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FAQs on Special Window for Funding Affordable Housing Released

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The Union Cabinet chaired by Prime Minister Shri Narendra Modi yesterday approved the establishment of a 'Special Window' fund to provide priority debt financing for the completion of stalled housing projects that are in the Affordable and Middle-Income Housing sector.

For the purposes of the fund, the government shall act as the Sponsor and the total commitment to be infused by the Government would be up to INR 10,000 crore.

The fund will be set up as a Category-II AIF (Alternate Investment Fund) debt fund registered with SEBI and would be professionally run.

For the first AIF under the Special Window, it is proposed that SBICAP Ventures Limited shall be engaged to be the Investment Manager.

This fund would in turn would provide relief to developers that require funding to complete a set of unfinished projects and consequently ensure delivery of homes to the home-buyers.

Since the real estate industry is intrinsically linked with several other industries, growth in this sector will have a positive effect in releasing stress in other major sectors of the Indian economy as well.

Background

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The Hon'ble Finance Minister on September 14, 2019 had announced that a special window for affordable and middle-income housing will be created. This special window will provide last mile funding for housing projects which are stressed.

Subsequently, Inter-ministerial consultations and several stakeholder consultations were held with the housing industry including Housing Finance Companies, Banks, NBFCs, Investors, and Real Estate Developers. Problems being faced by home buyers, developers, lenders, and investors were ascertained that could be addressed through the Special Window.

FAQs ON SPECIAL WINDOW FOR FUNDING STALLED AFFORDABLE AND MIDDLE-INCOME HOUSING PROJECT AS APPROVED BY THE UNION CABINET ON NOVEMBER 6, 2019

1. What is role of the Government and the Investment Managers in this Special Window?

Answer: The Government shall act as the sponsor to the proposed fund and shall have the authority and responsibility as specified under SEBI (AIF) Regulations, 2012. Whereas, the investment manager is responsible for fund raising, investments and managing the fund team.

2. What is size of the fund?

Answer: The total commitment of funds to be infused by the Government in the affordable and middle-income group housing sector through the Special Window would be up to INR 10,000 cr. The fund is seeking matching contributions from Banks, LIC and others to generate a total corpus of around INR 25,000 cr.

3. Who will manage the fund?

Answer: For the first AIF under the Special Window, SBICAP Ventures Limited shall be engaged to be the Investment Manager.

4. Who will be the investors of the fund?

Answer: AIFs created/funded under the Special Window would solicit investment into the fund from the Government and other private investors including cash-rich financial institutions, sovereign wealth funds, public and private banks, domestic pension and provident funds, global pension funds and other institutional investors.

5. Will Projects under NPA and NCLT be considered for the last mile funding?

Answer: Yes. Based on the inputs received from the stakeholders the Government has decided to increase the scope of investments to include NPA as well as NCLT projects. All applications for financing would be reviewed by the investment committee of the fund for approval, after due-diligence and discussions with existing lenders and legal advisors.

6. Which projects undergoing NCLT proceedings are eligible to be considered for funding under the Special Window?

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Answer: Any or all projects undergoing corporate insolvency resolution process before the NCLT can be considered for funding through the Special Window upto the stage where the resolution plan for such insolvency resolution process has not been approved / rejected by the committee of creditors.

7. Will this fund invest in cases which are pending before the High Courts and the Supreme Court?

Answer: No. The focus of this Special Window will be on the projects that are stalled for lack of construction funding. It shall also look at projects that are NPAs or undergoing NCLT proceedings, that can commence construction immediately after funds are made available.

8. What will be the criteria for the selection of the projects for funding?

Answer: Funding shall be provided to the projects that meet the following criteria:

- Stalled for lack of adequate funds
- Affordable and Middle Income Category
- Net worth positive projects (including NPAs and projects undergoing NCLT proceedings)
- RERA registered
- Priority for projects very close to completion.

9. What is affordable and mid-income housing project?

Answer: For the purposes of the first fund under the Special Window, Affordable or Mid-Income Housing shall be defined to include any housing projects wherein housing units (to be specified in detail in the fund documents) do not exceed 200 sq. m. RERA carpet area and are priced as below:

- Upto or less than INR 2cr in Mumbai Metropolitan Region
- Upto or less than INR 1.5cr in National Capital Region, Chennai, Kolkata, Pune, Hyderabad, Bangalore and Ahmedabad
- Upto or less than INR 1cr in the rest of India.

10. What is a net-worth positive project?

Answer: Net-worth positive projects for the purpose of funding through the Special Window shall mean those projects where the value of receivables plus the value of unsold inventory is greater than the completion cost and outstanding liabilities at the project-level.

11. Projects under which price points will be benefited under this scheme?

Answer: Please refer to Answer No. 9

12. What all would be covered under the price caps that are specified for various cities?

Answer: This price does not include any additional charges for social amenities, parking, housing society, brokerage, deposits, registration and stamp duty charges.

13. What is definition for carpet area?

Answer: Carpet Area shall have the meaning as assigned to it in clause (k) of section 2 of RERA i.e. Carpet Area means the net usable floor area of an apartment, excluding the area covered by the external walls, areas under services shafts, exclusive balcony or verandah area and exclusive open terrace area, but includes the area covered by the internal partition walls of the apartment.

14. Will this fund may also look at villa projects?

Answer: The fund will invest in any project that meets its investment objective of completing housing units with size less than 200 sq. mts. and the city-wise pricing norms subject to a cap of INR 2 cr.

15. Which cities will be most taken care of under the funding of stalled housing projects across India? Is there going to a region wise allocation of the fund?

Answer: The Portfolio Investments by the Fund shall be spread across India with no geographical restrictions. There will be caps at project level, developer-level and city level as per standard risk management practice.

16. What portion of the stalled real estate housing projects fall under the affordable and mid-income segment?

Answer: As per industry estimates, 90% of the stalled projects are under the affordable and mid-income segment.

17. Will the retail loans of the selected stalled projects be restructured?

Answer: This will be done as per RBI guidelines and Bank Board approved policies.

18. How will the home-buyers be benefited from the funding?

Answer: Revival of stalled projects will lead to early completion and timely possession of homes for home-buyers who have invested their hard-earned money.

19. What is the process to monitor if the allocated fund is utilised by the developer on the respective project?

Answer: The Special Window shall provide capital for completion of construction of stalled projects. The Investment Manager along with developer / appointed project management companies shall ensure that the end use of funds is only for the purpose of completing the project. Standard financial controls maintained by RERA will be adopted.

20. Will the existing Lenders be given the authority to supervise the disbursement and execution?

Answer: The fund will supervise the disbursement of capital and shall monitor the execution of projects by the developer directly or through third party services. Existing lenders would be consulted as part of the sanction process.

21. Post the selection of the projects, what would be the process for funding?

Answer: The investment Manager shall make a detailed investment review including inputs provided by external due diligence agencies. This monitoring mechanism will be part of the contractual arrangement with the developers as part of funding and approval of the fund investment. After the documentation is completed, disbursements would happen.

22. How many projects are expected to be benefited under the scheme?

Answer: As per industry estimates, in the stalled category, there are about 1509 housing projects comprising of approximately 4.58 lakh housing units. Projects meeting the investment eligibility criteria will be financed. The maximum finance for any single project will be INR 400 crore. There will be caps put in place for a single developer and for any single city as well as part of the final detailed scheme.

23. The funding is only for mid and affordable segment. What about the incomplete projects of luxury segments?

Answer: The focus of the Special Window is on mid and affordable segment. However, alleviating the stress for the developers in this segment may have indirect collateral benefits for the entire real estate sector including luxury segment.

24. What is the expected timeline for execution of projects once funding is received?

Answer: The objective of the Special Window is to complete the construction of the stalled projects at the earliest. Accordingly, funding would be structured to meet the construction and sales schedule of the relevant projects.

25. Who will construct the project if the developer is incapable?

Answer: As part of the investment review, the Investment Manager will take a call if there is any need to change the developer for the project.

26. Who will be the responsible authority to ensure that the money is being used without any discrepancy?

Answer: The Investment Manager, with help of appointed project management companies and appropriate financial controls, shall be responsible to ensure that the end use of monies of the fund is for construction and completion of the projects.

27. How is the funding expected to impact market dynamics?

Answer: Please refer to Answer No. 22.

28. What would be the modes of investment via the fund?

Answer: The fund expects to primarily structure its investments in the form of non-convertible debentures subject to legal, regulatory or other considerations,

29. What additional steps are being taken by the Government to improve the liquidity in the market?

Answer: Taking into account the stress in the housing and construction industry, many measures have been undertaken by the Government in the past to boost the housing sector, such as:

- Providing IT deduction on Affordable Housing
- Introduction of Repo rate/external benchmark linked loan products
- Implementation of the Pradhan Mantri Awas Yojana (PMAY)
- Liquidity support to HFCs.
- Partial Government guarantee for assets purchased by a bank from a stressed NBFC or HFC
- Lowering of interest on House Building Advance (HBA)

30. Will there be any involvement of the home-buyers during the development of the project?

Answer: Home-buyers will be required to work with their financing institution (NBFC/HFC/Banks) to honour their obligations to provide balance instalments of home loans, enabling early completion of the project.

31. Will there be any specific guidance issued for the home-buyers?

Answer: Home-buyers are advised to reach out to their respective lending institutions to seek necessary guidance for additional borrowing or revival of their existing home loans within the existing legal and regulatory framework and standard board approved policies of the lending institutions.

32. What about the projects that won't qualify under the selection criteria?

Answer: Those project will continue to have recourse to existing alternatives for funding, restructuring and resolution.

33. What are the return expectations of the fund?

Answer: The Investment Manager shall determine the returns based on the risk profile and specifics of each project.

34. What if the developer or the previous funding agency/Banks and NBFCs want to serve their own interest over the interest of the home-buyer? Will the fund have any authority to fix this issue?

Answer: The capital provided by the fund would be used only for completion of the stalled projects. This should benefit all the stakeholders in the project.

35. Who will be responsible for the sales of the unsold inventory/cancelled bookings of the stalled projects?

Answer: Primary responsibility will be of the developer. However, the Investment Manager may also take a call on the necessary actions to be taken on a project to project basis.

36. What kind of due diligence will be conducted for investments?

Answer: The Investment Manager shall first complete an internal financial analysis to see if the project meets the fund's investment criteria. This shall be further supplemented by external due diligence agencies to cover areas such as title, financial, real estate and legal, among others, including consultation with existing lenders.

37. How will the Government ensure that the selected developer is not alleged for fraud or misappropriation of funds and that the funds are not being cornered by a small group of developers/promoters?

Answer: Project and developer selection shall be the prerogative of the Investment Manager and the Investment Committee of the fund. The investors including the Government will not be interfering with the financial objectivity of that process. The decision of the Investment Committee shall be guided by the investment objective of the fund as agreed in the contribution agreement entered into with the investors. Projects involving fraud or diversion may not be considered by the Fund.

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