average maturity of such priority sector assets created by those who are eligible intermediaries should be co-terminus with the maturity of the bank loan.

***RBI circular on Co-lending by Banks and NBFCs to Priority Sector dated November 5, 2020***

The RBI introduced the co-lending model to increase the affordability and outreach of capital to underserviced sections of the economy. By entering into co-lending arrangements, banks and NBFCs can combine the relative advantages of the two to provide financial services.

Banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The co-lending banks will take their share of the individual loans on a back-to-back basis in their books. However, NBFCs are required to retain minimum 20% share of the individual loans on their books. The bank and the HFC will have to maintain their own individual customer accounts but there is a requirement for the funds to be disbursed via an escrow account, maintained with the banks. The master agreement may contain necessary clauses on representations and warranties which the originating HFC shall be liable for in respect of the share of the loans taken into its books by the bank. The co-lenders are mutually required to set up a framework for loan monitoring and recovery, grievance redressal mechanism, arrange for the creation of security and charge and ensure compliance with internal guidelines.

***Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 ("RBI Master Directions")***

Pursuant to the RBI circular on 'Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs' dated October 22, 2021, the RBI created a regulatory structure for NBFCs, comprising four layers, based on their size, activity, and perceived riskiness. NBFCs in the lowest layer is known as NBFC - Base Layer; NBFCs in middle layer and upper layer are known as NBFC - Middle Layer and NBFC - Upper Layer, respectively. The Top Layer is known as NBFC - Top Layer, which is ideally supposed to be empty, but may contain entities in the future, if the RBI is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFC – Upper Layer entities. The RBI Master Directions prescribe specific regulatory changes for each of the different layers in the regulatory structure, that is, prudential regulations, regulatory restrictions and limits, governance guidelines and the transition path.

***RBI circular on Compliance Function and Role of Chief Compliance Officer (CCO) – NBFCs dated April 11, 2022***

In terms of the abovementioned circular, which is applicable to NBFCs in the upper layer and middle layer, the applicable entities are required to *inter alia* put in put in place a board approved policy and a compliance function, including the appointment of a chief compliance officer, based on the framework stipulated in the said circular. As per the circular, the chief compliance officer shall be the nodal point of contact between the NBFC and the regulators or supervisors and shall necessarily be a participant in the structured or other regular discussions held with RBI. Further, compliance to RBI inspection reports shall be communicated to RBI necessarily through the office of the compliance function.

***Refinance Assistance from NHB***

NHB offers refinance assistance to primary lending institutions in respect of their housing loans to individuals, and also for their loans to other institutions for housing finance and construction finance for affordable housing. In terms of the 'Booklet On Refinance Schemes of National Housing Bank', which came into force on November 26, 2021 ("**Booklet on Refinance Schemes**"), issued by the NHB, the eligibility criteria for an HFC, being a primary lending institution, to draw refinance from NHB are *inter alia* (i) HFC should be registered with the NHB to carry out housing finance activity in the country; (ii) HFCs are required to provide long-term finance for purchase, construction, repair and upgrading of dwelling units by home-seekers; (iii) at least 51% of the total tangible assets less cash & bank balance should be utilised for individual housing loans; (iv) The HFC should have a net owned fund of not less than ₹100 million; (v) the HFC should comply with the provisions of the NHB Act, as amended from time to time; and (vi) the NNPA of the HFC should not be more than 3.50% of the net advances, as defined in the Booklet on Refinance Schemes.

The NHB provides refinance assistance in terms of its various refinance schemes such as the regular refinance scheme, special urban housing refinance scheme for low income households and the affordable housing fund, each of which set out certain restrictions applicable to loans provided by the HFCs in terms of their loan size, tenure, location of property and the ultimate borrower in some cases. The terms of the re-finance assistance, such as the tenure and interest rate applicable is subject to eligibility of the loans under the respective schemes. For instance, while the regular refinance scheme provides for refinance assistance in respect of housing loans extended by HFCs for, amongst others, construction and purchase of dwelling units with no restrictions on loan size, location and the ultimate borrowers of such loans, the affordable housing fund includes eligibility conditions based on the annual household income of the borrowers depending on the location of the property being in urban or rural areas, as prescribed thereunder.

Further, in terms of the NHB Refinance Circular - External Rating of the Refinance Facilities availed from National Housing Bank (NHB) dated March 29, 2023, HFCs are advised to obtain external rating for all the facilities availed from NHB based on their last available financials from any of the RBI accredited rating agencies and submit the same to NHB at the earliest.