Annex I

Terms and Conditions applicable to Hybrid Debt Capital Instruments to qualify for inclusion as Tier 2 Capital

1. **Currency of Issue**

   1.1. HFCs shall issue Tier 2 instruments in Indian Rupees.

   1.2. HFCs shall obtain prior approval of the Reserve Bank, on a case-by-case basis, for issue of a Tier 2 Instruments in foreign currency.

2. **Amount**

   The amount to be raised by issue of such instruments may be decided by the Board of Directors of HFCs.

3. **Limits**

   The aggregate amount of such instruments along with other components of Tier 2 capital shall not exceed 100% of Tier 1 capital. This eligible amount will be computed with reference to the amount of Tier 1 capital as on March 31^{st} of the previous financial year, after deduction of goodwill and other intangible assets but before the deduction of investments.

4. **Maturity period**

The instruments should have a minimum maturity of 15 years.

5. **Rate of Interest**

   The interest payable to the investors may be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

6. **Options**

   6.1. The debt instruments shall not be issued with 'put option'.

   6.2. HFCs may issue the instruments with 'call option' subject to strict compliance with each of the following conditions:

   a. Call option may be exercised only if the instrument has run for at least 10 years;

   b. Call option shall be exercised only with the prior approval of NHB. While considering the proposals received from HFCs for exercising the call option, HFC's capital to risk assets ratio (CRAR) position both at the time of exercise of the call option and after exercise of call option shall be considered.

7. **Step Up**

The issuing housing finance company may have a step-up option which may be exercised only once during the whole life of the instrument, in conjunction with the call option after the lapse of ten years from date of issue. The step up shall not be more than 100 bps. The limits on step up apply to the all-in cost of the debt to the issuing HFCs.

8. **Lock-in clause**

8.1. The instruments shall be subjected to lock-in clause in terms of which the issuing HFC shall not be liable to pay either interest or principal, even at maturity, if

a. the HFC's CRAR is below the minimum regulatory requirement prescribed by the Reserve Bank; OR

b. the impact of such payments results in HFC's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the Reserve Bank.

8.2. However, HFCs may pay interest with prior approval of NHB, when impact of such payment may result in net loss or increase the net loss, provided CRAR remains above the regulatory norm.

8.3. The interest amount due and remaining unpaid may be allowed to be paid in the later years in cash/ cheque subject to the housing finance company complying with the above regulatory requirement.

8.4. All instances of invocation of the lock-in clause should be notified by the issuing HFCs to the NHB.

9. **Seniority of claim**

The claims of the investors in such Tier 2 instruments shall be

a. Superior to the claims of the investors in instruments eligible for inclusion in Tier 1 capital; and

b. Subordinate to the claims of all other creditors.

10. **Discounting**

These instruments shall be subjected to a progressive discount for capital adequacy purposes as in the case of long-term subordinated debt over the last five years of their tenor. As they approach maturity these instruments should be subjected to progressive discount as indicated in the table below for being eligible for inclusion in Tier 2 capital.

Remaining maturity of instruments	Rate of Discount (%)
Less than one year	100
One year and more but less than two years	80
Two years and more but less than three years	60
Three years and more but less than four years	40
Four years and more but less than five years	20

11. **Redemption**

11.1. These instruments shall not be redeemable at the initiative of the holder.

11.2. All redemptions shall be made only with prior approval of NHB.

12. **Reserve Requirements**

Not required

13. **Investments by FIIs & NRIs**

Investments in these instruments by FIIs shall be within the limits as laid down in the ECB Policy for investments in debt instruments. In addition, NRIs shall also be eligible to invest in these instruments as per existing policy.

14. **Issue of Tier 2 instruments in foreign currency**

HFCs may augment their capital funds through the issue of such Tier 2 instruments in foreign currency after seeking prior approval of the Reserve Bank and subject to compliance with the undermentioned requirements:

14.1. The total amount of such Tier 2 instruments in foreign currency shall not exceed 25% of the unimpaired Tier 1 capital. This eligible amount will be computed with reference to the amount of Tier 1 capital as on March 31st of the previous financial year, after deduction of goodwill and other intangible assets but before the deduction of investments.

14.2. Investment by FIIs in such instruments raised in Indian Rupees shall be outside the limit for investments in capital debt instruments. However, investment by FIIs in these instruments will be subjected to separate ceiling of USD 500 million.

14.3. HFCs should not enter into swap transactions in respect of these Tier 2 Instruments.

15. **Other Conditions**

15.1. These instruments should be fully paid-up, unsecured and free of any restrictive clauses.

15.2. HFCs should comply with the terms and conditions, if any, by SEBI / other regulatory authorities in regard to issue of the instruments.

16. **Reporting Requirements**

HFCs issuing these instruments shall submit a report to the NHB, giving details of the debt raised, including the terms of issue together with the copy of the offer document soon after the issue is completed.

17. **Grant of advances against such Tier 2 Instruments**

HFCs should not grant advances against the security of such Tier 2 instruments issued by them.