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Ref. No. MCHI/PRES/18-19/035

October 29, 2018

To,  
Shri Gautam Chatterjee; I.A.S. (Retd.)  
Chairman  
MahaRERA  
Govt of Maharashtra  
Bandra, Mumbai

Respected Sir,

**Sub. : Envisaged delay in Project Execution & Possession owing to the ongoing NBFC Crisis**

As you are aware that the ongoing NBFC crisis which began with IL&FS failing to repay its commercial dues, has caused a liquidity crisis for the entire NBFC sector. This crisis has spilled over onto the real estate sector and has dried up liquidity for the real estate sector, both for the consumer as well as for the developer. In fact, CREDAI has directly written to the Hon'ble Prime Minister requesting his intervention in easing out the liquidity crisis (Copy of the letter is attached herewith for your kind perusal).

With the perceived risk post the IL&FS fiasco, As the cost of borrowing for NBFCs has gone up, the NBFCs in a knee jerk reaction, have increased commercial lending rates by up to 200 basis points (that is 2%). Additionally, they have considerably delayed the disbursement cycle also. From the ground, while consumers have been reporting undue delay in home loan disbursements, Construction Funding disbursements have also been either put on hold or delayed indefinitely.

This reported delay in Construction Finance funding is likely to adversely impact the project management and the execution cycle, as in the absence of capital, the developer, while sourcing alternative funding avenues, will be forced to delay construction activities at the site. This is likely to delay project delivery in the short- to mid-term, and is likely to affect possession across projects.

Sir, as CREDAI MCHI, while bringing this matter to your kind notice, we are also sincerely requesting you to give due cognisance to this crisis on the ground from a MahaRERA perspective and humbly request you to take a liberal view, as is warranted, on project delays reported during the crisis period, until the time the liquidity crisis gets over.

We look forward to your support and guidance, as always in the past.

Yours Sincerely,  
For CREDAI-MCHI



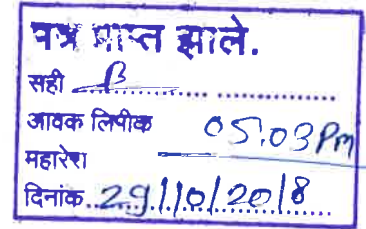
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## Subject: Easing credit freeze on Real Estate

Respected Prime Minister Sir,

Confederation of Real Estate Developers of India (CREDAI) is the apex body representing 12,000 real estate developers across 23 states and 203 cities. CREDAI actively pursues consumer protection with its members signing a voluntary code of conduct and Consumer Grievance Redressal Forum established in all its chapters. CREDAI is increasingly involved in skill development, clean cities and educational initiatives. CREDAI has trained 1 lakh workers under its Skill Development Programme. CREDAI Clean City Mission ensures zero solid waste from 80,000 apartments. CREDAI members have taken up development of more than 1 million affordable housing units since April 2017.

2. Real estate contributes about 8.0 per cent of India's Gross Value Added and is the second largest employer after agriculture. Owing to large forward and backward linkages, this sector provides boost to a host of industries including cement, steel, paint construction materials and consumer durables etc. Further, there are a number of services for example, construction and engineering services, sub-contracting services erection & commissioning services, fabrication services and architectural services etc., which are consumed in relation to construction and real estate development.

3. In the long run, Real estate sector is expected to be a beneficiary of multiple reforms, foremost being Real Estate Regulation and Development Act, or RERA and GST. However, at the present moment, the industry is trapped in a downward spiral of unfinished projects, high inventory levels and tapering off of demand. The only way to prevent collapse is liquidity support. However, what is happening is just the reverse. Gross Bank Credit to the Housing sector is down by 1.6% year on year as brought out by RBI and tabulated below.

Deployment of Gross Bank Credit

Sr. No	Sector	Aug.18, 2017 / Aug.19, 2016	Aug.31, 2018 / Aug.18, 2017	Aug.18, 2017 / Mar.31, 2017
		%	%	%
I	Gross Bank Credit (II + III)	4.8	12.2	-2.5
III	Housing	3.1	8.6	-1.6

Contd../-

4. The anecdotal evidence is that banks are cancelling disbursements after the loans have been sanctioned. Hapless real estate companies are not even being told why the credit is being withheld. All this happening at a time, when developers are under great pressure to complete projects due to full implementation of RERA. The coming festive season offers hope to the industry to book sales and pull itself up by its bootstraps. We request you to please take necessary steps for easing flow of credit to the sector in this grim hour of need.

5. With regard to stalled projects, we have suggested creation of Stressed Asset Fund for which Ministry of Housing and Urban Affairs is the right nodal agency for implementation. The concept note is attached herewith.

Best regard



**Getamber Anand**  
Chairman



**Jaxay Shah**  
President



**Satish Magar**  
President Elect.

## **CREDAI : Concept Note on Stressed Asset Fund for Real Estate**

### **Background & Need**

Real Estate Industry is going through its toughest times. On the one hand, there are huge opportunities being opened-up due to initiatives such as Housing for All, Smart Cities, Swachh Bharat etc. which will boost housing demand. On the other hand, there is stress in the industry due to owing to the combined burden of RERA, GST and slow-down in housing demand growth

The consequence of the stress in the industry is causing large scale default in delivery of completed properties to consumers. We may need a multi-pronged approach to deal with the crisis, one of which is a Stressed Assets Fund for those projects where there is no wilful default but which are delayed due to reasons beyond the control of the promoter.

### **Concept of Real Estate Stressed Assets Fund (RESAF)**

Stressed Assets Fund (SAF) for the Real Estate Sector is directed to address 'Last Mile Funding' for completion of real estate projects. The Fund will support the existing Bank funding by providing only additional funding required to complete the project. The Fund will work on a 'Last-In-First-Out Concept' i.e. its money will get preference over Bank loan. Investors will get confidence of putting money in a Fund which is going to invest in stressed assets only when they know that their money is coming out first.

### **Security for the Fund**

- a. Takeover only part of the security from Banks such as completed / under-construction Inventory and provide only additional working capital for project completion or,
- b. Take pari-passu charge with the bank on the project and provide additional working capital.

### **Structure**

- i. The Stressed Asset Fund can be set up as Alternate Investment Fund under SEBI Regulations.
- ii. It is proposed that the Fund be anchored by a Government Institution such as National Housing Bank (NHB), HUDCO, NBCC and PSBs, who may take a shareholding in such a manner that the Fund does not come within the ambit of Public Sector.
- iii. The Fund will have an independent professional Fund Management Team.

### **Investors**

- a. Global Pension funds
- b. Sovereign Funds
- c. Foreign and Indian Banks
- d. Housing Finance Companies
- e. Fund of Funds, HNIs, Industrial Houses

### **Initial Corpus / Funding**

Since the initial stakeholders will be the Banks and Financial Institutions, they may rightfully make the contribution to the initial Corpus of the Fund. It is recommended that they contribute 2% of their following amounts as initial investment:

- a. Housing Loans
- b. Project Finance

The initial corpus of Rs.5,000 crore would get the Fund off the ground. Subsequently, large foreign investors such as Pension and Sovereign Funds can be approached to invest in the Fund.

## **Process of Investment**

- a. The Fund will have an independent Investment Committee which will evaluate proposals.
- b. It is anticipated that in the initial period many proposals may be recommended by the Banks themselves out of their stressed portfolio.
- c. The Fund will appoint independent valuation agency to determine the value of balance cash flow and inventory so as to determine the risk, the quantum of funding and the tenor.
- d. The Fund will require due diligences done for protecting its investment.

## **Terms of the Fund**

- a. The Fund should generally do only last mile funding for project completion. So, investment tenor may be 1 to 2 years.
- b. The Fund should work on as "payable-when-able" basis which means that it will get its principal and returns only when cash flow is available.
- c. The Fund will appoint an independent Project Monitoring Consultant (PMC) to monitor and report on the project progress. In select cases it can also ask the PMC to become signatory to the Project Bank Account so as to control the Cash Flow.
- d. The Fund can target an Internal Rate of Return of 18 percent. Since the stakeholders will be Banks and HFCs to start with, it will help them to improve the return on their Housing Finance portfolio.