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NHB proposes to ease CAR of housing finance firms to 15% by March 2022

Gopika Gopakumar
gopika.g@htlive.com

MUMBAI: The National Housing Bank (NHB) has proposed to increase the capital adequacy ratio (CAR) for housing finance companies (HFCs) to 15% in a phased manner by March 2022. The current ratio for HFCs stands at 12%, which will be increased by 1 percentage point over the next three years.

"Being financial entities, HFCs are exposed to risks arising out of counter-party failures, funding risks and risks pertaining to liquidity and solvency, as any other financial sector player. There is thus a felt need for a review of the regulatory framework of HFCs," NHB said in a statement on Monday.

The housing finance regulator has also reduced the borrowing limit of HFCs from 16 times of net owned funds to 12 times by March 2022. NHB has sought comments on the regulatory changes by 31 March, 2019.

While HFCs have welcomed the move, they said that liquidity was the need of the hour. "Regulators need to make easy availability of capital for HFCs with strong balance sheet, as liquidity crunch is acting as a huge roadblock to the overall growth of the housing market. Going forward, availability of capital will play a crucial role, particularly if we have to achieve the government's goal of housing for all by 2022," said Ravindra Sudhalkar, executive director and chief executive officer, Reliance Home Finance.

The regulatory changes are not likely to impact large HFCs such as Housing Development Finance Corp. (HDFC), Repco Home Finance, Indiabulls Housing Finance and Dewan Housing Finance, which are well capitalized at above 15%. LIC Housing Finance and PNB Housing Finance have CRAR below 15%.

The decision to review the regulatory framework for HFCs comes in the wake of the liquidity crisis, sparked off by the defaults by Infrastructure Leasing and Financial Services. The crisis led to a spike in borrowing costs for NBFCs and HFCs, raising fears of contagion.

Last month, the Reserve Bank of India had increased the risk weight on NBFCs, which owes banks ₹200 crore, or more, to 150%. Besides, it had also allowed bank exposures to all NBFCs, excluding core investment companies (CICs), to be risk weighted according to the ratings assigned by the rating agencies.

"From a systemic level it's a good move to keep the leverage levels under control. While it is a draft, it provides a three-year road map for HFCs to meet those guidelines. I don't see any immediate adverse impact on any of the HFCs," said Karthik Srinivasan, group head, financial sector ratings, Icra Ltd.