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Vijay Lakhani

Ref. No. MCHI/PRES/19-20/517

June 16, 2020

To,  
**Shri Rajnish Kumar**  
Chairman  
State Bank of India

**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.

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 and Banking Industry thus far to support the Indian industry. But we continue to be deeply concerned for our members as they are in deep pain and anguish due to the impending risk of financial default each one of our members foresee unless assistance from FinMin and Banking Industry is forthcoming.*

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

**1. To request RBI 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.

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 to enhance the coverage and penetration of the benefit.

## **2. 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 and prolonged closure of business has had a cascading impact on cash flows. 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*.

## **3. To pass on 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 but the transmission of the said lower cost of funds has not been given to our members (real estate borrowers) alike. Since interest on project finance loans forms a large part of our total costs, a reduction of interest rates will be a great assistance during these tough times. You may be aware that **SWAMIH** fund has already reduced their IRR to 12% pa from the previous 15%pa which is a welcome move.

## **4. Utilisation of Balances in Escrow Account:**

We further 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 4.above subject matter.

We would like you to note that the banks even though are prepared to defer the EMI of LRD loans for a period of three month/six months as stipulated in the aforesaid notification, some banks are not agreeable to allow the borrowers to withdraw the funds remitted by the customers/tenants in the 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, salary to staff and labourers, maintenance of the commercial premises viz Common Maintenance charges etc, the objective of the Government as enumerated by the Reserve Bank of India vide it's the Statement on Developmental and Regulatory Policies of RBI dated 27<sup>th</sup> 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 to your concerned department to permit the borrowers to utilise these funds in escrow account for their legitimate business purposes.

**5. Disbursement of Sanctioned Home Loans:**

We are given to understand that banks are not releasing disbursement of sanctioned HLs and in some cases part-disbursed home loans for want of re-verification of source of income. In most cases, the Home Loan borrower has bought his dream house and registered the Agreement after he/she was assured of his home loan. He has also spent money for payment of Stamp Duty, Down Payment, GST etc. Thus this leaves the customer in a precarious situation and he may have no choice but to cancel his flat booking. This will have a huge negative impact on developer cash flows and cause also major administrative and legal hassles for the industry.

Thus, we would like to request you to continue disbursement of Sanctioned Home Loans with minimal disruptions on account of further verifications.


It's important to note that if a customer is unsure of his/her future cash flows, he/she himself will not proceed ahead which is a good measure for all parties involved.

6. RBI has allowed the Banks to re-assess working capital requirement of the borrowers and grant ad-hoc enhancement in working capital limits. However, in case of Real Estate borrowers, the working capital loans to fund the projects are provided in the form of term loans. Therefore, we suggest that Top up be allowed in the existing term loans, assets back loans and loans against properties.
7. As per the Bank policies, a decline in Credit Rating of a borrower results in an increase in rate of interest irrespective of the regular payment track record of the borrower. This practice of the Bank penalises the borrower who in-spite of certain adverse reason affecting his credit rating is still making payment of the Bank dues on regular basis. In such cases, the credit rating should not be downgraded, or at least the rate of interest should not be increased than earlier sanctioned, as due to Covid -19 pandemic and many other circumstances, Credit Rating of the borrowers may remain stressed and this should not adversely affect availability of credit to such borrowers as also the terms on which credit is disbursed to such borrowers
8. **Teaser Loan to be introduced**  
Home Loans with teaser rates of interest should be re-introduced so as to attract more and more customers to avail the home loans and provide demand to the Real Estate Sector.
9. **Subvention scheme of 5:90:5 to be reintroduced along with interest capitalization scheme**
10. Many Developers are also ready to give interest subsidy For e.g Home Loan with interest rate of 7.45% where developers will bear the 1.46% interest and Home Loan can be announced at 5.99%. And many other scheme in order revive the demand in the market

We trust that our above suggestions, if implemented, will generate a good amount of liquidity in the market and provide working capital funds to the needy. Kindly take the same into consideration.

Thanking you  
Yours Sincerely,

**For CREDAI-MCHI**

  
**Nayan A. Shah**  
President

  
**Bandish Ajmera**  
Hon. Secretary

CC

- 1) Ashwani Kumar Sharma, Chief Manager Home Loans, SBI