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## Special Liquidity Scheme for NBFCs/HFCs

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### Why in News

Recently, the Central government has approved the proposal to launch a **Special Liquidity Scheme** for **Non-Banking Financial Companies (NBFCs)** and **Housing Finance Companies (HFCs)** to improve their liquidity position.

- In the Budget Speech of 2020-21, it was announced that a mechanism would be devised to **provide additional liquidity facility to NBFCs/HFCs** over that provided through the **Partial Credit Guarantee Scheme (PCGS)**.
- HFCs are **specialized NBFCs**. Recently, the **Reserve Bank of India (RBI)** came up with the **new definition of HFCs**.
  - To qualify as HFCs, a **NBFC must have 50% assets as housing loans and 75% of which should be for individual homebuyers**.
  - HFCs are regulated by RBI.

### Key Points

- **Details of the Scheme:**
  - Under the scheme a **Special Purpose Vehicle (SPV)** would be set up to manage a Stressed Asset Fund (SAF) of the NBFCs/ HFCs.
  - The SPV will issue securities, which would be **guaranteed by the Government of India** and **purchased by the Reserve Bank of India (RBI) only**.
  - The proceeds of sale of such securities would be used by the SPV to acquire short-term debt of NBFCs/HFCs.
  - The Scheme will be **administered by the Department of Financial Services** (Ministry of Finance).

- **Eligibility for NBFCs/ HFCs:**
  - They should not have net **Non Performing Assets (NPAs)** of more than 6% as on 31<sup>st</sup> March 2019.
  - They should have made net profit in at least one of the last two preceding financial years of 2017-18 and 2018-19.
  - They should not have been reported under SMA-1 or SMA-2 category by any bank for their borrowings during the last one year prior to 1st August 2018.
    - Banks classify borrowers into **Special Mention Accounts (SMA)** based on their delay in repayment.
      - SMA-0 loans are overdue between 1 and 30 days.
      - SMA-1 loans are overdue between 31 and 60 days.
      - SMA-2 loans are overdue between 61 to 90 days.
    - The asset turns NPA after 90 days of being overdue.
- **Benefits:**
  - Unlike the **Partial Credit Guarantee Scheme**, NBFCs/ HFCs **do not have to liquidate their current asset portfolio** under this scheme.

Current assets are all the assets of a company that are expected to be used as a result of standard business operations over the next year.
  - The scheme would also **act as an enabler for the NBFC to get investment grade for bonds issued.**
  - The Scheme would benefit the real economy by **augmenting the lending resources** of NBFCs/HFCs/MFIs.
  - This facility would **supplement the liquidity measures** taken so far by the Government and RBI.
- **Financial implication:**
  - The direct financial implication for the Central government is Rs. 5 crore, which may be the equity contribution to the SPV.
  - Beyond that, there is no financial implication for the government until the guarantee involved is invoked.
  - However, on invocation, the extent of government liability would be equal to the amount of default subject to the guarantee ceiling, which has been set at Rs. 30,000 crore.

## **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.

**Source: PIB**