

# FIDC

## Finance Industry Development Council

*(A body incorporated as a Self Regulatory Organisation for Registered NBFCs)*

28 October 2010

Dr. D Subbarao  
Governor  
Reserve Bank of India  
Central Office Bldg, 18<sup>th</sup> Floor  
Shahid Bhagat Singh Road  
Mumbai 400 001.

Respected Sir,

We would like to express our sincere thanks for giving us the opportunity to present our views on the issues affecting the NBFC-AFC sector. Pursuant to our meeting on 18th October 2010, we would like to place the following points before you for your favourable consideration:

### **Risk Weightage for Productive Assets**

Under the present dispensation, all the assets financed by NBFCs, regardless of whether they secured or unsecured and regardless of the risks associated with different assets, carry a uniform risk weightage of 100%. It is a well documented fact, based on the detailed analysis undertaken by credit rating agencies that commercial vehicles, cars and construction equipment have a much lower risk profile as compared to other categories of assets. A copy of CRISIL's risk spectrum is enclosed for your ready reference. By their very nature, they are easily saleable and realise significant residual values. In light of the above, we submit that the risk weightage for assets financed by NBFC-AFCs be revised as under:

- For Commercial Vehicles, Cars & multi utility vehicles- 50%
- For Construction & Material handling equipment & Tractors – 50%
- Loans against gold and silver jewellery up to Rs. 1 Lakh – 50%
- Three Wheelers -75%
- Two wheelers and industrial equipment -100%

It is our submission that this would duly reflect the appropriate levels of risk inherent in the respect asset classes and provide NBFC-AFCs a degree of capital relief. This is also in consonance with the Basel II requirement for Banks.

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### Long Term Funding

Sir, we have over the years, put forth our case for stable, long term funding for NBFC-AFCs. Given the nature of our business and the type of assets financed by us, tenors typically tend to be between 36 and 60 months. Given the reluctance of banks to fund NBFCs, there is an urgent need for an alternative source of long term funding for NBFC-AFCs. A large proportion of our advances go to the small road transport operators and to the agricultural sector and it would be in the fitness of things if a long term financing window is set up by RBI.

### Removal of Sublimit of Rs. 10.00 Crores for Acceptance of Public Deposits by Unrated NBFC-AFCs:

As per para 4 (4)(a) of RBI Notification No. DFC.118/DG(SPT)-98 dt. January 31, 1998 (as amended till date), an asset financing NBFC (NBFC-AFC) which is unrated can accept public deposits up to 1.5 times its NOF or Rs. 10.00 Crores, whichever is lower.

The above Deposit Acceptance Limits were prescribed in the year 1998 as a regulatory measure, to prevent imprudent Deposit Acceptance by NBFCs. The minimum (entry level) NOF prescribed for registration of NBFCs with RBI was Rs. 25.00 lakhs. While the entry level has been raised from Rs. 25.00 lakhs to Rs. 2.00 Crores, the deposit acceptance limits have remained unchanged. It is also worthy of note that the number of Deposit Taking NBFCs has drastically reduced from about 30,000 in 1998 to barely 300 in 2010.

It is also relevant to point out that as per RBI norms, all unrated NBFC-AFCs which accept public deposits are required to maintain a Capital Adequacy Rate of at least 15%.

Based on the facts stated above, it is our submission that all eligible unrated deposit taking NBFC-AFCs, which maintain a Capital Adequacy Ratio of 15%, should be allowed to accept public deposits up to 1.5 times their NOF and the cap of Rs.10 crores be removed.



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### Moneylenders Act:

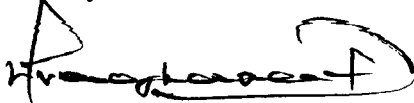
Several states across the country have enacted legislation to protect the vulnerable sections of the population from exploitation by moneylenders. While this is a welcome step, in some of the states, NBFCs registered with RBI have also been brought under the ambit of this legislation. FIDC and its member companies have been representing to the respective state governments that NBFCs registered with the RBI are fully regulated by it and should not be brought within the purview of this act. We would request RBI to suitably advise all state governments that entities regulated and supervised by it should be excluded from the purview of this legislation.

Sir, we are extremely grateful to you for your appreciation of the issues concerning NBFC-AFCs and the timely support and guidance that we have received all along from RBI. We are confident that the above submissions too, will receive your favourable consideration in order that NBFC-AFCs may continue to play an important role in the economic growth of our country.

Thanking you once again.

Warm regards,

Sincerely,



**T.T.Srinivasaraghavan**

**Chairman**

Copy to : 1) Smt. Shyamala Gopinath  
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Reserve Bank of India  
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Shahid Bhagat Singh Road, Mumbai-400 001

2) Smt. Uma Subramanian  
Chief General Manager -In-Charge  
Department of Non-Banking Supervision  
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