

Housing Finance Companies

**Proposed regulatory changes unlikely
to materially impact deposit-accepting
HFCs**

January 2024



List of abbreviations and legends used

AIF	Alternative investment fund
CDS	Credit default swaps
CoR	Certificate of registration
CP	Commercial paper
DA	Direct Assignment
HFCs	Housing finance companies
NBFCs	Non-banking financial companies
NCD	Non-convertible debentures
NHB	National Housing Bank
NoF	Net owned funds
OTC	Over the counter
RBI	Reserve Bank of India
SCBs	Scheduled commercial banks
YTD	Year till date

For the analysis in this note, ICRA has analysed data of following major deposit accepting HFCs.

Aadhar	Aadhar Housing Finance Limited*
Can Fin	Can Fin Homes Limited
ICICIHFC	ICICI Home Finance Company Limited
LICHFL	LIC Housing Finance Limited
PNBHFL	PNB Housing Finance Limited
Sundram HFL	Sundaram Home Finance Limited

**not accepting deposits since FY2020*



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No material impact envisaged on the deposit accepting HFCs, given their adequate on-balance sheet liquidity and their deposits being within the prescribed ceiling (factoring in equity raise in YTD FY2024).



- The RBI came out with a draft circular on January 15, 2024 proposing further harmonisation between the regulations applicable for the HFCs and the NBFCs.



- The proposed changes are broadly across two main categories – deposit-accepting HFCs and all HFCs.



- The changes for deposit-accepting HFCs are largely around improving the security cover for deposit holders, better operating controls and restricting the leverage of HFCs by way of public deposits.



- In ICRA's view, the proposed changes are unlikely to have a significant impact on the deposit-accepting HFCs given the adequate on-balance sheet liquidity available and their deposits being within the prescribed ceiling (factoring in equity raise in YTD FY2024). However, there could be a higher cost of compliance.



- The proposed changes for all HFCs are more related to enabling provisions for derivatives, fee-based income avenues and strengthening of systems.

RBI proposes tightening of norms for deposit-accepting HFCs

RBI harmonises various limits of deposit-accepting HFCs with that of deposit-accepting NBFCs

Current Position

vs

Proposed Position

3 times of NoF

Deposit Ceiling

1.5 times of NoF

≥ 12 months but ≤ 120 months

Deposit Tenure

≥ 12 months but ≤ 60 months

$> 13\%$ of public deposits

Liquid Assets

$> 15\%$ of public deposits

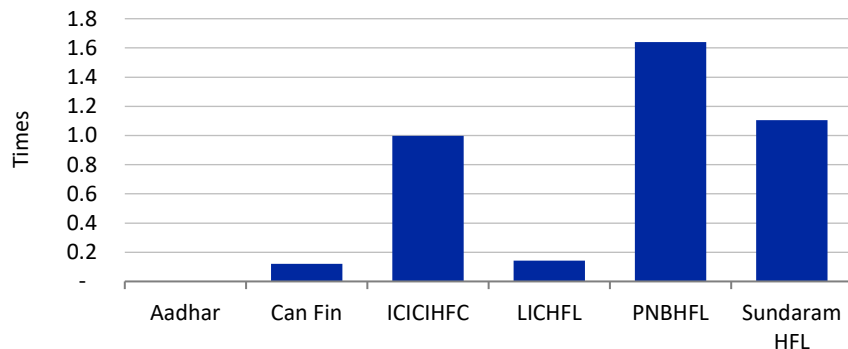


No material impact seen on deposit-accepting HFCs

Reduced permissible leverage for public deposits; HFCs already at lower levels

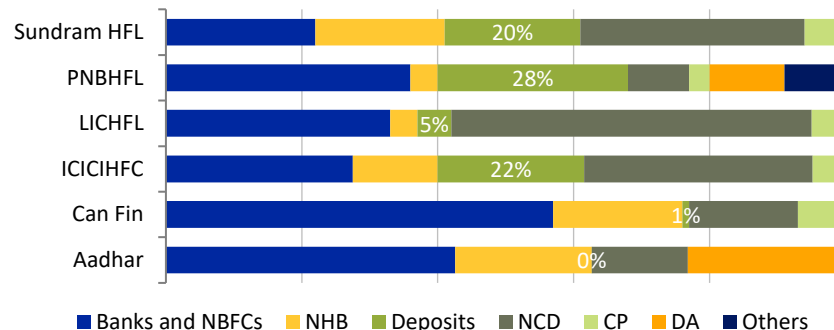
- Currently, all deposit-taking HFCs are allowed to hold public deposit to the extent of three times their NoF, subject to them meeting other conditions. The RBI has proposed to reduce the said limit to 1.5 times of the NoF, in line with deposit-accepting NBFCs.
- The HFCs holding deposits beyond the said limit shall not accept fresh public deposits or renew their existing ones till the quantum of public deposits is below the revised limit. However, existing excess deposits will be allowed to run off till maturity.

Exhibit: Public deposits/Tier 1 Capital* of HFCs as on March 31, 2023



Source: ICRA Research, RBI, annual reports of HFCs; used tier 1 capital (net-worth in absence of tier 1) as proxy for NoF

Exhibit: Borrowing Profile of HFCs as on September 30, 2023



Source: ICRA Research, RBI, data of HFCs; data of ICICIHFC is of on-book borrowings

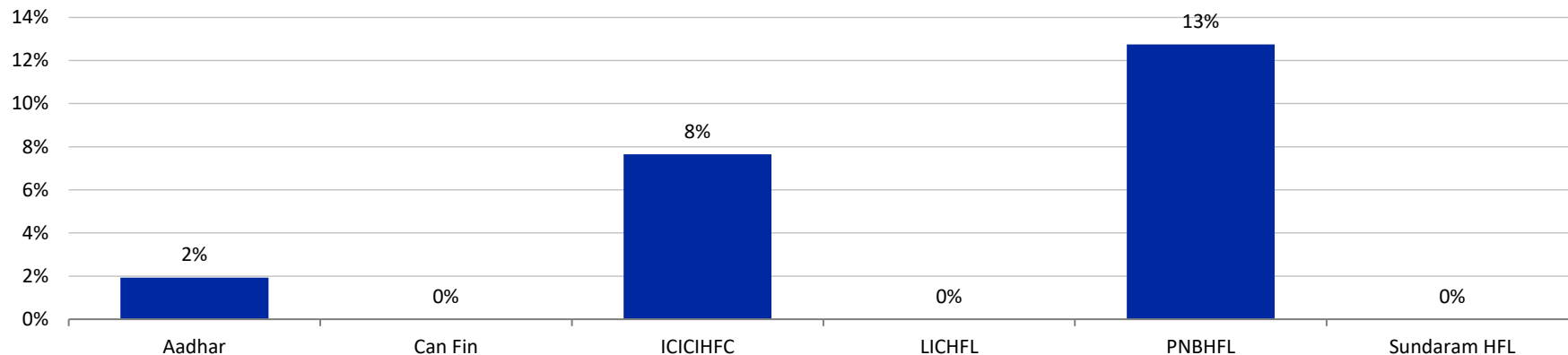


For some HFCs deposits form a healthy source of funding, however, their public deposits are within the prescribed ceiling (factoring in equity raise in YTD FY2024). Thus, the proposed cap on quantum of funds to be raised from deposits is not expected to impact the overall funding profile of deposit-accepting HFCs materially.

Maximum tenure for public deposits proposed to be reduced to five years

- Currently, all deposit-taking HFCs are allowed to accept or renew public deposits for a period greater than 12 months but less than 10 years.
- The RBI has proposed to reduce the maximum tenure to five years from 10 years, with the minimum tenure remaining the same.
- Existing deposits with maturity beyond five years shall be repaid as per their existing repayment profile.

Exhibit: Deposits > 5 years/total deposits of HFCs as on March 31, 2023



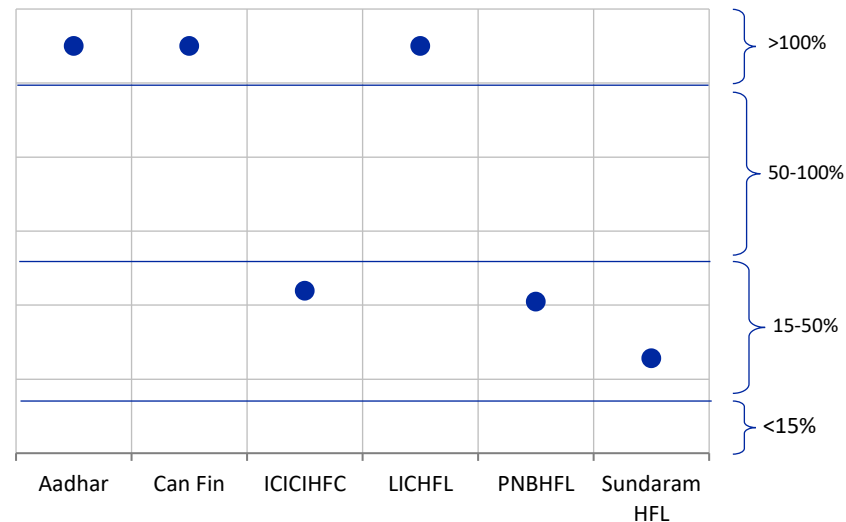
Very limited deposits were raised by the HFCs for more than five-year tenures, hence the change is not likely to impact the HFCs.

Maintenance of minimum liquid assets: no material impact

- Currently, all deposit-taking HFCs are required to maintain 13% of liquid assets against the public deposits held by them.
- The RBI has proposed to increase the above limit for all deposit-taking HFCs to 15% of the public deposits held by them, in a phased manner as specified below:

Timeline	Unencumbered approved securities, to be held as a per cent of public deposits	Total liquid assets along with unencumbered approved securities to be held as a per cent of public deposits
Currently	6.50%	13%
September 30, 2024	8.00%	14%
March 31, 2025	10%	15%

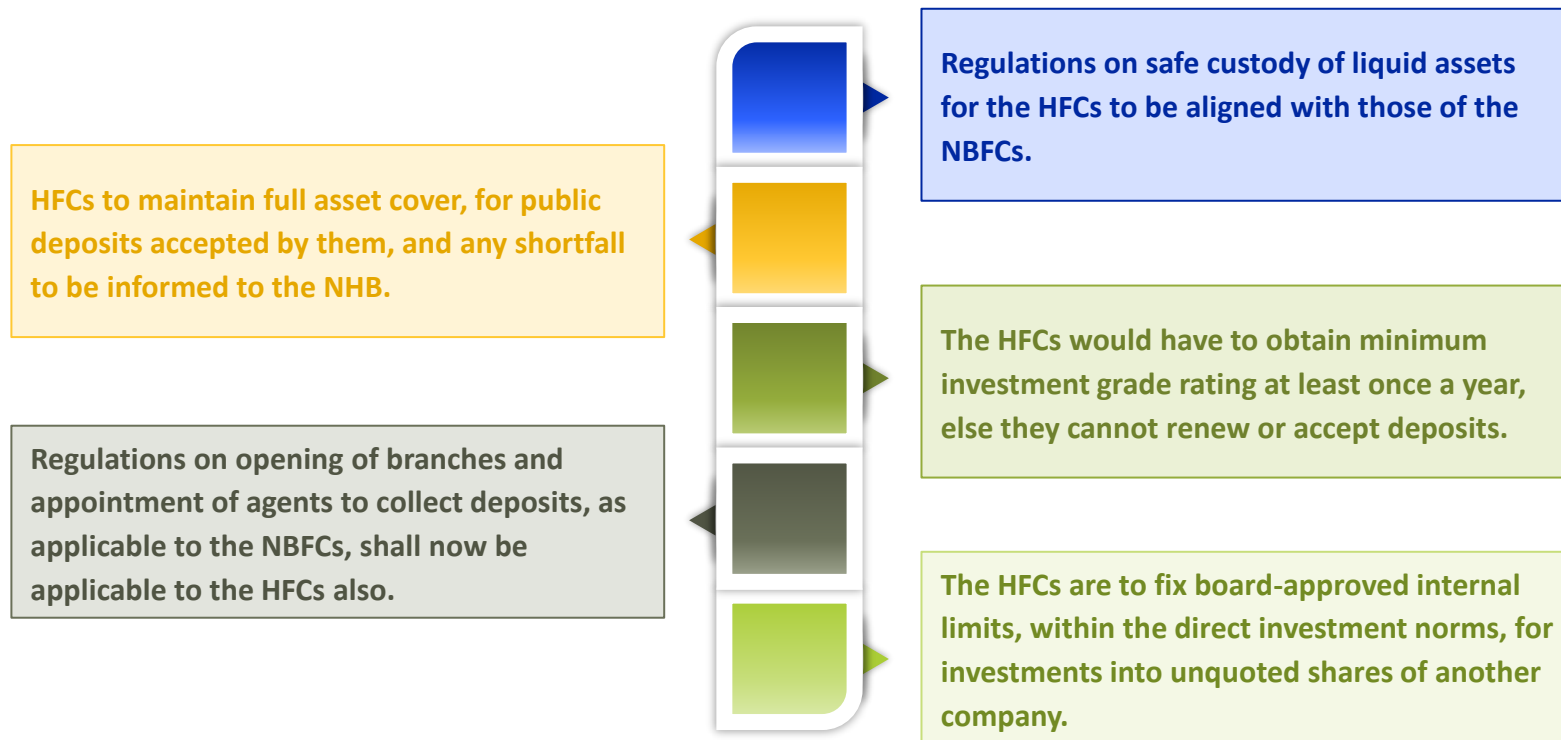
Exhibit: Liquid assets/public deposits of HFCs as on March 31, 2023



All major deposit-taking HFCs are already compliant with a significant margin above the required limit.

Other proposed changes for deposit-accepting HFCs

The proposed changes are expected to increase compliance burden; however, impact is not expected to be material



Other proposed changes for all HFCs (including non-deposit accepting HFCs)

The proposed changes are enabling features for HFCs. In addition, some changes are directed towards strengthening of controls.

1

Besides trading in OTC market, HFCs to be allowed to participate in exchange-traded currency derivatives & interest rate futures to hedge their underlying exposures

2

The HFCs to be permitted to participate in CDS market as users only to hedge their credit risk on corporate bonds they hold.

3

The HFCs to be selectively allowed to issue co-branded credit cards with SCBs, without risk sharing, with prior approval of RBI

Potential fee income for the HFCs provided there is adequate interest from the SCBs

Strengthening of IT systems & control

Audit committee to ensure that an information system audit is conducted as per the prescribed periodicity. Also, the HFCs are expected to adopt prescribed technical specifications for participation in account aggregator ecosystem.

4

Investments made by the HFCs in entities of same group through an AIF (subject to certain conditions), to be treated as direct investment for adjustments in NoF

5

Annexure 1 - List of HFCs granted COR with permission to accept public deposits

S. No.	Name of the HFC	ICRA Rating
List of HFCs having granted CoR with permission to accept public deposits		
1	Can Fin Homes Limited	[ICRA]AAA(Stable)/[ICRA]A1+
2	Cent Bank Home Finance Limited	NA
3	Aadhar Housing Finance Limited	[ICRA]AA(Stable)/[ICRA]A1+
4	Housing and Urban Development Corporation Limited	[ICRA]AAA(Stable)/[ICRA]A1+
5	ICICI Home Finance Company Limited	[ICRA]AAA(Stable)/[ICRA]A1+
6	LIC Housing Finance Limited	[ICRA]A1+
7	Manipal Housing Finance Syndicate Limited	NA
8	PNB Housing Finance Limited	[ICRA]AA(Positive)
9	Sundaram Home Finance Limited	[ICRA]AAA(Stable)/[ICRA]A1+
List of HFCs having valid CoR with permission to accept public deposits but required to obtain prior written permission before accepting any public deposits from the NHB		
10	GIC Housing Finance Limited	[ICRA]AA(Stable)/[ICRA]A1+
11	REPCO Home Finance Limited	[ICRA]AA-(Stable)/[ICRA]A1+
12	Saral Home Finance Limited	NA

Source: ICRA Research, NHB



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