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25 March 2019

Circular No. 79 / DoR - 25 / 2019

The Chief Executive Officer  
All NBFC-MFIs

Madam/Dear Sir,

**Refinance Policy for Schematic Lending for F. Y. 2019-20 – NBFC-MFIs**

Refinance Policy for Schematic Lending for the year 2019-2020 for NBFC-MFIs is finalized and enclosed herewith. This Policy supersedes all the existing policies in this regard.

2. The Circular is also available on NABARD website [www.nabard.org](http://www.nabard.org) under the tab information Centre.
3. Please acknowledge receipt.

Yours faithfully

(G R Chintala)  
Chief General Manager

Encls : 4 pages

राष्ट्रीय कृषि और ग्रामीण विकास बैंक  
National Bank for Agriculture and Rural Development

पुनर्वित्त विभाग

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## **Refinance Policy for Schematic Lending for F. Y. 2019-20**

### **1. Introduction**

NABARD has been providing long-term refinance to the approved financial institutions under the provisions of Section 25(i)(a) of NABARD Act, 1981 to supplement their resources against the long-term loans provided by them in rural areas to the farmers, self-help groups, joint liability groups and others for agriculture, allied activities, rural housing as also for rural off-farm sector activities.

### **2. The objectives of providing long-term refinance are as under:**

- Supporting capital formation in agriculture thereby promoting growth of agriculture sector.
- Directing flow of credit for promotion of thrust activities.
- To meet the credit requirement of JLGs and SHGs.
- Promoting alternate employment opportunities in rural areas by supporting off-farm sector activities.

### **3. Nature of Accommodation**

Refinance assistance is provided to NBFC-MFIs in respect of their disbursement for various purposes under the following two windows:

#### **3.1 Automatic Refinance Facility (ARF)**

Automatic Refinance Facility (ARF) enables NBFC-MFIs to obtain financial accommodation from NABARD, without going through the detailed procedure of pre-sanction formalities. NBFC-MFIs are expected to appraise the proposals at their own level and finance the borrowers. NBFC-MFIs then claim refinance from NABARD on the basis of a declaration (drawal application), indicating the various purposes for which refinance has been claimed and the loan amount disbursed. In such cases, the sanction and disbursement of refinance are attended to simultaneously by NABARD.

#### **3.2 Pre-Sanction**

If the NBFC-MFIs intend to avail refinance under pre sanction procedure they are required to submit the projects for approval of NABARD. Before sanction of the same, NABARD appraises these projects to determine its technical feasibility, financial viability and Bankability.

### **4. Eligibility criteria-** Eligibility criteria for drawal of refinance from NABARD are reviewed from time to time. The eligibility criteria prescribed for the year 2019-20 are as under:

**4.1 Registration:** Should have a certificate of registration under Sec. 45-IA of the RBI Act, 1934 to function as an approved financial institution.

**4.2 Type of NBFC-MFI:** Both deposit taking and non-deposit taking NBFC-MFIs are eligible to be considered for NABARD refinance.

**4.3 Business Span:** Should have been carrying on lending business, at least for last 5 years as on date of sanction of the loan.

**4.4 CRAR:** Should maintain minimum capital adequacy ratio as stipulated by RBI from time to time (at present it is 15%).

**4.5 Net Profit:** Should be in Net Profit for at least three out of the preceding four financial years (3 financial years out of 2015-16,2016-17,2017-18,2018-19), subject to it not having incurred a net loss in the immediate preceding year (2018-19).

**4.6 Net NPA:** Should be less than or equal to 4%.

**4.7** The Memorandum of Association should have a provision for borrowing from higher financing agencies.

#### **4.8 Grading of NBFC-MFIs**

- a) Eligibility of NBFC-MFI to avail refinance from NABARD should at least be one notch below top grading (i.e. upto mFR2 / MF2 or equivalent). The grading should have been awarded by CRISIL or any other SEBI approved grading agency.
- b) In case of North Eastern Region (including Sikkim), the eligibility norm is relaxed to two notches below top grading (i.e. upto MFR3).
- c) It will be desirable for the NBFC-MFI to have undergone Code of Conduct Assessment (COCA) and the same has to be submitted at the time of application.

**4.9 Eligibility criteria and Risk Assessment** during 01 April 2019 to 30 June 2019 will be based on their audited financial position as on 31.03.2018 or 31.03.2019 (if audited position as on 31.03.2019 is available) . From 01 July 2019 to 31 March 2020, the same will be based on their audited financial position as on 31.03.2019. Sanction and Drawals on or after 01 July 2019 will be permitted only to such NBFC-MFIs, which have completed the audit.

**4.10** Any improvement in the financial parameters during F.Y 2019-20 may be considered, after due certificate from the Chartered accountant and due report with recommendation on the same by the RO.

**4.11** The eligibility norm will be applicable for drawal of refinance under both Farm and off-Farm sectors.

**4.12** In case of **pricing of credit** to their borrower, NBFC-MFIs should follow the guidelines prescribed by RBI vide Master Circular No. RBI/DNBR/2016-17/44 [Master Direction DNBR.PD.007/03.10.119/2016-17] and RBI/DNBR/2016-17/45 [Master Direction DNBR.PD.008/03.10.119/2016-17] dated 01 September 2016 (as amended from time to time).

## **5. Eligible Purposes**

Long-term loans provided in rural areas to the farmers, Self-Help Groups (SHGs), Joint Liability Groups (JLGs), Rythu Mithra Groups (RMGs), and others, for agriculture and allied activities, rural housing, rural off-farm sector activities, MSME and other eligible loans which are outstanding in the books of the NBFC-MFI with a residual maturity period of more than 18 months as on the date of drawal application will be eligible for refinance.

## **6. Interest rates**

**6.1 Interest on refinance:** The interest rates on refinance will be decided by NABARD based on tenor, prevailing market rate, risk perception etc. and is subject to revision from time to time. All NBFC-MFIs have been classified into 9 risk categories as per the risk assessment module devised by NABARD. Prescribed risk premium will accordingly be charged over and above the rate of interest on refinance.

**6.2 Penal interest:** In the event of default, penal interest rate at 2% p.a. over and above the interest rate at which refinance was disbursed, will be charged on defaulted amount and for the period of default.

**6.3 Penalty for pre-payment of refinance:** The rate of pre-payment penalty will be 2.50% p.a. and will be chargeable for each instalment due separately for the entire period (minimum 6 months) from the date of pre-payment to the date on which the instalment is actually due for payment. The prepayment can only be initiated after minimum notice of 3 working days.

**7. Repayment period-**Repayment period for refinance ranges between 18 months (minimum) to 5 years or above, to be repaid on half-yearly basis on 31 January / 31 July every year. Interest on refinance to be paid on half-yearly rests on 01 February and 01 August every year. *Interest payment option on monthly/quarterly is also available.*

## **8. Security norms**

The security norms prescribed for NBFC-MFIs are as under:

- a) The security assigned shall be
  - i. 1.12 times the amount of refinance released to mFR1 or MF1 graded agencies

- ii. 1.18 times the amount of refinance released to mFR2 or MF2 graded agencies
  - iii. 1.25 times the amount of refinance released to mFR3 or MF3 graded agencies
- b) Shortfall in the value of securities, if any to be recouped by assigning additional securities so that NABARD's dues are fully backed by sufficient security to the extent of minimum 1.12/1.18/1.25 times of the aforesaid refinance outstanding.
  - c) All the securities assigned should be performing assets only.
  - d) Holding the securities obtained by NBFC-MFI for the loans covered by refinance, in trust, for NABARD.
  - e) Execution of General Refinance Agreement (GRA) with NABARD.
  - f) Mandate to debit Current Account with the principal Banker of the NBFC-MFI.
  - g) Board resolution in prescribed proforma.
  - h) Assigning of book debts in favour of NABARD and registration of charge with the Registrar of Companies on the assets created out of refinance. However, in case of need, instead of assigning exclusive rights of the assets to NABARD for which refinance is availed, we may, as a special case, accept pari pasu rights on the assets of the NBFC-MFI.
  - i) Submission of duly signed and stamped Agreement for assignment of book debts, delivery letter and DPN formats, acknowledgement of debts / securities.
  - j) Submission of Corporate guarantee/personal guarantee wherever necessary.

**9. Monitoring**

NABARD will have the right to conduct spot verification / checks to ensure that the terms and conditions of refinance are adhered to.

**10.** All other existing terms and conditions remain unchanged.