

**AFFORDABLE  
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# Infrastructure Status – Impact On Affordable Housing

## Introduction:-

The central government in the Union Budget 2017 has opened new avenues for the Affordable Housing sector by providing it an Infrastructure status. This proposal been made with the aim to boost up the investment in the said sector and provide housing to all by 2022. The main purpose of granting Infrastructure status to affordable housing is to ensure lower borrowing rates, tax concessions & increased flow of Foreign & Private Capital in Affordable Housing Projects.

Over a year after the government gave the segment the infrastructure status, earning loud applause for the step, developers consider it nothing but an academic exercise. So far in reality no profits are to be reaped through this change in status. In case a developer involves himself in developing an affordable-housing project, he would certainly not find the banks treating him any differently. Banks have yet to make changes and offer loans such projects at reduced rates and these loans are not yet treated as loans to infrastructure. Also, unlike the real estate sector where financial institutions can lend only 10 per cent of their balance-sheet, there is no such cap for infrastructure segment.

In order to pass on benefits of this status in reality, it is need of hour that union govt along with Ministry of Finance and RBI should take effective steps for implementation in true letter and spirit.

## **Ministry of Finance Notification (F.No.13/6/2009- INF) dated – 30 th March 2017**

Department of Economic Affairs of Ministry of Finance vide this notification has notified and updated Harmonized Master List of Infrastructure Sub-sectors and under the category of “Social and Commercial Infrastructure a new sub-sector – “Affordable Housing” is added.

### **Definition of Affordable Housing as per aforesaid circular:-**

“Affordable Housing” is defined as a housing project using at least 50% of the Floor Area Ratio (FAR)/Floor Space Index (FSI) for dwelling units with carpet area of not more than 60 square meters.

“Carpet Area” shall have the same meaning as assigned to it in clause (k) of section 2 of the Real Estate (Regulation and Development) Act, 2016.

### **Link of Notification dated 30-03-2017**

<https://dea.gov.in/sites/default/files/e%20Gazette%20publishing%20date%205th%20April%2C%202017.pdf>

## Funding benefits- Post Infrastructure Status implementation

Infrastructure sector in India enjoys an expanded horizon when it comes to funding requirements. Now, the same will be available to the Affordable Housing projects as well, providing them with new avenues to expand their funding portfolio. The same has been discussed below:

**i. External Commercial Borrowings** – Though ECB is available for low cost affordable housing projects, but the same is subject to stringent condition as laid down in the ECB Guidelines issued by the Reserve Bank of India(as amended from time to time). Once the Affordable Housing gets the status of Infrastructure Company, it gets covered under the definition eligible borrower as provided in Track I of the said Guidelines. ECB Guidelines provide for raising of commercial loans by eligible borrows from recognised non-resident entities, wherein the eligible borrowers covered under Track I are subject to the following:-

- Medium term foreign currency denominated ECB with minimum average maturity of 3/5 years.
- Total ECB for Track I entities under Automatic Route is up-to USD 750 million or equivalent, and for funding beyond the said limit Approval Route will have to be adhered to.
- Raising of the said funding either in freely convertible foreign currency or Indian rupees.

## ❑ Raising of funding in the form of –

- a. Loans including bank loans;
- b. Securitized instruments (e.g. floating rate notes and fixed rate bonds, nonconvertible, optionally convertible or partially convertible preference shares / debentures);
- c. Buyers' credit;
- d. Suppliers' credit;
- e. Foreign Currency Convertible Bonds (FCCBs);
- f. Financial Lease; and
- g. Foreign Currency Exchangeable Bonds (FCEBs)

❑ **Link** :-Master Direction - External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency by Authorised Dealers and Persons other than Authorised Dealers

❑ [https://www.rbi.org.in/Scripts/BS\\_ViewMasDirections.aspx?id=10204](https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=10204)

## Rationalisation and Liberalisation of ECB Policy – RBI Notification dated April 27,2018

❑ **Link**:-

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11267&Mode=0>

**ii. Investment by Foreign Portfolio Investors (FPIs)** – The Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2002(as amended from time to time) provides for investment by FPIs in unlisted debt securities issued by companies engaged in infrastructure sector.

**iii. Investment by Foreign Venture Capital Investors (FVCIs)** – As per the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2003 FVCIs can invest in Equity or equity linked instrument or debt instrument issued by an Indian company engaged in infrastructure sector under automatic route.

It is worthwhile to note that though stringent provisions existed for raising funding through ECBs for affordable housing sector, FPIs and FVCIs were never available. Now that Affordable Housing has got the status of Infrastructure Companies, it can expand its funding horizon.

**iv. Infrastructure Finance Loans** – The Government of India notifies infrastructure sectors eligible for credit facility extended by banks and select All India term lending and Refinancing Institutions i.e., NABARD, NHB and SIDBI. Now Affordable housing sector getting the status of Infrastructure companies, it can be assumed with reasonable certainty that the Government will soon notify it as an eligible borrower, allowing local funding to flow to the Affordable housing sector as well.

**v. Priority Sector Lending** – Scheduled Commercial Banks in India under the extant RBI Guidelines<sup>5</sup> provide priority sector lending to specified sectors, including Housing among others. The maximum limit of priority sector lending to Housing Finance Companies is restricted to 5% of the total priority sector lending on an ongoing basis. After the new status, such limit is expected to be subject to revision.

**vi. Relaxed exposure norms** – The RBI provides for exposure norms on credit extended by banks to NBFCs. Under the said norms the exposure should not exceed 10% of the banks capital fund in case of a single NBFC and 15% in case of NBFC-AFC. However with regard to exposure of banks to Infrastructure Finance Companies (IFCs), the said limit can be increased to 20%, if the same is on account of funds on –lent by the IFCs to Infrastructure sector. This relaxation will now be extended to Affordable Housing sector as well.

### **Loans to Developers:-**

The funding in the housing sector was limited to either directly to the individuals or indirectly to housing finance companies which in turn financed the individual houses. With regards to funding to the private builders engaged in acquisition of land and construction in housing field, the RBI Guidelines provided for restricted funding as given below:

- Restriction on fund or non-fund based funding for acquisition of land
- Credit facility extended based on the nature of each project.

- ❑ Credit extended to select builders after close monitoring

The said facility to private builders which got covered under the “Housing Finance” category of the RBI will be covered under the “Infrastructure Finance” category and enjoy the benefits available to the Infrastructure sector after necessary amendments by the Govt and RBI.

**Conclusion:-** Although grant of Infrastructure status is very positive move with multi-folded benefits which will increase the much required financing in this segment, but still developers of affordable housing projects are finding it difficult to get increased credit from banks as banks are yet to treat loans to affordable housing as loans to infrastructure, Also there is no need to maintain any cap on banks’ lending to affordable housing projects . Also, lower risk weight should be applied to such projects than real estate in general. It is clear that banks will act only if affordable housing project loans are classified in ‘priority sector’ by RBI.

In order to pass on benefits of Infrastructure Status in reality, it necessary that union govt along with Ministry of Finance and RBI should take effective steps for implementation in true letter and spirit and also give comprehensive and clear cut guidelines to banks and financial institutions for implementation.

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