



Liquidity Boost to NBFCs

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Why in News

The **Reserve Bank of India (RBI)** has announced a host of measures to provide liquidity support to **Non Banking Financial Companies (NBFCs)**, apart from giving them certain benefits for loans extended to the commercial real estate sector.

Key Points

- **TLTRO 2.0**
 - The RBI would conduct **Targeted Long-term Repo Operations (TLTRO 2.0) for an aggregate amount of Rs 50,000 crore**, in installments of appropriate sizes.
 - The banks have to invest the funds availed under TLTRO 2.0, **in investment grade bonds, commercial paper, and non-convertible debentures of NBFCs.**
 - RBI stipulated that **small and mid-sized NBFCs and Micro Finance Institutions (MFIs) should receive at least 50% of these funds.**
 - The investments made by banks under this facility would be classified as **'Held-to-Maturity' (HTM)**, even in excess of 25% of the total investment permitted to be included in the HTM portfolio.
 - Held to Maturity securities are securities that **companies purchase and intend to hold until they mature.**
 - This will help in **easing the liquidity problem faced by NBFCs and MFIs** to some extent.
 - NBFCs are facing liquidity pressure since banks have **not extended any repayment moratorium** to these entities even if NBFCs have to provide the same for their borrowers.

- **Refinance facility:** The RBI has also decided to provide a **special refinance facility of ₹50,000 crore to National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and National Housing Bank (NHB)** to enable them to meet sectoral credit needs. This would comprise:
 - ₹25,000 crore to NABARD for refinancing **Regional Rural Banks (RRBs)**, cooperative banks and Microfinance Institutions (MFIs).
 - ₹15,000 crore to SIDBI for on-lending/refinancing.
 - ₹10,000 crore to NHB for supporting Housing Finance Companies (HFCs).
- **Extension of loans to the Real Estate Sector:** The RBI has allowed **extension of the loans** by NBFCs to **delayed commercial real estate projects by a year without restructuring.**

Targeted Long-term Repo Operations

- **LTRO** is a tool that lets banks **borrow one to three-year funds** from the RBI at the **repo rate**, by providing **government securities with similar or higher tenure as collateral.**
- It is called '**Targeted**' LTRO as in this case, the RBI wants banks opting for funds under this option to be **specifically invested in investment-grade bonds.**
- The TLTRO was introduced by the RBI to help companies, including financial institutions, manage their cash flow issues in the wake of the **Covid-19 outbreak.**

Note

- **Investment-grade bond:** It is a bond classification used to denote bonds that carry a **relatively low credit risk compared to other bonds.**
- **Commercial Paper (CP)** is a short-term debt instrument issued by companies to raise funds generally for a time period up to one year.
- **Non-convertible debentures:** The debentures which cannot be converted into shares.

National Housing Bank

- NHB is a statutory organization that was established on July 9, 1988 under the **National Housing Bank Act, 1987.**
- It is the apex level financial institution for the housing sector in the country.
- It is a **government-owned entity.**
 - The government took over the NHB from the RBI after buying entire stake of Rs. 1,450 crore in 2019.
 - The move follows the recommendation of **Narasimham-II committee** report of October 2001.
 - Earlier, RBI sold its stake in NABARD as well.

- NHB aims to facilitate the **promotion of Housing Finance Institutions** and provides financial and other support to such institutions.

Non-Banking Financial Company

- NBFC is a company registered under the **Companies Act, 1956**.
- It is engaged in the **business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities** issued by Government or local authority or **other marketable securities** of a like nature, leasing, hire-purchase, insurance business, chit business.
- But, it **does not include** any institution whose principal business is that of **agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property**.
- A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in **one lump sum or in installments by way of contributions or in any other manner**, is also a non-banking financial company (Residuary non-banking company).
- **Features of NBFCs**
 - NBFC cannot accept demand deposits.
 - NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself.
 - Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs.

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