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December 21, 2018



To,  
**Shri Shaktikanta Das**  
The Governor  
Reserve Bank of India  
Mumbai

**Sub: Financial Turmoil in the Real Estate and Housing Sector.**

Dear Sir,

This is in reference to the recent events in the financial markets, which started with ILFS defaulting on its Commercial Paper borrowing leading to Mutual Funds and Banks becoming cautious towards funding of NBFC's. Over the last 12-18 months, due to the stress in the banking sector, banks had curtailed their exposure to the real estate and housing sector, whereby the only source of capital available to our industry was from NBFC's or Private Equity firms. This premise gets further strengthened by KPMG's report stating that till date USD 4 billion of FDI has been invested in the real estate sector this year and FDI investment is expected to increase to USD 1 trillion by 2030. It's also important to note that Indian banks can only fund a maximum of 5% of their balance sheet size to the real sector which also includes home loans. This is another key reason that the real estate and housing sector has no option but to rely on funding from NBFC's and Private Equity.

#### **Estimated Capital Requirement to Fulfil "Housing For All"**

The government's data on need for "Housing For All", published in 2016, stated that 6 crore urban homes were needed to meet the need of housing; even if we assume a conservative average home loan size of Rs.15 lacs per home, the total capital required for 6 crore homes is approximately Rs.9 lac crores.

#### **Importance of Real Estate & Housing Sector**

Sir, we would also like to bring to your attention that the real estate and housing sector is the second largest provider of employment in the country and a 7%~8% contributor towards India's GDP. However, this sector has been hit by a series of slowdowns in the last two years, starting with demonetization, then RERA followed by GST, which have had a large impact on the sales and general well-being of the industry.

#### **Over 1% Increase in Rates Making Buying & Building Homes Unaffordable**

In light of the liquidity crisis facing the NBFC's, capital availability to the sector has further decreased leading to a major crisis in the industry, especially since a lot of banks and NBFC's have even stopped disbursing home loans of customers as well. Apart from this the cost of borrowing has gone up for everyone including home loans by over a 1% from the NBFC's and in some cases even more than 2%. Such an overnight increase of more than 1% on loans has further made it unaffordable to both build and buy homes in the country. This is creating a vicious cycle, where the

developer is not in a position to get home loan disbursals or disbursals for supporting the construction and other activities of the projects currently underway, with the cost of borrowing having gone up more than 1%.

#### **Banks to be Allowed to Fund Land Purchase**

With the advent of RERA and the banking law prohibiting lending for land purchase by banks, the need of capital from NBFC's has increased manifold, primarily because land construes 40%~45% of the overall project cost today in the metros and 30%-35% in the tier II cities. In such a scenario, NBFC's not being able to have sufficient liquidity to support the sector or stopping to disburse even home loans is likely to bring this industry to a standstill, leading to shutting down of a number of projects.

#### **Real Estate Sector Crisis Deepens, Consumer Sentiments Hit the Nadir**

Sir, it is important to mention that just at the time, post 6~8 quarters, when the real estate sector was just about showing initial signs of recovery, that it was hit by the NBFC crisis. This crisis has further pushed the sector into the doldrums from where, if some major corrective actions are not taken without any further delay, timely completion of under-construction projects and roll out of new ones would come to a standstill. Should the cascading effect of credit flow into the real estate sector is not resumed immediately, it is only a matter of time that while on one side many developers across the country will have to shut shop, the lakhs of daily wage earners that depend on this sector for livelihood, will not have an alternative. As customers confidence gets further dented, and their increased apprehension on the delivery credibility of even established names forcing them to keep away, for once, developers despite having physical assets backing them would be out of business for lack of liquidity / cash flows. The gravity of this crisis is much gloomier than it appears and this is really our "*MAYDAY*" calling!

#### **CREDAI-MCHI's Prayer**

Sir, we write to you today as we, as an industry, need your undivided support to bring us out of this vicious cycle or the current crisis may culminate in the shutting down of the industry. The industry today is in dire need of a comprehensive package to bail it out of this crisis, and we look forward unto you to kindly provide us with a path in order to achieve the following:

- 1) Until the liquidity situation eases, allowing a one-time restructuring of all developer loans as was allowed in 2008 during the Lehman Crisis including those that may have got classified as NPAs over the past one year;
- 2) To relook at the NPA recognition norm for NBFCs/HFCs and to make the same liberal by pushing recognition from 90 Days Past Due (DPD) to 180 DPD;
- 3) To allow PSU banks to take over and restructure even those developer loans that may have had a land component as part of the existing loan structure;
- 4) Immediate liquidity in the industry, either to the NBFC's or direction to banks to support real estate and housing funding by increasing their exposure norms, whereby the banks can re-start funding developers and home loans;

- 5) Allowing banks to fund land acquisitions; and
- 6) Urging Banks/ NBFC's to reduce the overnight increase in cost of borrowing effected by them.

Sir, as in the past, we need your support at this break-point, as the industry finds itself caught in a tough cycle for none of its fault; and just because a company and a NBFC, which was an infrastructure company, has had financial issues, the ripple effect should not be allowed to bring an entire industry of NBFC's and Real Estate and Housing sector to a standstill. *This may well be our only chance!*

**We sincerely request your immediate appointment to give our industry leaders a chance to present the pain and the case in person to you.** We earnestly hope you would consider our request and thanking you in anticipation of a favorable response.

Yours sincerely,  
For CREDAI-MCHI



Nayan A. Shah  
President



Bandish Ajmera  
Hon. Secretary



Sanjiv S. Chaudhary MRICS  
CREDAI-MCHI Secretariat