



Ref. No. NB.DoR / 12 / PPS-156 / 2020-21

13 April 2020

Circular No. 92 / DoR - 20 / 2020

The Chief Executive Officer
All NBFC-MFIs

Madam/Dear Sir,

Refinance Policy for Schematic Lending for F. Y. 2020-21 – NBFC-MFIs

Refinance Policy for Schematic Lending for the year 2020-2021 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 under the tab information Centre.
3. The refinance proposals may be submitted through Regional Offices of NABARD where the Corporate / Head Office of NBFC-mFI is located.
4. Please acknowledge receipt.

Yours faithfully

(Jiji Mammen)
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. 2020-21

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 and semi urban areas, as per NABARD mandate, to the farmers, self-help groups, joint liability groups and others for agriculture & allied activities, rural housing, MSME and other related activities.

2. Objectives

- Supporting capital formation in agriculture and allied sectors
- Directing flow of credit for promotion of thrust activities.
- Promoting alternate employment opportunities in rural and semi urban areas by supporting off-farm sector activities.
- To meet the credit requirement of JLGs, SHGs, FPOs and others.

3. Nature of Accommodation

Refinance assistance is provided to NBFC-MFIs against their disbursements for various eligible 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 2020-21 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 and registered as NBFC-MFI.

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

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

4.4 Net Profit: Should be in Net Profit for at least three out of the preceding four financial years (3 financial years out of 2016-17, 2017-18, 2018-19, 2019-20)

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

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

4.7 Grading of NBFC-MFIs

- a) Eligibility of NBFC-MFI to avail refinance from NABARD should be not less than one notch below top grading (i.e. upto mFR2 / MF2 or equivalent). The grading should have been awarded by any SEBI / RBI approved rating 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 is desirable for the NBFC-MFI to obtain Code of Conduct Assessment (COCA) report and the same has to be submitted at the time of application.

4.8 Eligibility criteria and Risk Assessment during 01 April 2020 to 30 June 2020 will be based on their audited financial position as on 31.03.2019 or 31.03.2020 (if audited position as on 31.03.2020 is available). From 01 July 2020 to 31 March 2021, the same will be based on their audited financial position as on 31.03.2020. Sanction and drawals on or after 01 July 2020 will be permitted only to such NBFC-MFIs, which have completed the audit.

4.9 Any improvement in the financial parameters during F.Y2020-21 may be considered, based on a limited review and a certificate from Chartered Accountant and recommendation on the same by the NABARD, RO.

4.10 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 and semi urban areas to the farmers, Self-Help Groups (SHGs), Joint Liability Groups (JLGs), Rythu Mithra Groups (RMGs), Farmers Producers Organisations (FPOs) 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 will be classified into 9 risk categories as per the internal risk assessment module devised by NABARD. The quantum of refinance and risk premium will be based on the same. In case of downgrade in internal rating / external grading during the currency of credit, additional interest for risk premium as prevailing at time of downgrade will be charged

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. The due date for repayment of principal and interest will be **quarterly with principal due dates on 30th June, 30th Sep, 31st Dec and 31st March** and interest due dates on 1st July, 1st October, 1st January and 1st April. The first due date of principal amount for refinance sanctioned on any date in a quarter will fall in next quarter. Principal and Interest payment option on monthly basis 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 any mFR3 or equivalent graded agencies (only for entities in NER)
- 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 the Current Account of the NBFC-mFI with their principal banker which is duly authorised by principal banker.
- g) Board resolution indicating the borrowing powers of the agency, authority to borrow from higher institutions /FIs/NABARD, authorised signatory list with specimen signatures and a certificate confirming that the borrowing from NABARD is within the overall borrowing limit of the NBFC-mFI.

- h) Assigning of book debts in favour of NABARD and registration of charge with the Registrar of Companies on the assets against which refinance is availed. 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, DPN and acknowledgement of debts / securities.
- j) Additional security viz. Personal Guarantee / corporate Guarantee/ lien marked liquid collaterals / escrow mechanism etc. to be provided if deemed necessary by NABARD.

9. Monitoring

NABARD will have the right to conduct spot verification / checks to ensure that the terms and conditions of refinance are adhered to. NABARD may also engage any third party as its agent for verification and analysis of refinance pool.

10. All other existing terms and conditions remain unchanged.