It said at least 50% of net assets should be in the nature of ‘qualifying assets’ for HFCs, of which at least 75% should be towards individual housing loans.
- Such HFCs which do not fulfil the criteria will be treated as NBFC – Investment and Credit Companies (NBFC-ICCs) and will be required to approach the RBI for conversion of their Certificate of Registration from HFC to NBFC-ICC.
- The NBFC-ICCs which want to continue as HFCs would have to follow a roadmap to make 75% of their assets individual housing loans.
- The target has been set at 60% by March 31, 2022, 70% by March 31, 2023, and 75% by March 31, 2024.

Qualifying assets

The RBI defined ‘qualifying assets’ as loans to individuals or a group of individuals, including co-operative societies, for construction/purchase of new dwelling units, loans to individuals for renovation of existing dwelling units, lending to builders for construction of residential dwelling units.

Non-housing loans

- All other loans, including those given for furnishing dwelling units, loans given against mortgage of property for any purpose other than buying/construction of a new dwelling unit/s or renovation of the existing dwelling unit/s, will be treated as non-housing loans.
- The regulator said that a HFC could either undertake an exposure on a group company in real estate business or lend to retail individual homebuyers in the projects of group
entities, but could not do both.

**Double financing (Construction companies and Individuals)**

- “In order to address concerns on double financing due to lending to construction companies in the group and also to individuals purchasing flats from the latter, the HFC concerned may choose to lend only at one level.
- Further, the RBI said if the HFC decided to take any exposure in its group entities (lending and investment), directly or indirectly, such an exposure could not be more than 15% of owned fund for a single entity in the group and 25% of owned fund for all such group entities.
- As regards extending loans to individuals, who choose to buy housing units from entities in the group, the HFC would follow arm’s length principles in letter and spirit.
- The central bank also proposed a minimum net-owned fund (NOF) of ₹20 crore as compared to ₹10 crore now.
- Existing HFCs would have to reach ₹15 crore within a year and ₹20 crore within two years.