

Ref. No. MCHI/PRES/19-20/377

June 11, 2020

To,
Shri Shaktikanta Das
Governor
Reserve Bank of India
 Shahid Bhagat Singh Road
 Mumbai-400 001.

Sub. :- Immediate need for survival of the real estate industry.

Ref. :- Natural Calamity due to N-COVID-19 and Extended Lockdown in the Country.

Respected Sir,

The COVID-19 Pandemic is causing an unprecedented impact on the real estate business especially the residential real estate segment that has already been reeling from the adverse impact of the prevailing liquidity crunch, weak affordability and subdued demand conditions post the ILFS/NBFC crisis.

Reserve Bank of India in its monetary policy committee meeting held on May 20 to 22, 2020 believes normalcy would be achieved only by fourth quarter of financial year 2020-21 and not before that. Also, this is subject to that subject to medicines being found for COVID-19 and all restrictions being imposed.

Further, as you are cognizant, most of our laborers have migrated and it is uncertain whether they would return. Also, considering the financial impact on the economy as a whole we expect further slack in demand, and we do not foresee sales of units in near future. One hand we are struggling to commence construction and even upon tiding over it due to lack of sales we are unable to see light at the end of the tunnel.

The investments in Real Estate have had a 4 times positive multiplier effect on country's economy. Being the second largest employer in the country (about 52 million employed in the sector) and in view of the sector's substantial contribution to the GDP & the sector accounting for almost 11% of bank credit besides having backward & forward linkages with almost 250 industries including cement & steel etc., our survival is not just desirable, it is rather crucial for the economy.

The RBI vide its communique dated March 27, 2020, April 17, 2020 and May 22, 2020 has intended to infuse liquidity into the banking system, extend moratorium dates, maintained asset classification, extension of DCCO dates etc., amongst various measures taken to help companies deal with the economic downturn due to the pandemic.

We appreciate the measures and initiatives undertaken by the RBI thus far to support the Indian industry. But in spite of the best intentions by RBI, there has been little impact of these measures on the business community due to the lack of effective implementation at the ground level and thus our members of the real estate industry are continuing to be badly affected by the lockdown and its impending effects.

In continuation to our earlier request for reliefs, please find appended below suggestions for the short-term and medium measures for your consideration to mitigate the impact of pandemic covid-19 on India's real estate industry:

SURVIVAL OF REAL ESTATE & GENERATING LIQUIDITY

A. To allow onetime restructuring (OTR) of loans for Standard and Special Mention Accounts

One-time restructuring of loans is required as it will not only help the struggling business' operations by giving them a new lifeline but would also help them raise necessary funds/finances in view of an improved balance sheet, which would eventually contribute to keeping the foundation pillar of the economy strong and growing.

The relief granted vide circular dated April 17, 2020 allows all financial institutions to extend the date of commencement of commercial operations (DCCO) thereby extending the principal repayment timelines. *However, in the current circumstances business models need to be reconfigured to the changed environment which would lead to a need for holistic review of the entire sanctioned term loan conditions including interest & principal moratorium, additional funding and not limited to DCCO.*

Further, we request you to allow all the measures granted and requested herein to be made applicable to in respect of assets/accounts classified as Standard and Special Mention Account (SMA) based on the Basel committee guidelines. This will allow faster revival of the real estate projects which have been facing financial stress by facilitating credit flows.

Such OTR should be applicable to all loans including the ones under Special Mention Account category and Non-Performing Account category, from all the Banks/NBFCs/MFIs/HFCs to enhance the coverage and penetration of the benefit.

B. To approve Emergency Credit Line (ECL): To provide a ECL of upto 25% of the current outstanding, which shall be a pre-approved in the form of additional project finance or working capital term loan facility.

Rationale- Real Estate business is a very capital-intensive business and a large portion of the capital requirements are funded through Banks / Financial Institutions to construct and run the operations. The abrupt closure of business has had a cascading impact on cash flows due to prolonged closure. Thus, the overall working capital cycle has been adversely impacted and the need is felt to get an additional loan/WC limit within the same collateral package.

C. To instruct to banks, MFI, HFC, NBFC to pass a minimum of 300 basis points reduction of interest rate charged as relief for Covid19

You would be aware that the cost of funds has consistently fallen since January 2019 with the reduction in MCLR but the transmission of the said lower cost of funds has not been given to the real estate borrowers alike. Since interest forms a large part of our total costs, a reduction of interest rates will be a great assistance during these tough times to our members.

D. Utilisation of Balances in Escrow Account:

We invite your attention to the Reserve Bank of India's Notification RBI/2019-20/186 DOR.No.BP.BC.47/21.04.048/2019-20 March 27, 2020 on the above subject matter.

We understand that the banks and NBFC even though are prepared to defer the EMI of LRD loans for a period of three/six months as stipulated in the aforesaid notification, they are not agreeable to allow the borrowers to withdraw the funds remitted by the tenants deposited in the bank's/NBFC's escrow accounts.

You will very well understand that unless the borrowers are allowed to utilise these funds for their working capital purposes which includes payment for construction expenses, staff and labour payments, maintenance of the premises viz Common maintenance charges etc, the objective of the Government as enumerated by the Reserve Bank of India vide the Statement on Developmental and Regulatory Policies of RBI dated 27th March 2020 are not achieved, viz (i) reinforcing monetary transmission so that bank credit flows on easier terms are sustained to those who have been affected by the pandemic; (ii) easing financial stress caused by COVID-19 disruptions by relaxing repayment pressures and improving access to working capital; and (iii) improving the functioning of markets in view of the high volatility experienced with the onset and spread of the pandemic.

We therefore request you to kindly issue a clarification/directions to the banks/financial institutions to permit the borrowers to utilise these funds in escrow account for their legitimate business purposes.

DEMAND GENERATION IN ALL REAL ESTATE SEGMENT

1. Reduction of housing loan interest to 5.0% per annum

Home loan to be charged concessional interest rate of 5.0% per annum by offering subsidy to the home purchaser, alternatively allow deduction of entire interest and principal repayment on housing loan without any limit for self-occupied house and one rented property (similar to the stimulus announced by US Government in March 2020 for real estate homebuyers)

2. To allow sale of units using Subvention schemes where Pre-EMI Interest on home loan is borne by Developer.

All loans sanctioned and disbursed between 01 June 2020 and 31 March 2021 should be allowed to be granted by banks/HFCs under subvention scheme at the option of the Developer.

As you are aware that the real estate business is at the cusp of collapse and any delay in announcing relief measures will imminently result in the collapse of the real estate business which is the 2nd largest employer in India after agriculture. The sector creates tremendous opportunities for the skilled and unskilled workforce. Further revival of this business will lead to the revival of growth for the entire country.

In this regard, we with great expectation request you to kindly accept our request and issue necessary notifications to give effect to the above suggestions.

Thanking you,

Yours Sincerely,
For CREDAI-MCHI



Nayan A. Shah
President



Bandish Ajmera
Hon. Secretary

CC:-

Shri Saurav Sinha

Chief General Manager-in-Charge

Department of Regulation

Reserve Bank of India

12th Floor, Central Office Building,

Shahid Bhagat Singh Road, Mumbai-400 001.