

RBI/2014-15/127
DBOD.BP.BC.No.25/08.12.014/2014-15

July 15, 2014

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir,

Issue of Long Term Bonds by Banks – Financing of Infrastructure and Affordable Housing

In the Union Budget 2014-15, presented on July 10, 2014, the Hon'ble Finance Minister announced that:

“131. Long term financing for infrastructure has been a major constraint in encouraging larger private sector participation in this sector. On the asset side, banks will be encouraged to extend long term loans to infrastructure sector with flexible structuring to absorb potential adverse contingencies, sometimes known as the 5/25 structure. On the liability side, banks will be permitted to raise long term funds for lending to infrastructure sector with minimum regulatory pre-emption such as CRR, SLR and Priority Sector Lending (PSL).”

2. While flexible structuring for long term loans to infrastructure sector on the asset side of the banks' balance sheets is dealt with separately vide our [circular DBOD.BP.BC.No.24 /21.04.132/2014-15 dated July 15, 2014](#), this circular addresses the liability side of the banks' balance sheets; raising long term funds for lending to key infrastructure.

3. Apart from what is technically defined as infrastructure, affordable housing is another segment of the economy which both requires long term funding and is of critical importance. Government has stressed the importance of availability of cheap credit to make housing affordable for the Economically Weaker Sections (EWS), Lower Income Group (LIG) and Medium Income Group (MIG) segments of the population. Accordingly, the Reserve Bank intends to ease the way for banks to raise long term resources to finance their long term loans to infrastructure as well as affordable housing. This will help promote both growth and stability, as well as improve the supply side.

4. In this context, a reference is invited to our [circular DBOD.No.BP.BC.90/21.01.002/2003-04 dated June 11, 2004](#) on 'Issue of Long-term Bonds by Banks', whereby banks were allowed to issue long term bonds (other than which qualify as Tier II capital) with a minimum maturity of 5 years to the extent of their exposure of residual maturity of more than 5 years to the infrastructure sector, in order to facilitate banks to raise long-term resources for funding their long-term commitments and concurrently to assist banks in reducing asset-liability mismatches in the longer term maturities.

5. While banks have been raising resources in a significant way by way of issuance of Tier II capital bonds, it is, however, observed that issuance of long term bonds for funding loans to infrastructure sector, has not

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Lunawat & Co.

Chartered Accountants

E-mail: ca@lunawat.com, lunawat@vsnl.com.

Website: www.lunawat.com.

picked up at all, even though both are similar in terms of minimum tenor and application of reserve requirements.

6. In view of the above observations and in order to ensure adequate credit flow to infrastructure sector as also towards the affordable housing needs of the country by encouraging banks to optimally utilize the long-term financing avenues already available to them to finance their lending to these sectors, the prudential guidelines on this issue have been reviewed with a view to minimize certain regulatory pre-emptions. Accordingly, instructions given in the above-mentioned circular dated June 11, 2004 have been modified and the revised guidelines for issue of long-term bonds are given in the [Annex](#) to this circular.

Yours faithfully,

(Sudarshan Sen)
Chief General Manager-in-Charge

Annex

Issue of Long Term Bonds by Banks – Financing of Infrastructure and Affordable Housing

Banks can issue long-term bonds with a minimum maturity of seven years to raise resources for lending to (i) long term projects in infrastructure sub-sectors, and (ii) affordable housing.

2. Definitions

(i) Infrastructure Sub-sectors: Sub-sectors as defined in our [circular DBOD.BP.BC.No.66/08.12.014/2013-14 dated November 25, 2013](#) on Financing of Infrastructure - Definition of 'Infrastructure Lending' updated from time to time

(ii) Affordable Housing: For the purpose of this circular, lending to affordable housing is defined as housing loans eligible under priority sector lending by the RBI (please see the [Appendix](#) and as updated from time to time), and also housing loans to individuals upto Rs. 50 lakhs for houses of values upto Rs. 65 lakhs located in the six metropolitan centres viz. Mumbai, New Delhi, Chennai, Kolkata, Bengaluru and Hyderabad and Rs. 40 lakhs for houses of values upto Rs. 50 lakhs in other centres for purchase/construction of dwelling unit per family. RBI will periodically review the definition of affordable housing on account of inflation.

3. Type of bond

The instrument shall be fully paid, redeemable and unsecured and would rank pari-passu along with other uninsured, unsecured creditors.

4. Currency of issue

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The bonds shall be denominated in Indian Rupees.

5. Maturity period

The minimum maturity period of the long-term bonds shall be seven years.

6. Amount

There will not be any restriction on the quantum of such bonds to be issued by banks; however, the regulatory incentives will be restricted to the bonds that are used to incrementally finance long term projects in infrastructure and loans for affordable housing. Any incremental infrastructure and affordable housing loans acquired from other banks and financial institutions to be reckoned for regulatory incentives will require prior approval of RBI.

Recognizing that current outstanding lending to infrastructure and affordable housing will mature steadily (the regulations below assume 6 years), the *eligible credit* to infrastructure and affordable housing will be computed as per the schedule and formulae given in paragraph 7 below.

7. Credit eligible for regulatory incentives

| Period | Eligible Credit = EC |
|---|----------------------|
| From the date of circular till March 31, 2015 | B - 0.84A |
| April 1, 2015 – March 31, 2016 | B - 0.7A |
| April 1, 2016 – March 31, 2017 | B - 0.56A |
| April 1, 2017 – March 31, 2018 | B - 0.42A |
| April 1, 2018 – March 31, 2019 | B - 0.28A |
| April 1, 2019 – March 31, 2020 | B - 0.14A |
| April 1, 2020 onwards | B |

Where,

- A = Outstanding 'Standard' loans¹ to Infrastructure sector (project loans) and affordable housing on the date of this circular
B = Outstanding 'Standard' loans¹ to Infrastructure sector (project loans) and affordable housing on the date of issuance of the bonds

Regulatory Incentives

8. Compliance with reserve requirements

These bonds will be exempted from computation of net demand and time liabilities (NDTL) and would therefore not be subjected to CRR/SLR requirements. However, this exemption will be subject to a ceiling of the eligible credit mentioned in [paragraph 7](#) above. Therefore, DTL for the bank which has issued long term bonds in terms of this circular will be computed as given below:

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| | |
|--|---------------------|
| Demand and Time Liabilities (DTL) for the purpose of maintaining CRR & SLR calculated in terms of Master Circular DBOD.No.Ret.BC.11/12.01.001/2014-15 dated July 1, 2014 on 'Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)' as updated from time to time. | I |
| Amount of long-term credit eligible for regulatory incentives as per paragraph 7 above. | EC |
| Outstanding long term bonds issued to finance infrastructure loans and affordable housing loans, in terms of this circular | LB |
| DTL for the bank which has issued long term bonds in terms of this circular | I – Min (EC and LB) |

9. Relaxation in priority sector lending norms

Eligible bonds will also get exemption in computation of Adjusted Net Bank Credit (ANBC) for the purpose of Priority Sector Lending (PSL), as per the computation given below:

| | |
|--|----------------------|
| Bank Credit in India (As prescribed in item No.VI of Form 'A' (Special Return as on March 31st) under Section 42 (2) of the RBI Act, 1934. | II |
| Bills Rediscounted with RBI and other approved Financial Institutions + Advances extended in India against the incremental FCNR (B)/NRE deposits, qualifying for exemption from CRR/SLR requirements, till their maturity. | III |
| Net Bank Credit (NBC)* | IV = (II-III) |
| Bonds/debentures in Non-SLR categories under HTM category + other investments eligible to be treated as priority sector + Outstanding Deposits, as on preceding March 31st, under RIDF, Warehouse Infrastructure Fund, Short term Co-operative Rural Credit Refinance Fund and Short Term RRB Fund with NABARD | V |
| ANBC (Computation as given in Master Circular RPCD.CO.Plan.BC 10/04.09.01/2014-15 dated July 1, 2014 on Priority Sector Lending-Targets and Classification) | VI = IV+V |
| ANBC after issuance of long-term bonds for infrastructure and affordable housing | VI - Min (EC and LB) |
| * For the purpose of priority sector only. Banks should not deduct / net any amount like provisions, accrued interest, etc. from NBC. | |

Note -

It has been observed that some banks are subtracting prudential write off at Corporate/Head Office level while reporting Bank Credit as above. In such cases it must be ensured that bank credit to priority sector and all other sub-sectors so written off should also be subtracted category wise from priority sector and sub-target achievement.

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All types of loans, investments or any other item which are treated as eligible for classifications under priority sector target/sub-target achievement should also form part of Adjusted Net Bank Credit.

Other requirements

10. Options

The bonds should be issued in plain vanilla form without call or put option.

11. Rate of interest

The bonds may be issued with a fixed or floating rate of interest. The floating rate of interest shall be referenced to market determined benchmark rates.

12. Method of issue

The bonds may be issued through a public issue or private placement in full compliance with SEBI guidelines / norms including mandatory rating and listing.

13. Cross-holding

Cross-holding of such bonds among the banks will not be permitted.

14. Eligibility for deposit insurance

The bonds will not be eligible for deposit insurance.

15. Regulatory/Statutory compliance

Banks issuing long-term bonds shall be required to comply with all relevant statutory and regulatory requirements.

16. FEMA requirement

Banks shall comply with the FEMA requirements, if applicable.

17. Reporting requirements

The banks issuing long term bonds shall submit a report to Department of Banking Supervision (DBS), Reserve Bank of India giving details of the bonds issued, such as amount raised, maturity of the instrument, rate of interest, together with a copy of the offer document, soon after the issue is completed.

18. Review

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The RBI will review these instructions periodically, particularly those relating to computation of DTL for the purpose of exemption from CRR/SLR as also computation of ANBC for the purpose of PSL.

Appendix

Housing Loans Eligible under Priority Sector Lending

(i) Loans to individuals up to Rs.25 lakh in metropolitan centres with population above ten lakh and Rs.15 lakh in other centres for purchase/construction of a dwelling unit per family excluding loans sanctioned to bank's own employees.

(ii) Loans for repairs to the damaged dwelling units of families up to Rs.2 lakh in rural and semi-urban areas and up to Rs.5 lakh in urban and metropolitan areas.

(iii) Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of Rs.10 lakh per dwelling unit.

(iv) The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses only to economically weaker sections and low income groups, the total cost of which do not exceed Rs.10 lakh per dwelling unit. For the purpose of identifying the economically weaker sections and low income groups, the family income limit of Rs.1,20,000 per annum, irrespective of the location, is prescribed.

(v) Bank loans to Housing Finance Companies (HFCs), approved by NHB for their refinance, for on-lending for the purpose of purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of Rs.10 lakh per borrower, provided the all inclusive interest rate charged to the ultimate borrower is not exceeding lowest lending rate of the lending bank for housing loans plus two percent per annum.

The eligibility under priority sector loans to HFCs is restricted to five percent of the individual bank's total priority sector lending, on an ongoing basis. The maturity of bank loans should be co-terminus with average maturity of loans extended by HFCs. Banks should maintain necessary borrower-wise details of the underlying portfolio.

¹Loans of original maturities of more than seven years and net of Bills rediscounted with RBI and other approved financial institutions