ANNEXURE – A
(HFCs)

4.1.15. "Free reserves" means the aggregate of the balance in the share premium account, capital and debenture redemption reserves and any other reserve shown or published in the balance sheet of a company and created through an allocation of profits not being a reserve created for repayment of any future liability or for depreciation in assets or for bad debts or a reserve created by revaluation of the assets of the company.

4.1.16. "Housing Finance" shall mean financing, for purchase/ construction/ reconstruction/ renovation/ repairs of residential dwelling units, which includes:

a. Loans to individuals or group of individuals including co-operative societies for construction/ purchase of new dwelling units.

b. Loans to individuals or group of individuals for purchase of old dwelling units.

c. Loans to individuals or group of individuals for purchasing old/ new dwelling units by mortgaging existing dwelling units.

d. Loans to individuals for purchase of plots for construction of residential dwelling units provided a declaration is obtained from the borrower that he intends to construct a house on the plot within a period of three years from the date of availing of the loan.

e. Loans to individuals or group of individuals for renovation/ reconstruction of existing dwelling units.

f. Lending to public agencies including state housing boards for construction of residential dwelling units.

g. Loans to corporates/ Government agencies for employee housing.

h. Loans for construction of educational, health, social, cultural or other institutions/ centres, which are part of housing projects and which are necessary for the development of settlements or townships *(see note below)*.

i. Loans for construction meant for improving the conditions in slum areas, for which credit may be extended directly to the slum-dwellers on the

ANNEXURE- B
(BANKS)

1. INTRODUCTION

Banks, with their vast branch network throughout the length and breadth of the country, occupy a very strategic position in the financial system and have an important role to play in providing credit to the housing sector.

2. VARIOUS REGULATIONS

While formulating their policies, banks have to take into account the following RBI guidelines and ensure that bank credit is used for production, constructions activities and not for activities connected with speculation in real estate.

(A) ACQUISITION OF LAND

Bank finance can be granted only for purchase of a plot, provided a declaration is obtained from the borrower that he intends to construct a house on the said plot, with the help of bank finance or otherwise, within such period as may be laid down by the banks themselves.

(B) CONSTRUCTION OF BUILDING / READY-BUILT HOUSE

(i) Banks may grant loans to individuals for purchase/construction of dwelling unit per family and loans for repairs to the damaged dwelling units of families.

(ii) Banks may extend finance to a person who already owns a house in town/village where he resides, for buying/ constructing a second house in the same or other town/ village for the purpose of self-occupation.

(iii) Banks may extend finance for purchase of a house by a borrower who proposes to let it out on rental basis on account of his posting outside the headquarters or because he has been provided accommodation by his employer.

(iv) Banks may extend finance to a person who proposes to buy an old house where he is presently residing as a tenant.

(v) Banks may finance for construction meant for improving the conditions in slum areas for which credit may be extended directly to the slum-dwellers on the guarantee of the Government, or indirectly to them through the State Governments.

(vi) Banks may provide credit for slum improvement schemes to be implemented by Slum Clearance Boards and other public agencies.

ANNEXURE – C
(UCBs)
Annex – 1

Definition of Commercial Real Estate Exposure (CRE)

(vide paragraph 4.7.5)

Real Estate is generally defined as an immovable asset - land (earth space) and the permanently attached improvements to it. Income-producing real estate (IPRE) is defined in para 226 of the Basel II Framework as under:

"Income-producing real estate (IPRE) refers to a method of providing funding to real estate (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, and hotels) where the prospects for repayment and recovery on the exposure depend primarily on the cash flows generated by the asset. The primary source of these cash flows would generally be lease or rental payments or the sale of the asset. The borrower may be, but is not required to be, an SPE (Special Purpose Entity), an operating company focused on real estate construction or holdings, or an operating company with sources of revenue other than real estate. The distinguishing characteristic of IPRE versus other corporate exposures that are collateralised by real estate is the strong positive correlation between the prospects for repayment of the exposure and the prospects for recovery in the event of default, with both depending primarily on the cash flows generated by a property".

2. The Income Producing Real Estate (IPRE) is synonymous with Commercial Real Estate (CRE). From the definition of IPRE given above, it may be seen that for an exposure to be classified as IPRE / CRE, the essential feature would be that the funding will result in the creation / acquisition of real estate (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, and hotels) where the prospects for repayment would depend primarily on the cash flows generated by the asset. Additionally, the prospect of recovery in the event of default would also depend primarily on the cash flows generated from such funded asset which is taken as security, as would generally be the case. The primary source of cash flow (i.e., more than 50% of cash flows) for repayment would generally be lease or rental payments or the sale of the assets as also for recovery in the event of default where such asset is taken as security.

3. In certain cases where the exposure may not be directly linked to the creation or acquisition of CRE, but the repayment would come from the cash flows generated by CRE. For example, exposures taken against existing commercial real estate whose prospects of repayments primarily depend on rental / sale proceeds of the real estate should be classified as CRE. Other such cases may include extension of guarantees on behalf of companies engaged in commercial real estate activities, corporate loans extended to real estate companies etc.

4. It follows from the definition at para 2 and 3 above that if the repayment primarily depends on other factors such as operating profit from business operations, quality of goods and services, tourist arrivals etc., the exposure would not be counted as Commercial Real Estate.

5. UCBs should not extend finance for acquisition of land even if it is part of a project. However, finance can be granted to individuals for purchase of a plot, provided a declaration is obtained from the borrower that he intends to construct a house on the said plot, within such period as may be laid down by the banks themselves.

Simultaneous Classification of CRE into other Regulatory Categories

6. It is possible for an exposure to get classified simultaneously into more than one category, real estate, CRE, infrastructure etc. as different classifications are driven by different considerations. In such cases, the exposure would be reckoned for regulatory / prudential exposure limit, if any, fixed by RBI or by the bank itself, for all the categories to which the

ANNEXURE - D

राष्ट्रीय आवास बैंक
NATIONAL HOUSING BANK

By e-Mail
NHB/HO/DOS/DAK/2023/01404/2022-23

June 5, 2023

All Registered Housing Finance Companies (HFCs)

Sir/ Madam,

Classification of Reimbursement loans as Housing Finance - Advisory

The Bank has received representations from HFCs regarding the classification of certain home loan products as "housing finance" offered by HFCs, whereby loans are granted to borrowers for already purchased or constructed unit(s), and the borrowers approach the HFC for a reimbursements loan within a period of typically 6 months to 2 years from the date of purchase/construction of the unit(s).

2. In response to these concerns, the matter has been taken up with the Reserve Bank of India (RBI) and RBI has clarified that loans for reimbursement of costs incurred on construction/purchase of a house shall not qualify as "housing finance" as defined under the provisions of Paragraph 4.1.16 of the Master Direction - Non-Banking Financial Company - Housing Finance Company (Reserve Bank) Directions, 2021.

3. Accordingly, such loans shall not be considered for the purpose of meeting the principal business criteria for HFCs and would not be eligible for relaxed prudential prescriptions, as applicable to housing loans.

All HFCs are advised to take note of this clarification and ensure compliance.

Yours faithfully,

(Reeja Jayadeesh)
Deputy General Manager
Department of Supervision

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