

Cabinet amends Partial Credit Guarantee Scheme

The Union Government made changes to Partial Credit Guarantee Scheme which was announced in Budget 2019. NBFCs & HFCs had been long demanding the changes to be made in the scheme.

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The Union Cabinet on Wednesday announced changes to the Partial Credit Guarantee Scheme for non-banking financial companies & housing finance companies.

Under the new changes, banks can purchase high rated pooled assets from NBFCs & HFCs. The overall guarantee should be limited to first loss of up to 10% of assets or Rs. 100 billion, whichever is lower.

The earlier scheme was to provide a one time six months partial credit guarantee of Rs. 1 lakh crore to PSU banks for first loss up to 10 percent on purchase of high rated pooled assets of NBFCs & HFCs.

The government said in a release, The scheme would cover Non-Bank Finance Corporations (NBFCs) and Housing Finance Companies (HFCs) that may have slipped into SMA-0 category during the one year period prior to 1.8.2018, and asset pools rated "BBB+" or higher.

Further, The proposed government guarantee support and resultant pool buyouts will help address NBFCs/HFCs resolve their temporary liquidity or cash flow mismatch issues, and enable them to continue contributing to credit creation and providing last mile lending to borrowers, thereby spurring economic growth.

There has been limited traction in the earlier scheme announced in the budget, due to the high rating requirement making it unattractive. In addition, higher credit enhancement required in the previous scheme made it less feasible. This announced new scheme will substantially reduce the credit enhancement required and lower the cost of borrowings for issuers. Hence, we are likely to see extensive interest from NBFCs to utilize this scheme said, Rajat Bahl, Chief Analytical Officer & Head - Financial Institutions, Brickwork Ratings.

Bahl adds, the extension available until June 2020 and the inclusion of SMA-0 is positive, as it increases the pool of eligible assets, which could be securitized under the scheme.