

FIDC

Finance Industry Development Council

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

13 October 2006

Dr Y V Reddy
Governor
Reserve Bank of India
Central Office Bldg, 18th Floor
Shahid Bhagat Singh Road
Mumbai 400 001

Respected Sir:

Sub: Pre-Policy consultation meeting with representatives of NBFCs on
10th October 2006.

At the outset, we would like to place on record our grateful thanks for the opportunity afforded to us to place before you the various issues and problems being faced by the NBFCs sector. We are greatly encouraged by the patient hearing afforded to us and we are hopeful that our submissions will receive your kind and favourable consideration.

On the specific issue of classification of NBFCs, FIDC has been representing to RBI for a separate classification for NBFCs engaged in financing tangible assets. The current classification does not reflect the different risks inherent in the business of the NBFCs under different classifications. NBFCs engaged in asset financing have recourse to the assets under finance in case of default. The assets are generally automobiles and general purpose industrial machineries, which have a good resale value and a good second hand market. These companies are not known to have defaulted in meeting their obligations. Automobiles also get the lowest risk value after housing finance as per CRISIL's risk continuum.

As desired by you during the meeting, we submit hereunder our case in detail for a separate classification of asset financing NBFCs.

1. **Existing classifications** as defined in para 2(1)(xi) the RBI directions :
 - a. Hire Purchase, Equipment Leasing and Loan (HP, EL cos)
 - b. Residuary Non-banking finance Companies (RNBCs)
 - i. A mutual benefit financial company
 - ii. An investment company

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2. Basis

Hire Purchase and Equipment Leasing companies were also permitted to undertake loans against hypothecation. The regulations mandate that these activities should constitute minimum 60% of total activities for such NBFCs. Similarly, at least, 60% of total income should come from these activities.

3. Issues

NBFCs financing assets – mostly moveables – have not posed significant systemic risk on account of their secured lendings. The current definition of NBFC is all inclusive and does not reflect the different levels of risk inherent in the different activities. Regulatory perception being the same for all NBFCs, the asset financing companies attract the same risk mitigation measures from the regulator, which is needlessly harsh at times for the NBFCs engaged in asset financing.

Our submissions

1. Classifications

- a. Asset Financing companies
- b. Residuary Non-banking Finance companies (RNBCs)
- c. Chit Fund companies

2. Nomenclature

The asset financing NBFCs may be called “**NBFC – ASSET FINANCING**” (**NBFC-AF**) with the following sub-divisions :-

- a. Deposit accepting – **NBFC-AF-D**
- b. Non-deposit accepting – **NBFC-AF-ND**

The registration certificate may be suitably prefixed to signify this.

3. Assets covered

- a. Automobiles such as Cars, Commercial vehicles, tractors, three-wheelers and two-wheelers etc.
- b. Earth moving and material handling equipments moving on own power
- c. General purpose industrial machineries such Gen sets, Lathe machines etc

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4. Prudential norms common for NBFC-AF-D & NBFC-AF-ND

- a. Capital adequacy at 10% of the risk weighted assets as against the present 12%
- b. Risk-weightage for the above assets to be as under against the current 100% :-
 - i. 50% for Commercial vehicles, three-wheelers and Cars
 - ii. 75% for tractors, earth moving and material handling equipments
 - iii. 100% for two-wheelers and industrial machineries
- c. Financing of these specified assets to constitute 75% of the assets as against the current 60% to retain this classification
- d. Income from financing these specified assets to constitute 60% of the total income to retain this classification

5. Entry norms

The entry norms for a new company may be retained as at present, i.e., net owned funds of minimum Rs 2.00 crores

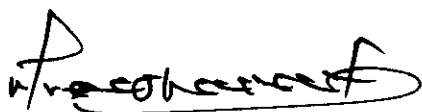
Development Finance Institutions (DFIs)

Long term, however, NBFC-AFs with Net Owned Funds in excess of Rs 100 crores could be reclassified as "**DEVELOPMENT FINANCE INSTITUTIONS**" to signify the development role that these asset financing activities play in our economy. It will, then, be a proper fitment for this segment of NBFCs to become part of the mainstream financial sector of the economy.

We have every hope that you will consider this long-felt need for reclassification of the asset financing NBFCs favourably.

With regards,

Sincerely,



T.T.Srinivasaraghavan
Chairman