

LAST-MILE LENDING ON TOP

For Claims, Stress Fund to Get Priority Over Other Creditors

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Mumbai: The Centre's bail-out funding for stuck real estate projects through the AIF structure would place the fund ahead of other creditors in terms of claims, but the fund has to negotiate haircuts with existing investors before finalising its investments.

The government Wednesday announced the creation of the dedicated fund to provide last-mile financing of ₹25,000 crore for completion of on-going housing projects. These include those that have turned NPA and are facing bankruptcy proceedings, but not been liquidated.

Under the waterfall mechanism, last-mile funding will be treated as priority. Prioritisation of claims is an important factor in the resolution process.

Insolvency experts say that the priority of charge should be defined in the Act. There is differential treatment prescribed for secured, unsecured, operational creditors, government dues and workmen's dues in case of distribution of assets during liquidation.

"This priority funding should ideally be treated as corporate insolvency resolution process (CIRP) cost, and that will be the only reason lenders will come in at that stage," said Jyoti Singh, an advocate involved with NCLT cases.

It also includes any costs incurred by the resolution professional in running the business of the corporate debtor as a going concern, and any costs incurred to facilitate the insolvency resolution process.

"It will help in execution of stuck cases which will help in resolution of projects; the

saleability of projects for the future promoter will improve," said Abhishek Dafria, vice president and sector head, Ica. "It will quicken the resolution process."

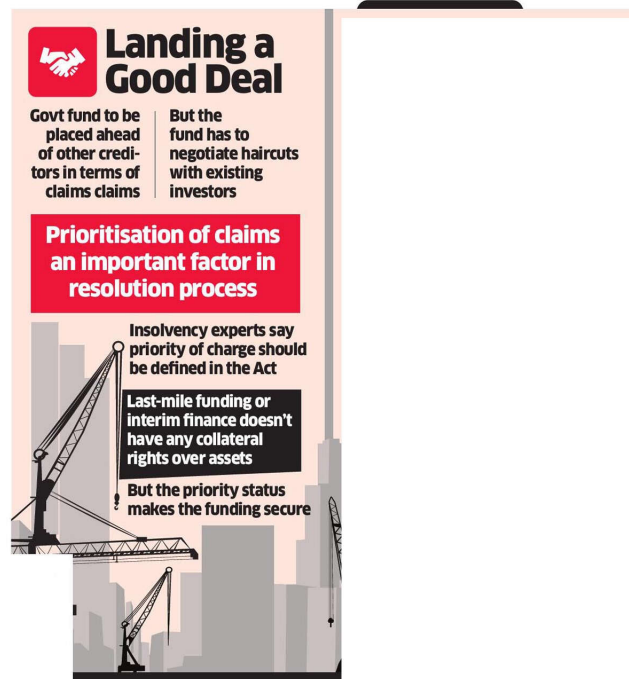
Under the IBC, the resolution professional is responsible for raising interim funding. "In case of firms that are under the insolvency process and otherwise eligible for assistance under this window, the priority of charge of the realty AIF needs to be clearly articulated in the IBC regulations," said Hari Hara Mishra, director, UV Asset Reconstruction.

Interim funding is provided at a higher interest rate than the market rate

as risk involved is comparatively higher. In many cases, the rates quoted by lenders are 5-6% higher than market rates. These loans are repaid before any other loan in the book.

"If it can be treated as CIRP cost, last-mile funding should be priority funding," said Siby Antony, chairman, Edelweiss Asset Reconstruction. "And priority should be protected in and outside NCLT. If required, modification in IBC should be provided."

Last-mile funding or interim finance does not have any collateral rights over assets, but the priority status makes the funding secure.



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