



Ref. No. NB. DoR / 151 / PPS - 156/ 2021-22

14 May 2021

Circular No. 96 / DoR - 31 / 2021

The Managing Director/ CEO/ COO
All Non-Banking Financial Companies (NBFCs)

Madam/Dear Sir,

Refinance Policy for Schematic Lending for F. Y. 2021-22 - NBFCs

Refinance Policy for Schematic Lending for the year 2021-2022 for NBFCs is finalized and enclosed herewith.

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 is located.
4. Please acknowledge receipt.

Yours faithfully

(L R Ramachandran)
Chief General Manager

Encls : as above

राष्ट्रीय कृषि और ग्रामीण विकास बैंक

National Bank for Agriculture and Rural Development

विभाग नाम

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Refinance Policy for Schematic Lending for F. Y. 2021-2022

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 mandate of NABARD, to 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 NBFCs against their disbursements for various eligible purposes under the following two windows:

3.1 Automatic Refinance Facility (ARF)

Automatic Refinance Facility (ARF) enables NBFCs to obtain financial accommodation from NABARD, without going through the detailed procedure of pre- sanction formalities. NBFCs are expected to appraise the proposals at their own level and finance the borrowers. NBFCs 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 NBFCs 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 NBFCs are categorised into Big with AUM more than Rs.50,000 crore, Medium with AUM between Rs.10,000 crore and Rs.50,000 cr and Small with AUM of more than Rs.500 crore and up to Rs.10,000 crore. The revised eligibility criteria prescribed for the year 2021-22 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: Both deposit taking and non-deposit taking NBFCs are eligible to be considered for NABARD refinance.

4.3 Business Span: Should have been carrying on lending business, at least for last 10 years in case of big NBFCs and 5 years in case of Medium and Small NBFCs 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 2017-18, 2018-19, 2019-20 and 2020-21).

4.6 Net NPA: Should be less than or equal to (a) 6% for big NBFCs (b) 5% for Medium NBFCs and (c) 4% for Small NBFCs.

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

4.8 NBFCs should be complying with internal risk rating of NBD 1 to NBD 5.

4.9 Rating of NBFCs

- i. The eligibility of the NBFCs to avail refinance from NABARD should be minimum rating [on the long-term debt instruments and bank facilities and fixed deposit programme] of 'AA'(includes +, -) subject to fulfilment of other terms and conditions. The rating should have been awarded by any SEBI/RBI approved rating agency.
- ii. In case of North Eastern Region, including Sikkim, the eligibility norm is relaxed to up to A rating (includes +, -).
- iii. The validity of rating should be at least for 3 months at the time of submission of proposal

4.10 Eligibility criteria and Risk Assessment during 01 April 2021 to 30 June 2021 will be based on their audited financial position as on 31.03.2020 or 31.03.2021 (if audited position as on 31.03.2021 is available). From 1 July 2021 to 31 March 2022, the same will be based on their audited financial position as on 31.03.2021. Sanction and drawals on or after 01 July 2021 will be permitted only to such NBFCs, which have completed the audit.

4.11 Any change in the financial parameters during F.Y 2021-22 may be considered, based on a limited review and certification from a chartered accountant and recommendation on the same by NABARD, RO.

4.12 In case of pricing of credit to their borrower, NBFCs 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/semi urban areas for agriculture and allied activities, rural housing, rural off-farm sector, MSME, microfinance and other eligible loans complying to PSL guidelines of RBI which are outstanding in the books of the NBFC 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 NBFCs have been 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/ external rating 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 on the last day in next quarter. Principal and Interest payment option on monthly is also available.

8. Security norms

The security norms prescribed for NBFCs are as under:

- a) The security assigned shall be
 - i. 1.10 times the amount of refinance released to Big NBFCs
 - ii. 1.20 times the amount of refinance released to Medium NBFCs
 - iii. 1.25 times the amount of refinance released to Small NBFCs
- 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 1.10/1.20/1.25 times of the aforesaid refinance outstanding.
- c) All the securities assigned should be performing assets only.
- d) Holding the securities obtained by NBFCs 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 with their principal banker which is duly authorised by principal banker and an undertaking from NBFC that same current account will be operated till entire repayment of refinance.
- 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.
- 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. All NBFCs falling in NBD-1 to 5 as per the risk rating module of NABARD will be extended refinance facility after creation of exclusive charge on security assigned. In case exclusive charge is not available, NABARD may extend refinance by taking additional security and other relevant documents.
- i) NABARD has exclusive charge on all the underlying assets against which refinance has been extended and assets are kept in trust of NABARD as per Section 29 of NABARD Act. An advisory notice will be issued to all the existing lenders of NBFC in this regard.
- j) Submission of duly signed and stamped agreement for assignment of book debts, delivery letter, DPN and acknowledgement of debts / securities.
- k) 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.

10. All other existing terms and conditions remain unchanged.