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CIRRUS

NHB proposes higher capital need for HFCs

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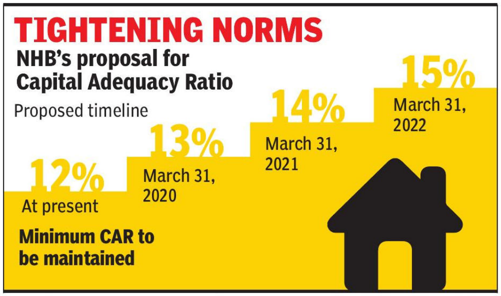
New Delhi: National Housing Bank (NHB) has proposed to tighten the norms for housing finance companies (HFCs) by increasing the capital requirement, cutting their borrowing limit and also capping public deposits that mortgage players can accept.

The multi-pronged strategy is seen as an attempt by the regulator to strengthen the sector in the wake of the recent adverse impact on several companies after the collapse of IL&FS. NHB has issued a draft circular, seeking comments and suggestions from stakeholders by March 31, 2019.

The regulator has proposed a gradual increase in the capital adequacy ratio (CAR) from the current 12% to 15% by 2022. This means, the capital requirement to lend Rs 100 will increase from Rs 12 at present to Rs 15 by 2022.



NHB has said CAR is one of the important parameters from the point of view of solvency of HFCs and their protection from unwanted events, which arise as a result of liquidity risk as well as the credit risk that HFCs are exposed to in the normal course of their business.

Experts said the move was on the cards after the IL&FS fiasco. The steps are positive and expected to put the required curbs on the speeding sector, Ravindra Sudhalkar, ED & CEO, Reliance Home Finance, said. Prudent players always maintained a higher CAR, he added.

Supreeta Nijjar, vice-president and sector head — financial sector ratings, ICRA, said NHB's proposed amendments in CAR, deposit mobilisation and leverage norms for housing finance companies are positive from a risk perspective.

The draft circular has also proposed to reduce the cap on overall borrowings, including public deposits, from the present level of 16 times of net-owned fund (NOF) to 12 times by March 31, 2022 in a graded manner. HFCs will have to lower total borrowings to 14 times of NOF by March 31, 2020, 13 times by March 31, 2021.

The draft circular has also proposed that ceiling on public deposits be capped at three times of NOF of the HFC.

On bringing down the maximum permissible leverage from 16 times to 12 times, Nijjar said some of the well-rated HFCs may need to raise external capital to maintain the growth momentum.

On public deposits cap, Nijjar said, "As none of the HFCs had deposits in excess of 1.5 times of net-owned fund as on March 31, 2018, proposed guidelines may not impact HFCs on this count."

Sudhalkar said lowering leverage level by HFCs is a good move, but regulators need to make easy availability of capital for HFCs with a strong balance sheet, as liquidity crunch is acting as a huge roadblock to the overall growth of the housing market.